



Audit of the COVID-19 Purchases
Fiscal Year 2020
January 2, 2021

Internal Audit Division

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This report is issued to the Commissioner and is intended solely for the use of Management of the Oklahoma State Department of Health (OSDH) and should not be used for any other purpose. As a result of our examination, we noted matters which indicated a departure from the policies and procedures required by OSDH, Oklahoma Statutes, applicable Code of Federal Regulations or applicable program guidelines.

EXECUTIVE SUMMARY

COVID-19 purchases for OSDH began due to the Governor's Emergency Order on March 15th, 2020, as a result of the Coronavirus pandemic. Authorized by the Secretary of Health, the Executive Director of Travel & Recreation initiated and approved purchases of Personal Protective Equipment (PPE) through OSDH Procurement, under the leadership of OSDH Chief Financial Officer (CFO). The CFO developed COVID-19 Purchasing Procedures for OSDH. These procedures included the areas of requisitions, P-Card, approvals, dollar limitation of authority, purchase orders (PO), new vendors, Budget & Funding, tracking PO status, Inventory and Accounts Payable Invoice/Payments. The following report summarizes the Findings and Notes resulting from Internal Audit's review of COVID-19 purchases by OSDH, for the audit period of February 14th through April 30th, 2020.

AUDIT OBJECTIVES:

Internal Audit performs audits of specific departments and systems with reference to applicable criteria, stemming from the Agency's policy & procedures, contract compliance, compliance with federal & state regulations and asset safeguarding by service area. This audit specifically examined the policies, procedures, and actions in regard to COVID-19 purchases and performed tests relating to the application of OSDH COVID-19 Purchases Policies and Procedures, Oklahoma State Statutes and the Oklahoma Administrative Code. We sampled purchase orders and vouchers. For the method of sampling POs, we selected individually significant items of at least 1.5% of the total dollar value of the population, and randomly selected 25% of the total items in the population for the remaining selections. For vouchers, we randomly selected 25% of the total items in the population; additionally, we selected individually significant items of at least 4.5% of the total dollar value of the population. We conducted this 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 sufficient and reasonable basis for our findings and conclusions in relation to the audit objectives.

Finding 1: An accurate listing of inventory of PPE goods does not currently exist at the warehouse. Inventory documentation of COVID-19 PPE goods did not agree to an in-person inventory count. COVID-19 PPE goods in the facility inventory listing provided by the warehouse manager did not agree to the PPE goods listed in the PPE Tracker program, or to PPE goods from Purchase Orders, or to the in-person inventory count.



Narrative: We found that Internal Controls were not maintained over COVID-19 PPE inventory at the OSDH warehouse, managed by the Oklahoma Department of Emergency Management and Homeland Security. An adequate listing of COVID-19 PPE tangible asset was not maintained. Receiving and shipping records were not adequately maintained at the warehouse. These records were not regularly communicated to OSDH Financial Services. Due to a lack of Internal Control procedures at the OSDH warehouse, the accuracy of the COVID-19 PPE inventory is compromised.

OSDH Criteria: This deficiency may contravene 74 O.S. § 110.1(a): “The Office of Management and Enterprise Services shall maintain a current inventory of tangible assets owned by state boards, commissions,” and the Statewide Accounting Manual 70.20.03: “Internal control systems should involve procedures to restrict access to and enhance control over resources. Resources include money, equipment, supplies, inventory, and the records that account for these assets. Maintaining accountability for the use and custody of resources involves assigning specific responsibilities to specific individuals. Managers should monitor expenditures, revenue collection, and physical assets to ensure that these resources are used only to achieve specific and identified purposes.”

Audit Recommendation: We recommend an evaluation of the OSDH warehouse. We also recommend that a thorough accounting of the COVID-19 PPE goods at the OSDH warehouse be done immediately.

Management Corrective Action:

The OSDH warehouse has gone through a significant transition from the beginning of the pandemic to current day. After performing a walk through of the warehouse and talking with staff, today, you will find mature processes in place where inventory is counted weekly and tracked appropriately.

Internal Audit Comments: We concur with the management corrective action. Internal Audit will follow up in a reasonable amount of time to verify the corrective action has taken place.

Finding 2: OSDH Accounts Payable paid for COVID-19 products before they were received.

Narrative: Accounts Payable wired funds to a new vendor prior to receiving the ordered products. This was due to three factors: the Governor relaxed purchasing procedures because of the COVID-19 pandemic in his Executive Order, urgency to purchase PPE goods very quickly, and the vendor requested payment prior to delivery. Paying for products before receiving them is not good business practice and violates State Statutes.

OSDH Criteria: This deficiency may contravene 74 O.S. § 85.44(B): “Payment for products or services pursuant to a contract executed by a state agency, whether or not such state agency is subject to the Oklahoma Central Purchasing Act, Section 85.1 et seq. of this title, shall be made only after products have been provided or services rendered.”

Audit Recommendation: We recommend that the OSDH take all legal steps to recover the money or obtain the PPE from the vendor. We also recommend that OSDH Accounts Payable adhere to the Oklahoma Central Purchasing Act and only make payment after products have been provided or services rendered.

Management Corrective Action:

OSDH management agrees it is not good business practice to pay (a deposit or in full) in advance and in normal circumstances this would not have occurred. However, responding timely and appropriately in the early days of the pandemic required businesses to adjust processes. In this situation, we temporarily followed common practice to pay a deposit to secure an order for PPE that was in high demand and essential to obtain to protect our frontline workers. This practice is no longer used. OSDH is currently working with the Oklahoma Attorney General’s office regarding this vendor to either receive the items or obtain a refund.

Internal Audit Comments: We concur with the management corrective action.

Finding 3: OSDH recorded expenditures to the accounting system that are unsupported.

Narrative: For one vendor, Accounts Payable issued a voucher for COVID-19 products. Issuing a voucher records the expenditure in the PeopleSoft accounting system. There is no written record that the goods were received. Also, the voucher was not paid to the vendor. The Purchase Order has been closed. Therefore, the expenditure in the accounting system is unsupported. For another vendor, Accounts Payable issued a voucher for about half of the COVID-19 products ordered, intending it as a down payment. The voucher was paid by wire transfer. There is no written record the goods were received. The Purchase Order has been closed. Therefore, the expenditure in the accounting system is unsupported.

OSDH Criteria: Coronavirus Relief Fund, 42 U.S. Code § 801 (d): “A State, Tribal government, and unit of local government shall use the funds provided under a payment made under this section to cover only those costs of the State, Tribal government, or unit of local government that (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for the budget most recently approved as of March 27, 2020, for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.” Furthermore, 2 CFR 200.405(a): “A cost is allocable to a particular Federal award or other cost

objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received.”

Audit Recommendation: OSDH should correct the unsupported accounting entries. OSDH should also review accounting records to correct any other expenditure that is unsupported. Furthermore, OSDH should review its procedures to prevent the recording of unsupported expenditures to the accounting system or catch them within a reasonable time period.

Management Corrective Action:

As noted above, it was part of common practice in the early days of the pandemic response to make advance payment for PPE supplies that were in high demand and essential to protect frontline workers. OSDH Management concurs the full order of goods were not received and is currently working with the Oklahoma Attorney General to either receive the items or obtain a refund. OSDH believes the expenditure is supported by a purchase request and directive by the HHS Cabinet Secretary. Now that adequate inventory of PPE exists, there is no longer a need to utilize wire payments or secure PPE with down payments or deposits.

Internal Audit Comments: We concur with the management corrective action to work with the Oklahoma Attorney General to either receive the items or obtain a refund. We recognize purchase orders were approved. We recommend Accounts Payable obtain receiving documentation as proof that goods have been received, before recording expenditures. We further recommend Accounts Payable match the items received to those on the invoice and purchase order, before recording expenditures. We recommend Accounts Payable follow all established procedures for Invoice Payment Process, in the recording of expenditures.

Finding 4: OSDH Accounts Payable could not produce evidence in support that AP staff followed Invoice/Payment procedures for COVID-19 products and services.

Narrative: Accounts Payable could not produce evidence that AP staff reviewed invoices with receiving documentation prior to payment of the invoices, per procedure. Accounts Payable could not provide support that claim numbers and voucher numbers were written on invoices, per procedure. Accounts Payable could not provide approval by AP Supervisor/Director to pay for invoices greater than \$100,000, per procedure.

OSDH Criteria: OSDH Accounts Payable Invoice Payment Process procedure, 7/15/2020, states: "AP staff review all invoices to prepare for payment of the invoice. This process includes...Approval to pay: i. Products – copy of the packing slip from OSDH Receiving...For invoices exceeding \$100,000, staff should check availability of unrestricted cash and then forward to the AP Director or Supervisor for approval...Post the invoice to FISCAL. Record the claim number on the invoice... Record the voucher number on the invoice.”



Audit Recommendation: OSDH Accounts Payable should supervise AP staff so that the review of invoices per policy is adhered to. OSDH Accounts Payable is currently without a Supervisor. All supervision is provided by the Accounts Payable Director. We recommend that an Accounts Payable Supervisor be hired to accommodate the need for proper AP staff supervision.

Management Corrective Action:

OSDH Management concurs with the finding that proper processes were not followed. Financial Services was following modified procedures in the best effort to respond quickly to support the pandemic response effort. OSDH has considered the need of an Accounts Payable Supervisor, but at this time the Director continues to provide oversight of this unit. Further, new leadership at OSDH is in place that fully supports following documented procedures.

Internal Audit Comments: We recommend OSDH management take all necessary actions to achieve the proficient and efficient operation of Accounts Payable.

Finding 5: OSDH Accounts Payable recorded expenditures to COVID-19 funding twice for a purchase.

Narrative: Accounts Payable posted claims to FISCAL for COVID-19 products twice for one purchase. In the FISCAL accounting system, posting a claim records the expenditure. Of the 19 voucher items selected in our testing, this occurred 9 times.

OSDH Criteria: Coronavirus Relief Fund, 42 U.S. Code § 801 (d): “A State, Tribal government, and unit of local government shall use the funds provided under a payment made under this section to cover only those costs of the State, Tribal government, or unit of local government that (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for the budget most recently approved as of March 27, 2020, for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.” Furthermore, 2 CFR 200.405(a): “A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received.”

Audit Recommendation: OSDH should correct the duplicate accounting entries. OSDH should also review accounting records to correct any other duplication of expenditures. Furthermore, OSDH should review its procedures to prevent the recording of duplicate expenditures to the accounting system or catch them within a reasonable time period.



Management Corrective Action:

OSDH management concurs with the finding. During the early months of the pandemic response, for expediency purposes, a decision was made to pay claims in PeopleSoft and process the transaction in FISCAL at a later date. This process is no longer used. Reconciliations between PeopleSoft and FISCAL identified discrepancies and accounting corrections were made.

Internal Audit Comments: We concur with the management corrective action as to the identified transactions. We recommend OSDH management continue to reconcile FISCAL and PeopleSoft for all other current transactions and those going forward.

Finding 6: OSDH Financial Services requested Federal Reimbursement of CARES Act funding for goods not disbursed.

Narrative: OSDH requested for reimbursement of expenses, based on purchase orders of COVID-19 PPE that were not disbursed. Internal Audit agreed the request for reimbursement to PeopleSoft vouchers with the COVID-19 program code: A0104. One item included in the reimbursement request was not disbursed to the vendor. One item included in the request was actually disbursed to the vendor, but the product was not received.

OSDH Criteria: Coronavirus Relief Fund, 42 U.S. Code § 801 (d): “A State, Tribal government, and unit of local government shall use the funds provided under a payment made under this section to cover only those costs of the State, Tribal government, or unit of local government that (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for the budget most recently approved as of March 27, 2020, for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.” Furthermore, 2 CFR 200.405(a): “A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received.”

Audit Recommendation: We recommend that the policy be reviewed for the reimbursement of CARES Act funding. We recommend adjusting CARES Act reimbursement funding for OSDH to account for or to offset previous expenditures included but not disbursed. Also, we recommend that going forward vouchers and/or expenditures for reimbursement of CARES Act funding be reviewed and verified that they actually were received and paid for.

Management Corrective Action:

OSDH followed procedures set forth by the CARES Forward team which allowed a request for reimbursement to be made once the invoice was paid to facilitate cash flow concerns. Reimbursement requests were made in good faith the product would be delivered. OSDH is

aware of three vendors where payment was made and the full shipment was not received. The Oklahoma Attorney General's office is involved with this matter and is seeking to obtain the product or a refund from these vendors. OSDH is working with the CARES Forward team to reimburse the amount where the goods were not received.

Internal Audit Comments: We concur with the management corrective action.

Notes to Management

1. Developing Contracts for Services were not processed through Procurement, per COVID-19 Purchasing Procedures.
 - We recommend that the service contract purchasing procedures be reviewed and followed by all parties, for the optimization of the service contract development and processing. In addition, we recommend purchasing procedures be submitted to the State Purchasing Director to ensure compliance with provisions of the Oklahoma Central Purchasing Act.
2. COVID-19 Purchases spreadsheet to track purchases did not contain all COVID-19 purchases.
 - We recommend that all COVID-19 purchases be included to the COVID-19 purchases spreadsheet.
3. It appears Mobile Medical Units were properly purchased and funded by the Federal CARES Act.
4. OSDH paid Torque Capital LLC a "finder's" fee of \$56,000 for their consultation in connection to the purchase of gloves from Clean Safety, which was approved by Gino DeMarco and funded by the Federal CARES Act.

OSDH Internal Audit Department appreciates the Procurement Services efforts and cooperation from staff in the completion of this audit. Please contact Audie Hamman at AudieH@health.ok.gov or (405) 521-2404 with any questions regarding the audit.

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