



Oklahoma Law Enforcement Retirement System Purchase Card Audit

Audit and Internal Investigations

Report Released April 2016

Audit Performed by
JoRay McCoy, Audit Director
Emily Harris, Auditor
Brittany Porter, Lead Auditor

Table of Contents

AUDIT HIGHLIGHTS.....	3
AUDIT OVERVIEW.....	4
DETAILED FINDINGS.....	4
APPENDIX.....	12
EXECUTIVE SUMMARY.....	13
TRANSMITTAL LETTER	14

This publication is issued by the Office of Management and Enterprise Services as authorized by Title 62, Section 34. Copies have not been printed but are available through the agency website. This work is licensed under a Creative Attribution-Noncommercial-NoDerivs 3.0 Unported License.



AUDIT HIGHLIGHTS

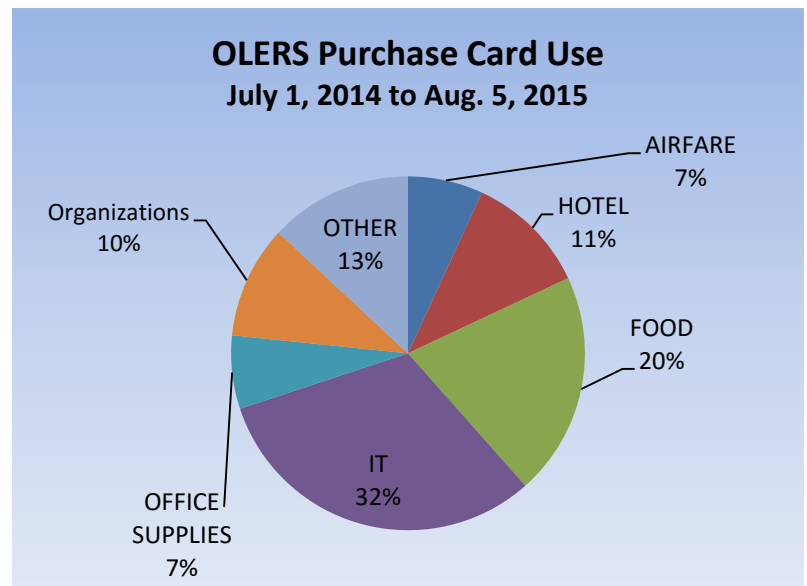
Oklahoma Law Enforcement Retirement System – Purchase Card Program Audit — Release Date (April 29, 1016)

Why We Conducted This Audit

This report provides information on the agency's compliance of the Purchase Card Program with the state purchase card procedures and the strength and execution of the agency's approved internal control procedures.

What We Found

We have determined the Oklahoma Law Enforcement Retirement System has significantly complied with the state purchase card procedures and the agency's internal purchasing procedures. The agency has also implemented internal controls and the controls appear to be operating effectively in relation to the agency's purchase card program. We performed analytical testwork during our planning, completed internal control walkthroughs and tested 39 purchases against a minimum of nine compliance requirements for each transaction. Six formal findings were written.



Audit Finding Summary

(Findings stated in order of significance. Error rates are based on transactions reviewed.)

Finding 15-416-01: Food Policy

The agency did not have the required food policy per State of Oklahoma Purchase Card Procedures.

Finding 15-416-03: Approving Official and Segregation of Duties

Eighty-nine percent of cardholder statements did not contain a signature by an approving official that is one level higher and cardholders were not printing out or reconciling their own monthly cardholder statements.

Finding 15-416-02: Receiving Documents

Four transactions (67 percent error rate) did not contain receiving documentation or packing slips and eight transactions (89 percent error rate) were missing the cardholder's signature on the receipt from walk-in purchases.

Finding 15-416-06: Credit Limits

All three purchase cards evaluated appeared to have excessive credit limits.

Finding 15-416-04: Description Field/Other Charges

There was a 100 percent error rate for not filling in the required information for transactions under lodging and airfare.

(The most significant audit findings are detailed in our audit report. All exceptions noted during our audit have been provided to agency's management.)

AUDIT OVERVIEW

This audit was performed pursuant to 74 O.S. § 85.5.E. and the State of Oklahoma Purchase Card Procedures. Our audit was to determine if the agency's purchase card program was in compliance with the audit objectives during the period of July 1, 2014, to Aug. 5, 2015. As of Aug. 5, 2015, there were three purchase card holders and one approving official in the agency.

In total, the agency spent \$18,558.50 over 96 purchase card transactions for the audit period. Transactions reviewed for testing included purchases under \$5,000, lodging and airfare transactions. We used the classical variable sampling method to randomly select our sample for testing. We exercised auditor judgment in adjusting the confidence level and expected proportion of errors in the population based on the risk assessment when applying the classical variable sampling technique. To ensure a sound statistical sample, a minimum sample size of 30 transactions was tested.

DETAILED FINDINGS

Finding 15-416-01: Food Policy

Condition: 1) During our testwork, we discovered five food purchases that were made after the Dec. 8, 2014, update of the agency's purchase card procedures. State purchase card procedures now require agencies with the authority to purchase food with the P-card to have an internal food policy. OLETS did not have a food policy in place after the update; however, there were food purchases made.

Transaction Number	Purchase Date	Amount	Vendor
TXN00574675	12/11/2014	\$28.83	BROWN'S BAKERY
TXN00574676	12/11/2014	\$367.14	TED'S CAFÉ ORIGINAL
TXN00573865	12/11/2014	\$32.56	COUNTRY BOY MARKETS
TXN00585638	1/15/2015	\$298.65	HIDEAWAY PIZZA #10
TXN00600330	2/19/2015	\$361.55	RIB CRIB

2) We also noted 5 out of 20 transactions (25 percent error rate) where prices were unreasonable. We used the allowable daily rate calculation per the State Travel Reimbursement Act to determine the per diem rate allowed for each individual. This control is in place so state employees stay below a predetermined rate for meals.

Transaction Number	Vendor	Post Date	Total Amount	# of Attendees	Amount per Plate	Per Diem Rate	Exceeded Per Diem Rate by:	Total Amount Exceeded:
TXN00528505	RUNNING WILD CATERING	8/21/2014	\$444.50	21	\$21.17	\$16.50	\$4.67	\$98.00

TXN005394 86	RIB CRIB	9/18/2014	\$366.50	20	\$18.33	\$16.50	\$1.83	\$36.50
TXN005529 01	SPAGHETTI WAREHOUSE	10/16/2014	\$452.97	17	\$26.65	\$16.50	\$10.15	\$172.47
TXN005746 76	TED'S CAFÉ	12/11/2014	\$367.14	16	\$22.95	\$16.50	\$6.45	\$103.14
TXN006003 30	RIB CRIB	2/19/2015	\$361.55	21	\$17.22	\$16.50	\$0.72	\$15.05
								\$425.16

Cause: 1) The agency was unaware of the recent changes to the purchase card procedures regarding the implementation of a food policy.

2) The agency was unaware of the calculation to determine the amount that should be spent per individual for board meetings.

Effect or Potential Effect: 1) Without a pre-approved agency food policy defining allowed and necessary food purchases, it is difficult to determine if a food purchase is appropriate for agency business and not for personal use. Food transactions could be perceived as improper stewardship of state resources.

2) The perception from the public review of food transactions at excessive amounts implies improper stewardship of taxpayers' dollars.

Criteria: 1) The State of Oklahoma Purchase Card Procedures § 6.23, **Food**, states "Provided an agency has statutory authority to purchase food, the P-card may be used for payment. Authorized food purchases shall be covered in the internal policies of each agency."

2) The State of Oklahoma Purchase Card Procedures § 6.3.3 **Prohibited items** states, "Per Diem food and beverages as authorized by the State Travel Reimbursement Act, Oklahoma State Travel Policy, and any other statute pertaining thereto."

The State Travel Reimbursement Act § 74-500.8, **Method of computing per diem, states in part:**

In computing reimbursement for meals a day shall be a period of twenty-four (24) hours. Reimbursement for each one-fourth (1/4) day consisting of six (6) hours or major fraction thereof, more than three (3) hours, may be made at the rate of one-fourth (1/4) of the daily allowable rate. Provided, however, that no reimbursement for meals shall be made for periods which do not include overnight status.

Recommendation: 1) We recommend the agency discontinue the purchase of food until a food policy is approved by the governing board. We recommend the agency develop, implement and communicate an internal food policy that is approved by the governing board. We further recommend the executive director of the agency specifically state the statutory authority to spend the funds in this manner and must state the public purpose served by purchasing the meals within the policy.

2) We recommend the recipients of the meals refund the state \$425.16. We also recommend the agency develop, implement and communicate proper steps to be administered when choosing food

vendors to prevent meal rates exceeding the allowed per diem rate. The agency should follow the method on how to compute per diem provided by the State Travel Reimbursement Act for meals and entertainment when purchasing food. If the agency chooses to purchase food that is more expensive than the computed per diem rate per person then they are required to pay the difference. The approved per diem rate should be the only amount charged to the state purchase card when this occurs.

Management's Response

Date: 03/03/2016

Respondent: Accounting Manager

Response: Partially Concur - We are implementing a Food Policy that will be voted on at the next Board Meeting on March 10th. There is an Attorney General Opinion 10-030 addressing food for meeting for our breakfast items. In our Food Policy we are addressing the \$16.50 per person limit. We are not an appropriated agency. We will not be asking the Board to repay for the meals. Also on the Attendees you did not include staff. Three people should be added to the calculation of the meal cost making Rib Crib under the \$16.50. When we order food for Board Meeting we order for the 13 Board members, our attorney, our consultant and 5 staff members, if anyone fails to show up for Board meeting they would have been in the calculation for the meal.

Corrective Action Plan

Anticipated Completion Date: 03/11/16

Corrective Action Planned: The Food Policy will be implemented.

Finding 15-416-03: Approving Official and Segregation of Duties

Condition: 1) During our substantive testwork, we noted 16 of 18 monthly cardholder statements (89 percent error rate) did not contain a signature by an approving official that is one level higher.

2) During our testing of internal controls, we discovered cardholders were not printing out or reconciling their own monthly cardholder statements. One cardholder was responsible for printing out all the cardholder's monthly statements and reconciling each statement for everyone.

Cause: 1) The agency believed the cardholder's was the only signature needed on the monthly cardholder statements.

2) The agency was unaware of the requirement to have each purchase card holder print off their own monthly statement and to reconcile the statement themselves.

Effect or Potential Effect: 1) In the absence of approving officials' signatures on cardholder statements, there is no support showing the cardholders' monthly statement and supporting documentation was independently reviewed for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to state statutes, rules, procedures and sound business practices. Inadequate participation from the agency's approving officials increases the risk that purchase cards could be misused.

2) When the cardholder reconciliation is not reviewed in its entirety, the risk of purchase card documentation being incomplete and inaccurate increases. An incomplete cardholder statement reconciliation process creates an opportunity for unauthorized transactions to go undetected.

Criteria: 1) The State of Oklahoma Purchase Card Procedures § 3.6, **State Entity Approving Officials**, states in part:

One or more State Entity staff members designated by the State Entity P-Card Administrator to review and approve P-Card holder transactions. State Entity Approving Officials must be at least one level above the P-Cardholder's position and be current with P-Card training. The State Entity P-Card Administrator may designate in writing, Back-up State Entity Approving Officials. The Back-up State Entity Approving Official must be at least one level above the P-Cardholder's position, be current with P-Card training and have a signed P-Card Employee Agreement on file with the State Entity P-Card Administrator.

2) The State of Oklahoma Purchase Card Procedures § 6.14.1, **P-Card holder responsibilities** states in part:

Transactions shall be reconciled by the P-Card holder. In reconciling the transactions, P-Card holders shall use transaction documents to verify purchases and returns are accurately listed in the banks online system.

Recommendation: 1) Establish and implement procedures to ensure all monthly cardholder statements are signed and dated by the approving official upon concurrence of the reconciliation performed by the cardholder. Further, we recommend that purchase card management monitor such cardholder statements to ensure adherence to the established procedures.

2) We recommend each cardholder print off his or her own cardholder statement and reconcile to supporting documentation. We recommend the approving official ensures this process is performed by the cardholder.

Management's Response

Date: 03/03/16

Respondent: Accounting Manager

Response: Concur – We have made these changes already.

Corrective Action Plan

Anticipated Completion Date: 03/01/16

Corrective Action Planned: Accounting manager signs off on the receptionist's and the accountant's reports. Director signs off on accounting manager's report.

Finding 15-416-02: Receiving Documents

Condition: 1) During the substantive testing phase of the audit, we tested six transactions to verify proof of delivery for each purchase. Out of the sample tested, 4 of 6 transactions (67 percent error rate) did not contain receiving documentation or packing slips.

2) We tested nine transactions each with amounts equal to or less than \$5,000. We noted eight transactions (89 percent error rate) missing the cardholder's signature and date on the receipt from walk-in purchases.

Cause: 1) Unknown.

2) The agency was unaware of the requirement to sign and date receipts for walk-in purchases.

Effect or Potential Effect: 1) When the cardholder does not obtain a packing slip, there is no documentation to support the products were received by the agency.

2) When the employee does not sign or date the receipt for walk-in purchases, there is no support that the cardholder is the one who purchased the goods or services.

Criteria: 1) State of Oklahoma Purchase Card Procedures (effective Dec. 8, 2014) **6.11 Receiving Goods and Services** states “**6.11.2 Products shipped** – A packing slip or proof of delivery obtained from carrier’s website must be obtained.”

2) The State of Oklahoma Purchase Card Procedures § 6.11.1, **Goods or services received at the time of purchase**, states in part:

The receipt for purchase shall serve as the receiving document. The receipt must contain the P-Card holder’s signature and date. A carbon copy of the receipt containing the P-Card holder signature and date meets this requirement.

Recommendation: 1) We recommend the agency develop, implement and communicate:

- To all receiving employees the process for collecting and submitting documents to the cardholder.
- To all cardholders the importance of collecting and maintaining receiving documentation for items purchased that were shipped to the agency.

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

2) We recommend the agency ensure that walk-in receipts are signed by the cardholder at the time of purchase. We further recommend the approving official review the supporting documentation for completeness during their review.

Management’s Response

Date: 3/3/16

Respondent: Accounting Manager

Response: Concur - We are now signing walk-in buys slips. We are signing packing slips and dating them.

Corrective Action Plan

Anticipated Completion Date: 03/03/16

Corrective Action Planned: We are looking at all our current receipts to make sure everything is correct for the signing off and dating.

Finding 15-416-06: Credit Limits

Condition: A spending analysis was performed on the cardholder's credit limit on Aug.10, 2015. We determined the three purchase cards evaluated appeared to have excessive credit limits. The analysis was performed on purchases during the audit period from July 1, 2014, to Aug. 5, 2015.

Cause: Unknown.

Effect or Potential Effect: 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: The State of Oklahoma Purchase Card Procedures **3.5 State Entity P-Card Administrator** states in part:

This employee and any designated back-up are the only employees authorized with the Issuing Bank to designate or change P-Card holder and card limits for their State Entity. The State Entity P-Card Administrator is the primary interface with the State P-Card Administrator and the issuing bank.

The State of Oklahoma Purchase Card Procedures **6.1.5 P/Card Controls and Limits**, states in part:

State Entities are required to establish the following categories of controls and limits on each P/Card. These mandatory limits are required by the Issuing Bank and the card provider, for example MasterCard or Visa. The mandatory categories are:

- Card limit (dollar amount per cycle)
- Single Purchase limit (dollar amount per transaction)
- Merchant Category Code Group (MCCG).

Recommendation: We recommend that the purchase card administrator evaluate the usage of each purchase card, and adjust card and transaction limits as needed. The limits may be temporarily increased if an unusually large purchase is required.

Management's Response

Date: 03/03/16

Respondent: Accounting Manager

Response: Concur – We will adjust these accordingly. One was raised for a specific purchase and never lowered.

Corrective Action Plan

Anticipated Completion Date: 04/01/2016

Corrective Action Planned: For security reasons the reduced credit limits were not placed in the report.

Finding 15-416-04: Description Field/Other Charges

Condition: 1) During our testing of lodging and airfare transactions, we noted all three airfare transactions and 10 lodging transactions did not contain the correct information in the online banking system's description field as required by the state purchase card procedures.

2) While testing lodging transactions, we noted one purchase contained a charge for lunch which is prohibited. The total cost of the lunch was \$15.16.

Cause: 1) The agency was not aware of all the travel information requirements to include in the online banking system's description field.

2) Unknown.

Effect or Potential Effect: 1) Essential information regarding the use of the state's purchase card to purchase travel-related expenses is undocumented and accountability within the system is weakened.

2) When other miscellaneous expenses are charged to the lodging facility, unauthorized purchases go undetected.

Criteria: 1) The State of Oklahoma Purchase Card Procedures § 6.13.1.2.2, **P-Card transaction editing**, states in part:

The following information shall be listed in the Bank's transaction system. Some of the information is automatically populated due to Airlines and Lodging Establishments registering as Level 3 merchant; however, the airlines and lodging establishments have 30 days to provide the Level 3 information. Therefore, the P-Card holder is responsible for ensuring the following information is included and may have to enter all of it in the Description field under "Allocation":

- **Airline purchases:** Traveler's name, employee ID number, itinerary/confirmation number, date of travel, and purpose of travel; for travelers that are authorized non-state personnel, include the traveler's name; the justification for the travel, to and from destination; and, dates of travel.
- **Lodging purchases:** Traveler's name, employee ID number, number of nights, City/State, purpose of travel, confirmation number and room rate stating (1) designated hotel; or, (2) standard GSA lodging rate; or, (3) federal high GSA lodging rate.

2) The State of Oklahoma Purchase Card Procedures § 6.13.1.2.1 **Meals** states:

Meals—including room service, phone charges (not business related), internet charges (not business related) are NOT allowed on the p-card. State employees and authorized non-state personnel traveling on official business are responsible for paying out-of-pocket for all other travel-related expenses. In the case of inadvertent personal charges, the Traveler shall reimburse the State for any and all personal expenses charged to the P-Card (i.e., phone calls, room service, movies, etc.). Such repayment can be made by actual check or cash submitted to the State Entity. State

Entities must use the Comments field on the Invoice Information page to give a brief description of the negative adjustment (e.g., erroneous room service charge on a P-Card payment) and put the voucher number of the P-Card voucher having the overpayment. Also, the State Entity must use the Comments field on the original P-Card voucher to give a description of the error and to put the voucher number of the travel voucher having the adjustment. Non-repayment of personal expenses to the State by the Traveler shall result in the Traveler's loss of P-Card lodging acquisition privileges and other disciplinary or criminal actions.

Recommendation: 1) We recommend the agency implement a process where the approving official should not approve transactions if the cardholder has not entered the correct information in the online banking system's description field when required by the state purchase card procedures.

2) We recommend the agency require the board member to reimburse \$15.16 to the state. If it is not reimbursed, the traveler and cardholder should lose their privilege of using the purchase card for travel-related expenses. We recommend the traveler thoroughly review their folio for any discrepancies before checking out of the lodging facility. Any charges not related specifically to lodging should be paid for by the cardholder and reimbursement claimed through the agency's normal travel reimbursement process.

Management's Response

Date: 03/03/16

Respondent: Accounting Manager

Response: Partially Concur – We have been putting the information requested here in the Comments section not in the allocation section under description. We will have the \$15.16 repaid.

Corrective Action Plan

Anticipated Completion Date: 03/30/2016

Corrective Action Planned: We will begin putting the information in the correct place immediately and will have a copy of the deposit sent to OMES for our Audit file when the \$15.16 is repaid.

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 were evaluated.

Sampling

	Transactions	Amount
Total Expenditures:	96	\$18,558.50
Reverse Transactions	(2)	(\$0.00)
Agent Fees	0	\$0.00
Negative Transactions	(4)	\$1,125.68
Filtered Population	90	\$19,684.18
Sub-Populations:		
IT	2	\$617.04
Lodging	13	\$2,194.09
Airfare	3	\$1,351.60
Under \$5,000	72	\$15,521.45
Greater than \$5,000	0	\$0.00
Total:	90	\$19,684.18
Samples:		
Lodging	10	\$1,547.47
Airfare	3	\$1,351.60
Under \$5,000	20	\$9,444.80
Judgmental	6	\$425.93

EXECUTIVE SUMMARY

Organization: Oklahoma Law Enforcement Retirement System

Mission Statement: To ensure that all members who contribute to the system will find upon retirement adequate funds to meet the benefits guaranteed them by directing investment of the funds of the system, attempting to maximize gains, minimize losses, and protect the trust.

History and Overview: The Oklahoma Law Enforcement Retirement System (OLERS) mission is to administer retirement/survivor retirement and medical benefits for members of the law enforcement profession of the State of Oklahoma and their families. OLERS places high value on the integrity of their agency. Their most important resource is their customer. Their goal is to treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly. OLERS strives to be the best agency in the Oklahoma state government. OLERS serves as a model for their ability to provide full service at the point-of contact when, where and how our clients want it. OLERS has a long and distinguished tradition of excellence in serving their clients, and they fully expect that tradition to continue in the coming years.

Agency Information

The agency is made up of seven unclassified employees according to the [Oklahoma Agencies, Boards and Commissions Book](#) as of September 10, 2015.

Board Members

Roy Rogers, President
Ginger Poplin, Executive Director
Kourtney Heard, Secretary
Renda Reese-Davis, Governor appointee
R. Darrell Weaver, Elected member
Brent Fairchild, Elected member
Lynne Bajema, Appointee of Tony Hutchinson
Donald Jackson, Speaker of House of Representatives appointee

Jason Matheson, Elected member
Jim Laurick, Pro-Tempore appointee
Kendall Johnson, Elected member
Mark Walters, Elected member
Chip Keating, Governor appointee
Todd Blish, Designated by statute

Key Staff

Ginger Poplin, Executive Director
Carol Sims, Accounting Manager, Approving Official & Cardholder
Pam West, Accountant & Cardholder

TRANSMITTAL LETTER

TO GINGER POPLIN, EXECUTIVE DIRECTOR, AND BOARD OF THE OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

With this letter, we transmit the report of the Oklahoma Law Enforcement Retirement System purchase card program audit for the period of July 1, 2014, to Aug. 5, 2015.

We performed the audit to ensure the Oklahoma Law Enforcement Retirement System purchase card program as 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 the Office of Management and Enterprise Services website, <http://www.ok.gov/OSF/Audit>.

Respectfully,

Carol McFarland
Director, Performance and Efficiency Division