

JOHN S. RICHARD  
Director



BRAD HENRY  
Governor

STATE OF OKLAHOMA  
DEPARTMENT OF CENTRAL SERVICES

December 18, 2007

**TO THE EXECUTIVE DIRECTOR, ROBERT WALLACE, AND THE BOARD OF TRUSTEES:**

With this letter, we transmit the report of the Oklahoma Police Pension and Retirement System purchase card program audit for the period August 28, 2006 through August 27, 2007.

We performed our audit in accordance with professional auditing standards to ensure that programs administered by the Department of Central Services are conducted in accordance with the laws and regulations and used in an ethical, effective and efficient manner.

The accompanying report presents our findings and recommendations, as well as management's responses and corrective action plans. This report is available to the public on the Department of Central Services website, [www.dcs.ok.gov](http://www.dcs.ok.gov).

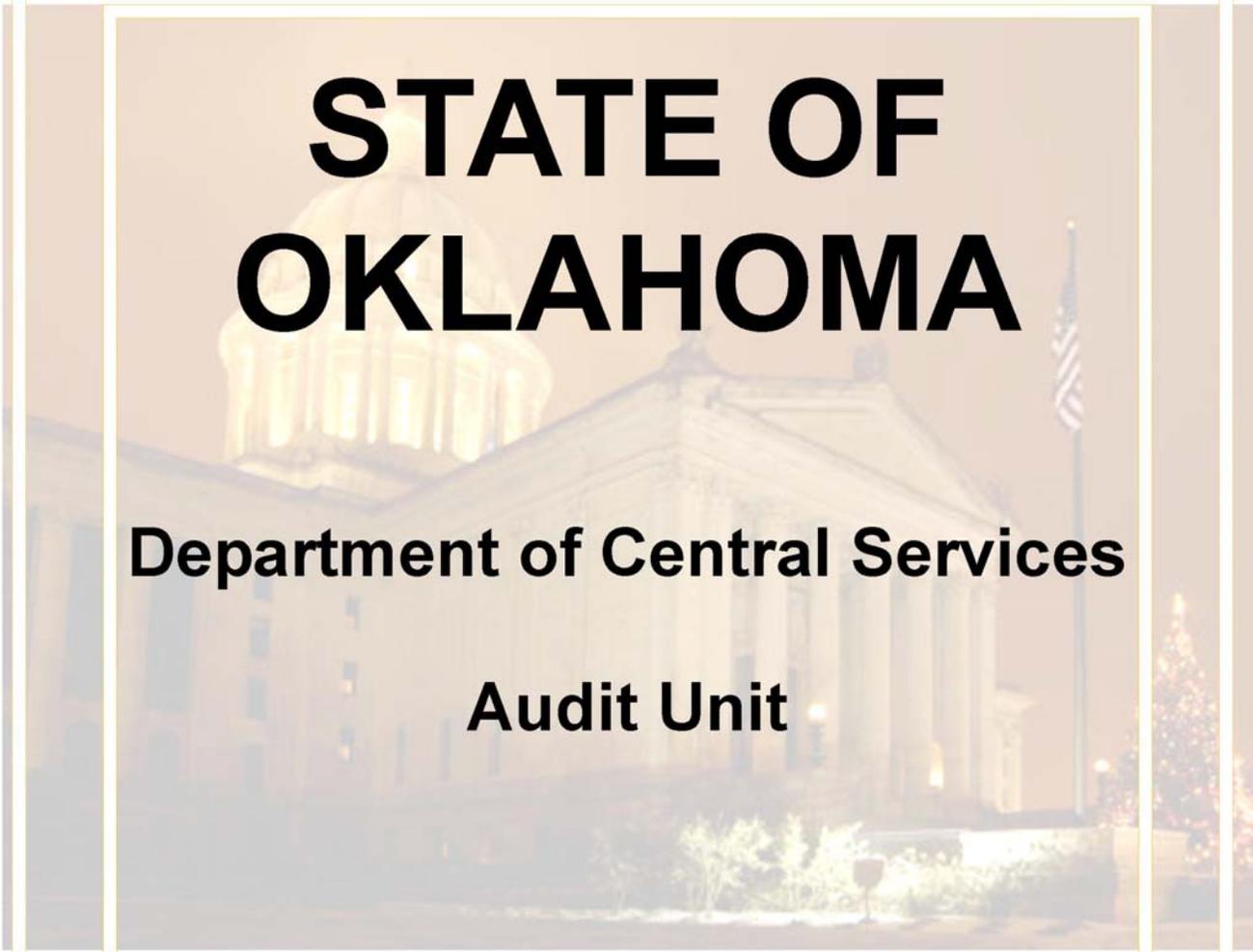
Sincerely,

A handwritten signature in black ink, appearing to read "John S. Richard".

John S. Richard  
Director of the Department of Central Services

*"SERVICE. QUALITY. INTEGRITY"*

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# **STATE OF OKLAHOMA**

**Department of Central Services**

**Audit Unit**

Oklahoma Police Pension and Retirement System  
Purchase Card Audit

*Report Released  
December 18, 2007*

STATE OF OKLAHOMA  
OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM  
PURCHASE CARD AUDIT  
FOR THE PERIOD AUGUST 28, 2006 THROUGH AUGUST 27, 2007

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**PURPOSE, OBJECTIVE AND SCOPE**

The Department of Central Services has completed an audit of the Oklahoma Police Pension and Retirement System, hereinafter referred to as the "Agency", purchase card program for the period August 28, 2006 through August 27, 2007. The purpose of this report is to communicate the results of the audit.

The objective of this audit was to:

- determine if the agency's purchase card program is in compliance with laws and regulations;
- determine if the agency's purchase card program is in compliance with approved internal purchasing procedures as they relate to the acquisition process of using purchase cards;
- and, determine if the agency has implemented internal controls and if the agency's controls are operating effectively in relation to the purchase card program.

This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures in accordance with generally accepted *Government Auditing Standards*.

**METHODOLOGY**

- Interviews were conducted with the Agency's staff members.
- Internal controls over the p/card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto was evaluated.

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**EXECUTIVE SUMMARY**

**Organization**

The Oklahoma Police Pension and Retirement System is a defined benefit plan, and qualifies under section 401(a) of the Internal Revenue Code.

As of June 30, 2006, the System covered 4,141 active members; 1,951 retirees; 453 beneficiaries; 144 disabled members; 187 deferred option members and 80 vested members.

There mission statement is to provide secure retirement benefits for members and their beneficiaries.

**AGENCY NAME**

The Agency is made up of 10 unclassified, nonmerit employees as of September 1, 2007. At the time of the audit, there were 4 purchase cardholders and 1 approving official in the agency.

*Board Members*

Charles Kerr, Chairman Speaker of the House Appointee

Rick Smith, Vice Chairman District 3

Craig Akard District 2

David Been Governor's Appointee

Tom Custer District 1

Tony Davenport Oklahoma Municipal League Appointee

Ralph Gibson District 6

Jim McGoodwin Director of State Finance Designee

Joe Perkins District 5

W. B. Smith District 7

Frank Stone Insurance Commissioner Designee

Paul Swenson District 4

Neil Vickers Senate President Pro Tempore Appointee

*\*In our scope, the Director of State Finance Designee changed 3 times. During the scope of August 28, 2006 through November 9, 2006, James Wilbanks had this position. During the scope of November 9, 2006 through April 25, 2007, Tony Hutchison assumed this position. From April 25, 2007 to August 27, 2007, the list above is correct.*

*Key Personnel*

Robert J. Wallace Executive Director

Steven K. Snyder Deputy Executive Director / General Counsel;  
Approving Official

Judy Cong Comptroller; Purchase Card Administrator

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**Purchase Card Program Economy Results**

Estimated Savings - The purchase card program saved the Agency an estimated net savings of \$2,512.12 during for the period August 28, 2006 through August 27, 2007. This is 21% (\$2,512.12 / \$11,781.89) of the total dollars expended using the purchase card. This is an average estimated savings of \$69.78 from economy calculation per transaction for the Agency. A majority of the savings was contributable to the cost associated with the time saved by using the purchase card rather than traditional governmental purchasing methods. The agency stated that according to economy questionnaire they found the purchase card was time beneficial for purchases needed immediately.

**AUDIT RESULTS**

**Audit Finding Summary**

*(Error rates are based on transactions and memo statements reviewed.)*

- 80% of the memo statements reviewed were signed by an approving entity not one level above the cardholder's position. Memo statements (13%) was not signed at by the cardholder or the approving official. These instances relate to one cardholder out of 3. [Finding 07-557-03](#)
- We noted a concern related to the segregation of duties for the Purchase Card Administrator. [Finding 07-557-03](#)
- At least one cardholder stated they did not have access to the Pathway Net program. [Finding 07-557-03](#)
- 19% of purchase card transactions were approved by an unauthorized individual who had not attended purchase card training. [Finding 07-557-01](#)
- 70% of the transaction logs reviewed were unsigned and undated by the cardholder. [Finding 07-557-02](#)
- 10% of the memo statements was unsigned and undated by the cardholder. [Finding 07-557-02](#)

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**Audit Finding Details**

*(Findings and recommendations are reported based on audit significance.)*

**Finding 07-557-03:**  
**Purchase Card Administrator Performing Cardholder Duties**

**Criteria:** The Codification of Statements on Auditing Standards AU § 319.110 (9) **Segregation of duties** states in part:

Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

The United States General Accounting Office, GAO/AIMD-00-21.3.1, Internal Control Standards, **Segregation of Duties** states:

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

**Condition:** During internal controls, we noted the Purchase Card Administrator prints off the memo statements for the cardholders, reconciles the statements, and approves the memo statements indicating cardholder and approving official reconciliation. This process included the Purchase Card Administrator printing off the cardholders' Pathway Net statements. Also, at least one cardholder stated they did not have access to the Pathway Net program.

During substantive testwork, we tested 100% of the purchase card transactions in our twelve (12) month audit period August 28, 2006 through August 27, 2007. The population included 36 transactions totaling \$11,781.89. Of the 36 transactions, 3 transactions totaling \$ 307.97 were paid with individual purchase cards; 1 transaction totaling \$4,355.70 was paid with statewide contract purchase cards; and, 32 transactions totaling \$7,118.22 were paid with the travel purchase card. Within this population, there were a total of ten (10) memo statements and ten (10) transaction logs reviewed.

Based upon our substantive testing, we noted:

- 8 of 10 memo statements (80%) reviewed were signed by an approving entity not one level above the cardholder's position. 1 of 8 memo statements (13%) was not signed at by the cardholder or the approving official. These instances relate to one cardholder out of 3.

**Cause:** There exists a weakness in controls, on the part of the cardholder and approving official, to ensure that segregation of duties is attained. Furthermore, the Agency is small which makes it difficult to appropriately segregate duties. Also, cardholders do not have access to online transactions.

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***Effect or Potential Effect:*** By not enforcing the segregation of duties in the purchase card program, the level of oversight is compromised in the agency. Furthermore, by limiting the access of the cardholders to online transactions, the cardholder is not provided the opportunity to monitor their transactions and account. Such restrictions reduce segregation of duties and the ability of the cardholder to be responsible and accountable for their purchase card activities.

***Recommendation:*** The proper segregation of duties can be achieved in many different ways. Even if the entity is small, segregation of duties can always be obtained. Our recommendation includes, but is not limited to, the following:

- Consider purchase card training for the Executive Director or a Board Member as a back-up approving official in the purchase card program
- Evaluate and consider revising the organizational structure of the Agency
- Cardholders assume the duties of performing the monthly reconciliation, monitoring their transactions regularly, and generating their monthly memo statements
- Cardholders attend a refresher training session regarding the use of Pathway Net system

***Management's Response***

**Date:** 2/04/07  
**Respondent:** P/Card Administrator  
**Response:** Concur

***Corrective Action Plan***

**Contact Person:** P/Card Administrator  
**Anticipated Completion Date:** January 31, 2008  
**Corrective Action Planned:** Each P/Card holder will print and reconcile their own memo statements and then submit the reconciled, signed memo statement and accompanying documentation (transaction log, receipts, etc.) to their Approving Official.

P/Card holders will be trained on how to use the PathwayNet program.

The P/Card Organizational Chart for the Agency will also be revised in an effort to ensure that there is the appropriate segregation of duties.

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**Finding No: 07-557-01:**  
**Entity Approving Official Responsibility / Training**

**Criteria:** State of Oklahoma Purchase Card Procedures § 6.9.2 **Entity approving official(s) responsibility** states, in part:

SW Contract p/card and Travel p/card Entity Approving Officials must review and approve the cardholders' purchases daily. The Entity Approving Official shall indicate approval by initialing and dating the transaction log next to the purchase. 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.

State of Oklahoma Purchase Card Procedures § 3.9 **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 and familiarization with SW Contracts.

**Condition:** We tested 100% of the purchase card transactions in our twelve (12) month audit period August 28, 2006 through August 27, 2007. The population included 36 transactions totaling \$11,781.89. Of the 36 transactions, 3 transactions totaling \$ 307.97 were paid with individual purchase cards; 1 transaction totaling \$4,355.70 was paid with statewide contract purchase cards; and, 32 transactions totaling \$7,118.22 were paid with the travel purchase card. Within this population, there were a total of ten (10) memo statements and ten (10) transaction logs reviewed.

Based upon our substantive testing, we noted:

- 6 of 32 travel transactions (19%) were approved by an unauthorized individual who had not attended purchase card training.

**Cause:** There exists a weakness in controls, on the part of the cardholder and approving official, to ensure that level of oversight is in place through reconciliation and appropriate signatures.

**Effect or Potential Effect:** By not having received the required training, approving officials may not be fully aware of their duties and responsibilities as an approving official.

**Recommendation:** We recommend the Agency to develop, implement and communicate to participating employees the importance of maintaining appropriate documentation and following the processes set for in the procedures of the purchase card program.

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Furthermore, we recommend that the Agency identify an approving official at least one level above all cardholders in order to uphold the approval process set forth in the State of Oklahoma Purchase Card Procedures.

***Management's Response***

**Date:** 11/30/07  
**Respondent:** P/Card Administrator  
**Response:** Concur

***Corrective Action Plan***

**Contact Person:** P/Card Administrator  
**Anticipated Completion Date:** January 31, 2008  
**Corrective Action Planned:** In the future, the Agency's Executive Director will not sign travel transactions in the absence of the P/Card Approving Official. The Agency's P/Card Organization Chart is being revised to add a second Approving Official so that there will be adequate backup in this regard.

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**Finding No: 07-557-02:**  
**Cardholder Responsibility/Transaction Logs**

**Criteria:** State of Oklahoma Purchase Card Procedures § 6.9.1 **Cardholder responsibility** states, in part:

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 (i.e., 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.

State of Oklahoma Purchase Card Procedures § **6.4 Transaction logs**, states:

Cardholders shall maintain a transaction log of all p/card purchases, returns, credits and disputed transactions. A separate log shall be maintained for each p/card for each cycle. Attachment 3 is a sample p/card transaction log. Using entities may add additional data fields.

**Condition:** We tested 100% of the purchase card transactions in our twelve (12) month audit period August 28, 2006 through August 27, 2007. The population included 36 transactions totaling \$11,781.89. Of the 36 transactions, 3 transactions totaling \$ 307.97 were paid with individual purchase cards; 1 transaction totaling \$4,355.70 was paid with statewide contract purchase cards; and, 32 transactions totaling \$7,118.22 were paid with the travel purchase

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card. Within this population, there were a total of ten (10) memo statements and ten (10) transaction logs reviewed.

During substantive testwork, we noted the following exceptions:

- 7 of 10 (70%) transaction logs reviewed were unsigned and undated by the cardholder.
- 1 of 10 (10%) memo statements was unsigned and undated by the cardholder.

**Cause:** The Agency is unaware of the appropriate procedures concerning purchase card program reconciliation and documentation.

**Effect or Potential Effect:** There is an inability to determine that the cardholder is adequately documenting the purchases through support and verification. Also, without adequate documentation and oversight of purchase card activity, inaccurate or unauthorized charges may occur and go undetected.

**Recommendation:** We recommend the Agency develop, implement and communicate to all cardholders the importance of properly signing and dating their transaction logs.

***Management's Response***

**Date:** 12/04/07  
**Respondent:** P/Card Administrator  
**Response:** Concur

***Corrective Action Plan***

**Contact Person:** P/Card Administrator  
**Anticipated Completion Date:** Already Completed  
**Corrective Action Planned:** P/Card holders and Approving Official(s) have been, and will continue to be reminded of the requirement to sign and date all transaction logs and Memo Statements. Internal audits will periodically be conducted to ensure this is being done.

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**OVERALL CONCLUSION**

Based upon our audit, we have determined the Oklahoma Police Pension and Retirement System has materially complied with the objectives reviewed; however, some exceptions were noted. Some of these notable exceptions were related to improper signature of travel card transactions, unsigned and undated transaction logs and memo statements, approving official not being on level above a cardholder's position, and segregation of duties issues. The Oklahoma Police Pension and Retirement System has implemented corrective actions, which we believe will ensure the Agency will comply, in all material respects, with the aforementioned requirements.