



OKLAHOMA FIREFIGHTERS PENSION
& RETIREMENT SYSTEM
PURCHASE CARD PROGRAM AUDIT
FOR THE PERIOD JANUARY 15, 2008 TO AUGUST 27, 2008

State of Oklahoma

Department of Central Services

Audit Unit

Report Release Date: October 30, 2009

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AUDIT CONCLUSION

The purchase card programs of five state agencies were examined collectively due to the relatively small size of each agency's purchase card program and in an effort to increase audit efficiencies. The state agencies that were included in this audit were Oklahoma State Banking Department, Oklahoma Department of Consumer Credit, Oklahoma State Board of Pharmacy, Oklahoma Firefighters Pension and Retirement System, and Oklahoma Commission for Teacher Preparation. All purchase card types (standard, statewide contract, and travel) were reviewed.

Based on our audit, we have determined the state agencies collectively have *significantly* complied with our audit objectives. Our audit objectives are (1) determining if the Agency has implemented internal controls and if the Agency's controls are operating effectively on relation to the purchase card program and (2) determining if the Agency's purchase card program is in compliance with Oklahoma State Purchase Card Procedures and approved internal purchasing procedures as they relate to the acquisition process through the use of purchase cards. Specific to this Agency, there were deficiencies noted. The deficiencies noted were segregation of duties, travel card purchases not pre-approved prior to purchase, and receiving documentation not properly signed, dated, and annotated 'received'. The Agency has provided corrective action plans, which we believe will ensure the Agency complies, in all material respects, with the aforementioned requirements.

Individual audit reports for each Agency's purchase card program have been issued for all state agencies previously mentioned with an overall conclusion as to their compliance with the audit objectives. All audit reports are posted on the website of the Department of Central Services at www.dcs.ok.gov.

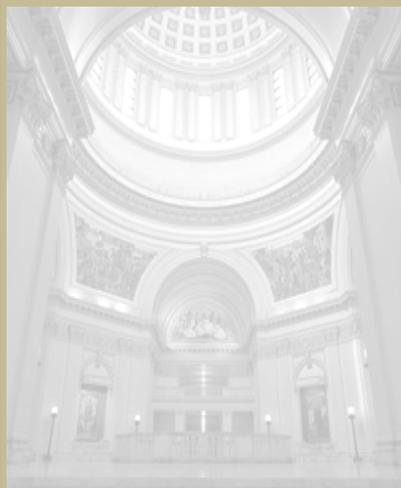
AUDIT FINDING SUMMARY

(Error rates are based on transactions reviewed.)

08-315-07 Segregation of Duties: Cardholder and Purchase Card Administrator are one and the same.

08-315-02 Approving Official Pre-Approval: Travel Card: 100% of travel transactions were not pre-approved by the cardholder's approving official.

08-315-06 Receiving Documents: 80% of receiving documents were not properly



AUDIT PERFORMED BY

JoRay McCoy, Chief Auditor
Lisa A. White, MBA, Audit Manager
Joe Birley, CPA, Auditor



OKLAHOMA FIREFIGHTERS PENSION & RETIREMENT SYSTEM PURCHASE CARD PROGRAM AUDIT FOR THE PERIOD JANUARY 15, 2008 TO AUGUST 27, 2008

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.



The Department of Central Service, Auditing Unit has completed an audit of Oklahoma Firefighters Pension & Retirement System, referred to as the "Agency" within the audit report. Our audit was to determine if the agency's purchase card program for the period January 15, 2008 to August 27, 2008 complied with the audit objectives.

signed, dated, and annotated 'received'.

(The most significant audit findings are detailed in our audit reports. The detailed information for the remaining findings was provided to the agency's management.)

08-315-03 Internal Purchasing Procedures: Approval for purchase card transactions is verbal.

08-315-04 Internal Purchasing Procedures: 100% of billing cycles reviewed did not have a transaction log.

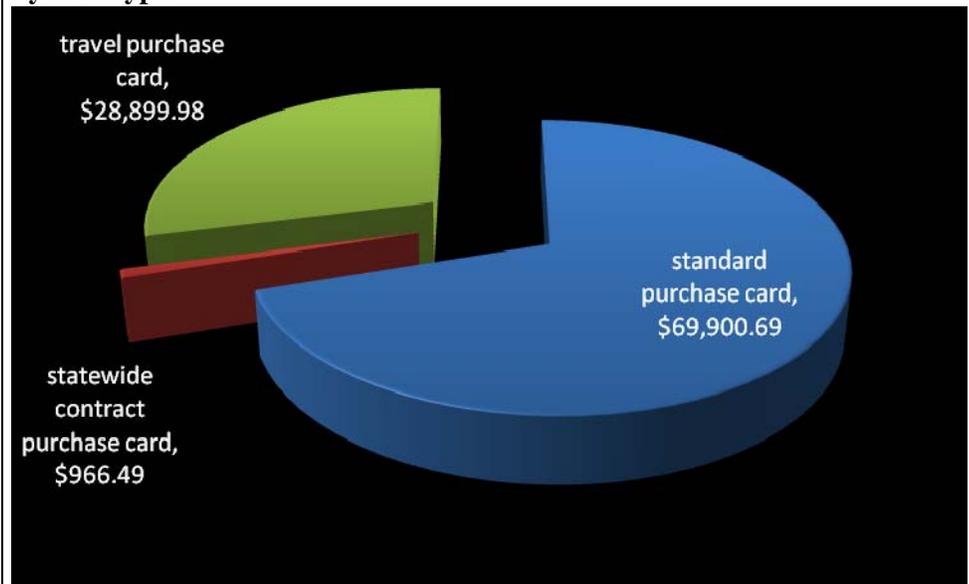
NOTE: We did not issue the following findings to the Agency: 08-315-01 and 08-315-05.

AUDIT OVERVIEW

IDEA Data Analysis Software was used to determine a statistical sample for examination. Minimums were set for sample size and the number of errors in the sample. The setting of minimums was to ensure that a minimum number of purchase card transactions were selected for each agency and to ensure that a targeted exception percentage rate was in line with the exception rate experienced in previous audits. Judgmental sampling was also used to identify additional purchase card transactions to examine based on the merchant and/ or the type of goods or services purchased by the cardholder.

For the audit period January 15, 2008 to August 27, 2008, there were a total of 523 purchase card transactions in the total amount of \$99,767.16. For this audit period, we examined purchase card transactions of a total of eight (8) purchase card cardholders. Breakdown of the purchase card transaction population by card type and by agency is detailed below:

By card type:



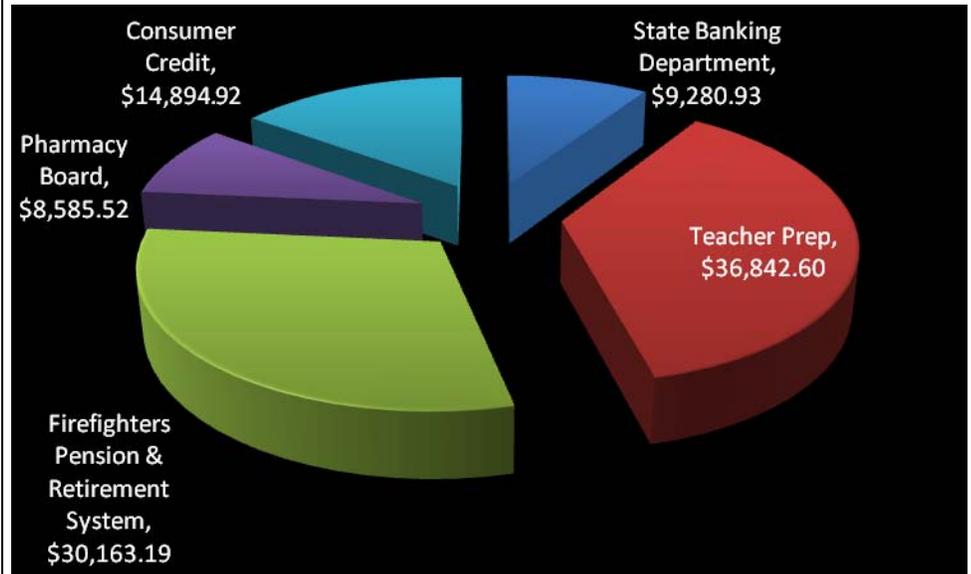


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By agency:



From this population, a total of 71 purchase card transactions in the total amount of \$21,594.34 were examined. Purchase card transactions and total amount are as follows:

	Sample (in dollars)	Sample (in transactions)
State Banking Department	\$403.38	7
Commission on Consumer Credit	\$2,101.04	5
State Board of Pharmacy	\$150.00	8
Firefighters Pension & Retirement	\$10,232.01	23
Commission for Teacher Preparation	<u>\$8,707.91</u>	<u>28</u>
Totals	<u>\$21,594.34</u>	<u>71</u>

Overall, the exceptions noted fell into one of three categories- internal controls, financial operations, and purchase card operations. The most significant exceptions were:

Internal Controls:

- Segregation of duties
- Signing of memo statement by signature stamp
- Timely approval of reconciled memo statements

Purchase Card Operations:

- Missing credit receipt documentation for credit transactions
- Missing receipt and receiving documentation



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DETAILED FINDINGS

Finding 08-315-07: Segregation of Duties

Criteria: State of Oklahoma Purchase Card Procedures § 6.11 **P/Card Management** states in part:

6.11.1.2 Processing authorized requests for procurement cards, maintaining control over active cards (i.e. card controls and limits, card maintenance, etc.) with adjustments being made as needed, and closing accounts in accordance with operating procedures;

6.11.1.3 Establishing and maintaining usage controls (i.e., creating/ designating MCCGs, setting transaction limits, etc) for each card as well as determining if cardholder still has justified need for the P/Card;

Condition: The Purchase Card Administrator is also the main cardholder for the Agency. The duties and the responsibilities of the Purchase Card Administrator for the Agency include:

- Orders new purchase cards for the Agency's purchase card program;
- Maintains all purchase card documentation and records;
- Reviews Pathway Net for unauthorized use;
- Periodically 'auditing' random selection of cardholder's monthly bank statements;
- Cancels purchase cards and closes accounts;
- Ensures account codes are correct before the purchase card edit deadline;
- And, initiates the authority orders for purchase cards.

As a Purchase Card Administrator, the cardholder also has the ability to make changes to card controls and limits, making changes to the MCC codes blocked at the agency level, and setting transaction limits.

Cause: The business practice of the Agency is to issue purchase cards only to trusted individuals and to individuals who have a need for a purchase card.

Effect or Potential Effect: By not separating the duties and responsibilities of purchase card program management and cardholder, an opportunity is created whereby the cardholder can make unauthorized and inappropriate transactions.

Recommendation: We recommend the Agency:

- Designate the secondary cardholder as the main cardholder and allow the Purchase Card Administrator to focus on administrating the purchase card program;
- And, identify additional staff to participate in the purchase card program.



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Management's Response: Non-Concur

Date: 9/9/09

Respondent: Director

Response: The agency currently has two purchasing cards and nine total employees. The agency currently does not have enough qualified staff to segregate these duties.

Finding 08-315-02: Approving Official Pre-Approval- Travel Card

Criteria: State of Oklahoma Purchase Card Procedures § 6.8.3.1 **Cardholder responsibility** states in part:

... The Travel P/Cardholder (Entity Travel Coordinator) shall obtain written approval (handwritten, letter, email, form, etc.) from their State Entity Approving Official or designated back-up **prior to** making a purchase of airfare or lodging in compliance with these procedures. The written approval must be retained for and included with the reconciliation at the end of the cycle...

State of Oklahoma Purchase Card Procedures § 6.8.3.2 **State Entity Approving Official(s) responsibility**, states in part:

The State Entity Approving Official must provide written approval (handwritten, letter, email, form, etc.) to the Travel P/Card holder **prior to** cardholder making a purchase of goods or services in compliance with these procedures.

Condition: We reviewed 15 air fare transactions for the Agency for the period January 15, 2008 through August 27, 2008. Total dollar value of these transactions is \$10,536.00.

Based upon our substantive testing, we noted 0 of 15 (0%) transactions were approved in writing prior to the purchase. These transactions were for the travel of the Agency's board members and an attorney whom the Agency has contracted with.

Cause: It is the practice of the board members to call the travel agency directly to book travel. The travel agency in turn calls the agency for approval of charge.

Effect or Potential Effect: By the board members directly booking their travel, the Agency may not be directly aware for whom the travel is for. The Agency increases its risk of obligating Agency funds for travel not within the scope of the Agency's mission.

Recommendation: We recommend the Agency:

- Book the travel of the board members directly;
- And, document approval of travel prior to acquisition of airline tickets.



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Management's Response: Concur

Date: 9/9/2009

Respondent: Director

Response: The agency agrees with the audit recommendations and a form has been created and is currently in use.

Corrective Action Plan

Contact Person: Purchase Card Administrator

Anticipated Completion Date: 9/9/2009

Corrective Action Planned: A form has been created and is currently in use.

Finding 08-315-06: Receiving Documents

Criteria: State of Oklahoma Purchase Card Procedures § 6.6.2 **Goods or services received subsequent to the time of purchase** states:

The document accompanying the goods or services (such as a packing slip or service order) serves as the receiving document. The receiving document shall be annotated "Received" (or its abbreviation) and shall be signed and dated by the receiving employee. A carbon copy or NCR copy of the receipt containing the receiving employee signature, date, and the annotation "Received" (or its abbreviation) meets this requirement. The itinerary shall serve as the receiving document for airfare (traveler's signature is not required). The receiving document shall be retained by the cardholder for the monthly reconciliation process.

Condition: For the audit period reviewed (January 15, 2008 through August 27, 2008), we reviewed 23 transactions with a total dollar value of \$10,232.01. Of these 23 transactions, three transactions were credit transactions for the travel card. We noted the following:

- 15 of 15 (100%) itineraries for travel purchase card transactions were not signed, dated, and annotated "received" by the receiving employee.
- 1 of 5 (20%) receiving documents for individual purchase card transactions was not annotated 'Received' by the receiving employee.

Cause: The Agency was not aware travel itineraries were to be signed, dated, and annotated 'received'.

Effect or Potential Effect: By not requiring receiving employees to sign, date or annotate "Received" the receiving document, there is no verification that goods and/or services were actually received.

Recommendation: We recommend the Agency develop and implement a process for all individuals receiving goods that ensures that the receiving documents are properly signed, dated, and annotated 'received'. Process should include a control at the approving official level that returns improperly annotated receiving documents to the cardholder for verification of goods and services received and proper annotation.



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Management's Response: Concur

Date: 9/9/09

Respondent: Director

Response: The agency has held training on receiving all purchase card transactions.

Corrective Action Plan

Contact Person: Purchase Card Administrator

Anticipated Completion Date: 9/9/09

Corrective Action Planned: Training has been held on properly receiving of purchase card transactions.



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APPENDIX

DIRECTOR'S TRANSMITTAL LETTER

JOHN S. RICHARD
Director



BRAD HENRY
Governor

STATE OF OKLAHOMA
DEPARTMENT OF CENTRAL SERVICES

October 30, 2009

TO MR. ROBERT JONES, EXECUTIVE DIRECTOR:

With this letter, we transmit the purchase card program audit report for the Oklahoma Firefighters Pensions and Retirement System.

We performed our audit in accordance with professional auditing standards to ensure that programs and contracts administered by the Oklahoma Department of Central Services are conducted in accordance with laws and regulations and used in an ethical, economical, equitable, effective and efficient manner while limiting exposure to fraud, waste, mismanagement, or abuse.

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 Oklahoma Department of Central Services website, www.dcs.ok.gov.

Sincerely,

Handwritten signature of John S. Richard in black ink.

John S. Richard
Director of the Department of Central Services

"Committed to Quality"

Administration, Will Rogers Office Building (2401 N. Lincoln) Suite 206 / P.O. Box 53218 · Oklahoma City, OK 73152-3218
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METHODOLOGY

- Interviews were conducted with the Agency's staff members.
- Internal controls over the purchase 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.

EXECUTIVE SUMMARY

Organization

Governor Charles N. Haskell signed into law the first fireman's pension benefit statute May 14, 1908. The new law contained a 1 percent tax on insurance premiums to fund the pension benefits for both paid and volunteer firefighters. Oklahoma cities and towns administered the program until the Oklahoma Legislature created the current Oklahoma Firefighters Pension and Retirement System in 1980. The Oklahoma Firefighters Pension and Retirement System was created to better fund the total system and administer the system equally. The agency is vested with the power and duties specified by statutes and such other powers as may be necessary to enable it and its officers and employees to carry out fully and effectively the intent of the law to provide pension benefits to all participating firefighters in Oklahoma.

Agency Information

Per Oklahoma Agencies, Boards, and Commissions (ABC) Book, the Agency is made up of 11 unclassified employees and 1 temporary, non-merit employee as of September 1, 2008.

Board Members

Les Foughty, Chairman
Albert Norton, 1st Vice President
David Thompson, 2nd Vice President
Gerald Garrett, 3rd Vice President
Ray Hammons, Past President
Mike Bowers, President, Oklahoma Retired Firefighters Association
Jim Long, Designee of President of Professional Firefighters Association
Anita Breen, City of Edmond- Oklahoma Municipal League Appointee
Anthony Francisco, City of Norman- Oklahoma Municipal League Appointee
Dana Cramer, Norman Fire Department- Senate President Pro Tempore Appointee
Frank Stone, Oklahoma City- Designee of State Insurance Commissioner
Doug Jacobson, Edmond- Speaker of the House of Representatives Appointee
Brandy Manek, Designee of Director of the Office of State Finance



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Key Staff

(During the Audit Period)

Robert E. Jones, Jr., Director
Herb Bradshaw, Deputy Director
Duane Michael, Controller

Chase Rankin, Assistant Controller

Vicki Mulbery, Purchase Card Administrator and Accounts Payable Administrator