

State of Oklahoma
Office of Management and Enterprise Services
Audit and Internal Investigations
Report Released
November 24, 2014





OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

PURCHASE CARD AUDIT

FOR THE PERIOD OF JANUARY 22, 2013 THROUGH MAY 9, 2014

State of Oklahoma Office of Management and Enterprise Services Audit and Internal Investigations Division Report Released: November 24, 2014

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AUDIT PERFORMED BY

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AUDIT CONCLUSION

Based on our audit, we have determined the Oklahoma Public Employees Retirement System (OPERS) has significantly complied with the following audit objectives:

- Determine if the Agency has implemented internal controls and if the Agency's controls are operating effectively in relation to the purchase card program, and;
- Determine 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.

AUDIT FINDING SUMMARY

(Error rates are based on transactions reviewed.)

FINDING 14-515-03 Fifty percent of purchase card statements reviewed were not signed and dated by Approving Official.

FINDING 14-515-04 Entity Purchase Card Administrator has not attended training since January 2011.

FINDING 14-515-02 Payment confirmations not obtained and an unsecured purchase card.

FINDING 14-515-01 No shipping documents for 24 percent of transactions reviewed.



This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures.

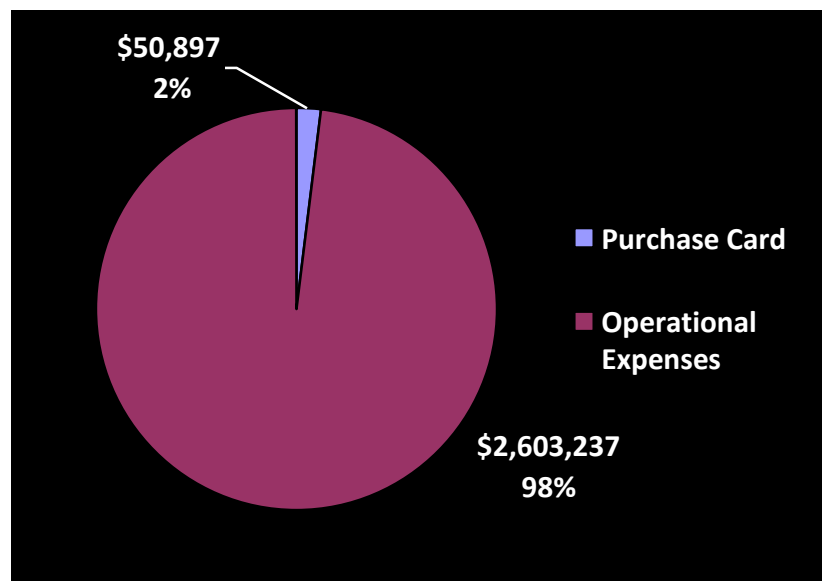


The Office of Management and Enterprise Services, Audit and Internal Investigations Division has completed an audit of the Oklahoma Public Employees Retirement System, referred to as the "Agency" within the audit report. Our audit was to determine if the agency's purchase card program for the period Jan. 22, 2013, through May 9, 2014, complied with the audit objectives.

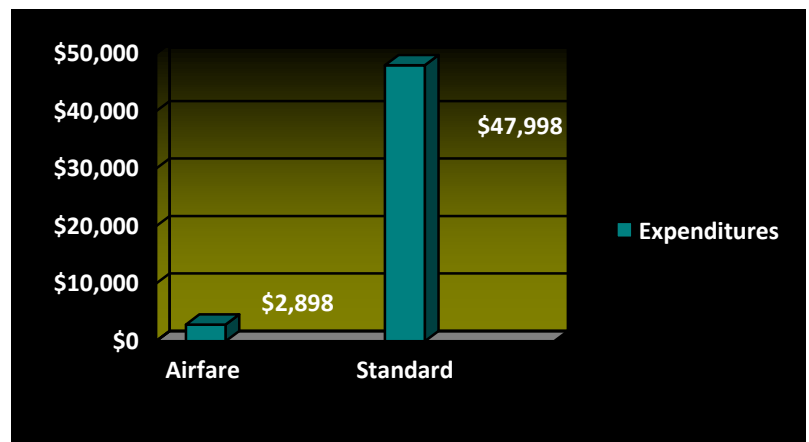
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AUDIT OVERVIEW

As of May 9, 2014, the Agency has four cardholders and three approving officials. In total, the Agency had \$50,897.47 in purchase card spend during the audit period. The Agency's Purchase Card Program has grown in recent years. The following chart depicts the expenditures by purchase card compared to voucher or wire transfer for operational cost made by the Agency during the audit period.



The Agency uses the purchase card for standard low dollar purchases as well as airfare. The Agency's purchase spend is categorized in the following table.





Sampling Methodology

The population for substantive test work was 147 transactions totaling \$50,897.47. We were not able to use the classical variable sampling method to randomly select our sample for testwork. We used stratification random sampling to determine transactions for testwork. Because there were only seven Airfare transactions, we tested 100% of Airfare. There was one standard transaction greater than \$5,000, we tested it as well. For all transactions under \$5,000, we did a stratification random sampling to obtain our sample for testwork. In addition, eight transactions were selected at the auditor's discretion and tested against selected attributes.

DETAILED FINDINGS

Finding 14-515-03: Approving Official

Condition: Purchase card transactions in the total amount of \$12,861.50 were not approved in compliance with purchase card procedures, which require an Approving Official to sign and date cardholder statements at the end of each month.

We tested 24 cardholder statements as a part of our random sample for support of the Approving Officials' signature and date. We noted there were 12 (50% error rate) cardholder statements that did not include approving officials' signature and date. There were two approving officials that did not sign their cardholder statements. The agency does have a pre-approval process. The approval of the cardholder statement is after the purchases are made by the cardholder with the required attached supporting documentation.

Cause: Agency staff indicated they do not recall the approval process being addressed during training. They also felt maintaining approval signatures on cardholder statements as well as entering approval in the *Works* system is redundant.

Effect or Potential Effect: An incomplete cardholder statement reconciliation process creates an opportunity for unauthorized transactions to go undetected.

Criteria: State of Oklahoma Purchase Card Procedures §6.8.2 State Entity Approving Official(s) responsibilities, states in part:

6.8.2.1 State Entity Approving Official(s) shall review the P-Card holder's reconciled statement and transaction 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.



...

6.8.2.3 To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement. (Signature stamps are not acceptable.)

Recommendation: We recommend the Approving Official ensures there is a process in place for review of cardholder statements at the end of billing cycle and indicate completion by signature and date. This process should be monitored by the Purchase Card Administrator.

We also recommend the agency to reduce redundancy and only perform the approval online or on the cardholder statement but not to perform both processes. If the agency elects to approve online then the agency must elect to change their purchase card program to be paperless within the *Works* system. This includes uploading supporting documents by the cardholder prior to approval.

Management's Response

Date: 9/12/14 (This date is earlier than the date delivered by the auditor because they changed the original finding after it was submitted to OPERS. We choose not to change our response.)

Respondent: Director of Finance

Response: (Partially Concur) - We were unaware that a sign off in Works was not sufficient approval for Pcard transactions. Our internal procedure requires the Approving Official to view the acquisition request and other supporting documents prior to approving the charge in Works. Unless a purchase appeared on a monthly statement that didn't come to one of the three approving officials it still appears to be a redundant approval. However, OPERS acknowledges that it is a specific requirement.

Corrective Action Plan

Contact Person: Director of Finance

Anticipated Completion Date: 10/31/13

Corrective Action Planned: Once we became aware of the requirement that EOM reconciliations had to be signed off by the Approving Official we took immediate steps to implement an approval process (Oct 2013). This finding refers to transactions that took place prior to that implementation. We have 100% compliance after October 2013.

**Finding 14-515-04: Administration**

Condition: During the planning phase of our audit, we noted the following:

1. According to the State Purchase Card Administrator's training log dated Sept. 2, 2014, the Purchase Card Administrator has not attended training since Jan. 6, 2011. Also a cardholder who has retired was out of compliance with the training requirement for nine months. We were able to verify there were 60 purchases made while the cardholder was out of compliance.
2. Also purchase card limits were set at amounts that exceeded the cardholder's average use. A spend analysis was performed and compared with cardholder credit limits. All four cards evaluated appear to have excessive credit limits. The results of the spend analysis performed is as follows.

Card	Credit Limit	Months ¹	Average Billing Cycle	Highest Cycle	Total Spend
#1	\$15,000	5	\$551.97	\$946.20	\$2,759.85
#2	\$15,000	10	\$608.29	\$3,567.82	\$6,082.92
#3	\$25,000	5	\$825.67	\$1,432.45	\$4,128.33
#4	\$25,000	11	\$2,579.10	\$7,369.56	\$28,370.05

1. Number of months with purchase card activity.

Cause:

1. The agency was unsure whether CPO training counted for the required purchase card training.
2. The initial card limits were set too high and the agency had not performed a spend analysis to determine limit needs.

Effect or Potential Effect:

1. Cardholders and agency administration may miss updates and important card information related to the usage and management of the purchase card.
2. The agency places unnecessary risk on the cardholder and the agency when the transaction or card limits are set in excess of the individual cardholder's needs.

Criteria:

1. The State of Oklahoma Purchase Card Procedures § 3.8 **Training** states in part:

Training is required every two (2) years from the date of the last training session or after a contract vendor change, whichever is first; however, State Entities are encouraged to send employees to training more often. It is the responsibility of the State Entity P-Card Administrator to ensure employees are re-trained in accordance with OMES requirements.

2. The State of Oklahoma Purchase Card Procedures § 6.15.1 **Management P-Card Management** states in part:

- Establishing written P-Card Program policies and procedures;



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

Recommendation:

1. We recommend the Purchase Card Administrator to attend training. In addition, we recommend the Purchase Card Administrator implement a tracking system to remind purchase card program participants when to attend refresher training. Also, provide or send all participants to refresher training courses as needed to comply with purchase card training requirements.
2. We recommend the Purchase Card Administrator evaluate the usage of each purchase card and adjust limits in accordance with actual need as indicated by average use by the cardholder.

Management's Response

Date: 9/12/14 (This date is earlier than the date delivered by the auditor because they changed the original finding after it was submitted to OPERS. We choose not to change our response.)

Respondent: Director of Finance

Response: Partially Concur - (Training) We still contend that OPERS was within guidelines for the P-card cardholder who retired. We cite an email that was received from the State P-card Administrator, Tammy Howard. She states in the email dated 2/6/13, "If you have individuals that need to attend training to meet the new 2 year refresher training, you have until the end of the year to obtain the training." We conducted an internal training course for our staff on 10/23/13 and specifically excluded the retiring employee because her retirement date was 12/1/13, prior to the above reference "end of the year."

(Card limits) Original limits were set in good faith based on highest forecasted expenditures. OPERS will review actual spending history periodically to establish more reasonable limits.

Corrective Action Plan

Contact Person: Business Manager

Anticipated Completion Date: 9/12/14

Corrective Action Planned: The P-card limits have been re-set to lower, more meaningful levels.

Finding 14-515-02: Cardholder Responsibilities

Condition: During the testing phase of our audit, we noted the following:

1. We reviewed 31 transactions for receipt documentation. There was one transaction (3% error rate) that did not contain a receipt. The transaction was in the amount of \$212.98 to Dell. The Agency provided a quote from the vendor and an internal requisition form that matches the amount of the purchase card transaction.
2. During our internal control walk through, we noted a cardholder kept their purchase card in an unlocked drawer. The card could be accessed by other employees.
3. We reviewed 19 transactions to determine if the cardholder had properly obtained the payment confirmation.



These transactions were made after Sept. 1, 2013, when the purchase card procedures were updated and required a payment confirmation. We found eight transaction files (42% error rate) did not contain a payment confirmation.

4. We tested 31 transactions to verify an internal acquisition request form was completed as required by the agency's internal policy. Four transactions (13% error rate) did not contain an internal acquisition request form.

Cause:

1. Agency was unable to locate supporting documentation for the transaction. This incident was an isolated event.
2. There was no lock on the drawer the cardholder kept their purchase card in.
3. Invoices provided by the Agency did not meet policy regarding supporting documentation for payment confirmations.
4. The Agency files purchase card documentation by vendor, not chronologically by cardholder, making it difficult to locate documents.

Effect or Potential Effect:

1. Without a receipt detailing items purchased, the Agency risks not detecting inappropriate or unapproved purchases.
2. The cardholder's card information can be compromised without their knowledge.
3. Without documentation confirming payment, the Agency risks duplicate payments and other payment issues.
4. Without pre-approval, the Agency risks the purchase and payment for items deemed inappropriate or unnecessary.

Criteria:

1. The State of Oklahoma Purchase Card Procedures § 6.4 **Card Receipts for Purchase** states in part:

Receipts shall be obtained for **all** purchases regardless of the order method. The receipt shall give an itemized and detailed description of the purchase and must include at a minimum: (1) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total. A detailed and itemized carbon copy is acceptable.

2. The State of Oklahoma Purchase Card Procedures § 6.9 **Card Security** states in part:

Use of the State Purchase Card is limited to the person whose name is embossed on the card. The P-Card shall not be loaned to another person. ... The P-Card holder shall assure the card is kept in a secure manner and the P-Card account number on the card is not posted or left in a conspicuous place. Although not required, it is recommended the P-Card holder not carry the P-Card on their person outside of normal duty hours unless required and justified by the State Entity. The State Entity is responsible for maintaining adequate security of purchase card account numbers and related information.

3. The State of Oklahoma Purchase Card Procedures (effective September 1, 2013) § 6.8.6 **Payment Confirmation** states:



Payment Confirmation - A payment confirmation must be obtained for walk-in, internet or payment over the phone purchases. The payment confirmation can be part of the receipt or accompanying the receipt. When the purchase card is used to pay for an invoice, then the supporting documentation must be accompanied by a payment confirmation or the payment confirmation number must be written on the invoice.

4. The Oklahoma Public Employees Retirement System Internal Purchasing Procedures **VIII Acquisition Request Form** states in part:

- A. Form. Attached to these procedures as Exhibit "A" is a request for acquisition form.
- B. Use. All divisions shall use the form for all acquisitions.
- C. Data Elements.
 - 1. Requesting division. The acquisition request form contains data elements the requesting division completes. These elements include: identification of the person, unit or group requesting the acquisition; object code; acquisition description; acquisition price estimate; suggested vendor; acquisition justification narrative (needs assessment); and whether the acquisition is a sole source or sole brand.

Recommendation:

- 1. We recommend the agency develop a procedure and process that ensures the completion and reconciliation of purchases and retention of all purchase card documentation.
- 2. We recommend the cardholder keep their card in a locked drawer where only they can access it.
- 3. We recommend the Agency develop a procedure and process that ensures the retention of payment confirmation for all purchases.
- 4. We recommend the Agency train all purchase card program participants on the appropriate internal requisition request form procedures and approval instructions.

Management's Response

Date: 9/12/14 (This date is earlier than the date delivered by the auditor because they changed the original finding after it was submitted to OPERS. We choose not to change our response.)

Respondent: Director of Finance

Response: Partially Concur - (Receipts) One transaction did not contain a detailed and/or itemized receipt. The Vendor was Dell. This purchase was made on-line. OPERS has no control over the information vendors put on their receipts and/or if a receipt is provided. The auditors were provided with an internal acquisition form and a quote from the Vendor. We believe this is sufficient documentation for this purchase.

(Payment confirmation)

On 4 of these transactions we provided the auditor with a copy of the invoice we received from the vendor which was marked "Paid" or had \$0.00 due.

4 transactions were made on-line and payment confirmation was not available.

(Card Security) We concur that a cardholder kept a P-card in an unlocked cabinet.

(Lack of Acquisition Request forms) Four transactions were listed as not having an internal acquisition request form: TXN 00334745, 00440157, 00375422 and 00303396.

OPERS has copies of all requisitions on file but failed to provide copies of the acquisition requests when we responded to the exemptions.

**Corrective Action Plan**

Contact Person: Director of Finance

Anticipated Completion Date: Completed

Corrective Action Planned: (Receipts/payment confirmation) Staff has been instructed to obtain payment confirmation on ALL P-card transactions in order to be in compliance with P-card rules.

(Card Security) This situation has been corrected. The cardholder keeps the card locked in a cabinet.

Finding 14-515-01: Receiving Documents

Condition: We tested 21 transactions that required a shipping document or packing slip to support the goods were received by the agency. Out of the 21 transactions, five transactions (24% error rate) did not contain shipping documentation.

Cause: Procedures to ensure receiving documentation is obtained for every purchase have not been effectively implemented.

Effect or Potential Effect: Without effectively ensuring verification that goods are received on every purchase, the agency risks loss of money due to lack of receiving goods purchased or loss of items due to theft.

Criteria: State of Oklahoma Purchase Card Procedures (**prior to Sept. 1, 2013**) § 6.6 **Receiving Goods and Services** states in part:

6.6.2 Goods or services received subsequent to the time of purchase. 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 signed and dated by the receiving employee. A carbon copy of the receipt containing the receiving employee signature and date 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 P-Card holder for the monthly reconciliation process.

State of Oklahoma Purchase Card Procedures (**effective Sept. 1, 2013**) § 6.10 **Receiving Goods and Services** states in part:

6.10.2 Products shipped - A packing slip or proof of delivery obtained from carrier's website must be obtained.

Recommendation: We recommend the agency develop, implement and communicate:

- To all cardholders the importance of collecting and maintaining receiving documentation,
- To all anticipated receiving employees a process to ensure that receiving employees obtain and provide the cardholder with receiving documents.

We also recommend the agency review its process for returning receiving documentation to the cardholder to properly support the product or service was received.

In final, we recommend the agency create procedures to conduct monitoring activities to autonomously review the supporting documentation to determine continued compliance with the purchase card requirements.



Management's Response

Date: 9/19/14 (This date is earlier than the date delivered by the auditor because they changed the original finding after it was submitted to OPERS. We choose not to change our response.)

Respondent: Director of Finance

Response: Non-Concur - Of the 5 transactions associated with this finding, four are attributable to Valley Laser. Valley Laser is a sheltered workshop vendor. They make their own deliveries and do not provide a "shipping" ticket. As a result, when the merchandise is received the requisition form is used to notate the receipt of goods in lieu of a vendor provided shipping document.

The final transaction was 2 memory sticks ordered from Dell. The receiver provided a copy of the purchase quote to validate the receipt of goods since no shipping document was provided by the vendor.

Corrective Action Plan

Contact Person: Director of Finance

Anticipated Completion Date: 9/19/14

Corrective Action Planned: We have instructed employees to sign and date shipping documentation and to obtain some type of documentation so we are in compliance with P-card rules.



APPENDIX

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

Mission Statement To provide and promote accountable and financially sound retirement programs for Oklahoma's public servants.

History and Overview The Oklahoma Public Employees Retirement System, created by the Oklahoma Legislature, was established in 1964. The board is the supervisory authority for the operation of the system; as well as the Uniform Retirement System for Justices and Judges, the Deferred Compensation Plan, and the Oklahoma State Employees Deferred Savings Incentive Plan.

The Agency is made up of 14 classified and 42 unclassified employees [Oklahoma Agencies, Boards and Commissions Book](#) as of Sept. 1, 2013.

Board Members

DeWayne McAnally, *Chair*
Steve Paris, *Vice Chair*
Michael D. Evans
Jill Geiger
James R. "Rusty" Hale
Thomas E. Kemp, Jr.
Don Kilpatrick
Brian Maddy
Lucinda Meltabarger
Michael Moradi
Cleve Pierce
Frank Stone

Key Staff

(During the audit period)
Tom Spencer, Executive Director
Susan Reed, Director of Finance/CFO and back up Purchase Card Administrator
Jason Harjo, Business Manager and Purchase Card Administrator



TRANSMITTAL LETTER

TO JOSEPH FOX, EXECUTIVE DIRECTOR AND THE BOARD OF THE OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

With this letter, we transmit the report of the Oklahoma Public Employees Retirement System purchase card program audit for the period Jan. 22, 2013, through May 9, 2014.

We performed the audit to ensure the Oklahoma Public Employees Retirement System purchase card program administered by the Office of Management and Enterprise Services is compliant with laws and regulations.

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 Office of Management and Enterprise Services website, <http://www.ok.gov/OSF/Audit/>.

Respectfully,

Carol McFarland
Director, Performance and Efficiency Division