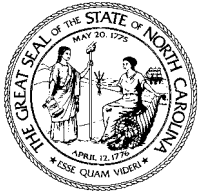


PERFORMANCE AUDIT
NORTH CAROLINA UNIVERSITY SYSTEM
PROCUREMENT CARD OPERATIONS

DECEMBER 2003

OFFICE OF THE STATE AUDITOR
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December 18, 2003

The Honorable Michael F. Easley, Governor
Secretary Gwynn T. Swinson
Department of Administration
President Molly Corbett Broad
University of North Carolina
Chancellors of the North Carolina University System
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We are pleased to submit this performance audit of the *North Carolina University System, Procurement Card Operations*.

This report consists of an executive summary and findings and recommendations that contain program overview information. The objectives of the audit were to: determine the number of procurement cards at each of the universities with fully implemented programs and to whom they are assigned; examine the procurement card oversight process and its effectiveness; and, for the universities not using the procurement card, determine the reasons for not using the card.

Secretary Swinson, President Broad, and the Chancellors of the North Carolina University System were given the opportunity to review a draft copy of this report. Written comments are included as Appendix B, page 39.

We wish to express our appreciation to Secretary Swinson, President Broad, and the Chancellors of the North Carolina University System and their staffs for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive style.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	5
PROGRAM OVERVIEW	7
❑ OBJECTIVE 1: NUMBER AND ASSIGNMENT OF CARDS	8
Overview	8
Methodology	8
Conclusions	9
Findings and Recommendations	9
❑ OBJECTIVE 2: EFFECTIVENESS OF OVERSIGHT	11
Overview	11
Methodology	12
Conclusions	12
Findings and Recommendations	13
❑ OBJECTIVE 3: UNIVERSITIES NOT USING PROCUREMENT CARDS.....	22
Overview	22
Methodology	22
Conclusions	22
Findings and Recommendations	23
 TABLES:	
1 Entities Participating in Procurement Card Pilot Program	7
2 University Procurement Card Programs Status as of July 2003.....	9
3 Number of Cards, Transactions, Amounts, and Rebates	9
4 Responsibilities Noted in Policies and Procedures	14
5 Transactions Exceeding Spending Limits Noted in Samples	16
6 Comparison of Processing Steps	18
7 Bankcard Company Rebate Levels	18
8 Non-Personnel Savings Based on FY2001-02 Procurement Card Transactions	19
9 Potential Rebate from Increased P-Card Use	20
10 Potential Rebate Increase from Combined Spending Power.....	20
11 Oversight and Purchasing Methods for Non-Users of University Procurement Cards	22
 APPENDICES:	
A Procurement Use – Universities in Other States	31
B Response from Universities	39
• UNC-Chapel Hill.....	39
• North Carolina State University	46
• East Carolina University	52
• UNC-Wilmington.....	55
• North Carolina A&T State University.....	57
• Fayetteville State University	60
• North Central State University	61
• UNC-Asheville.....	65
• UNC-Charlotte	66
• UNC-Greensboro	67
C Response from Department of Administration.....	68
 DISTRIBUTION OF AUDIT REPORT.....	77

Program Description

The 1997 General Assembly authorized a procurement card (p-card) pilot program that included universities, state agencies, local school systems, and community colleges. The program was established to provide a more rapid turnaround on small-dollar value purchases and to reduce paper flow, processing costs and time, as well as to provide spending controls. To assess the potential benefits of procurement cards, a group of five State agencies, five universities, two community colleges, and two local school systems participated in a pilot program overseen by the Department of Administration, Division of Purchase and Contract (P&C). The universities were: University of North Carolina at Chapel Hill (UNC-CH), North Carolina State University (NCSU), East Carolina University (ECU), University of North Carolina at Wilmington (UNC-W), and North Carolina Agricultural and Technical State University (NC A&T). Since the five participating universities had been using the procurement card program for approximately four years, the State Auditor determined that it was time to conduct an audit of the program as it has been implemented in the University of North Carolina System.

Audit Scope and Methodology

This performance audit of the procurement card program within the University System was undertaken at the discretion of the State Auditor. The scope of the audit included the procurement options for small purchases at all sixteen of the institutions within the University System. The audit focused on determining which of the universities had on-going procurement card programs, which were fully implemented, the established procedures for those programs, compliance with procedures, and identification of purchasing options for small purchases at the universities not using procurement cards. Because of the timing of the audit, all samples were pulled from fiscal year 2001-02 data.

Conclusions in Brief

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Number
and
Assignment
of
Cards

At the time of the audit, five of the sixteen universities had fully-implemented procurement card programs, with five others in the process of implementing the program during fiscal years 2002-03 and 2003-04. Applications from two other universities were in process with the Department of Administration's Purchase and Contract Division. For fiscal year 2001-02, the five active programs had issued a total of 2,353 procurement cards to employees, ranging from 969 cards at UNC-Chapel Hill to 177 cards at North Carolina A&T. Each participating university maintained records of who the cards were issued to, along with details on the types of purchases allowed and the dollar limits on purchases for each cardholder. The cards were used to purchase \$23.6 million of items for use at the universities during fiscal year 2001-02. Additionally, under the terms of the contract with the bankcard company operating the program for the State, the five universities had received rebates on purchases totaling \$87,500 for that year.

EXECUTIVE SUMMARY

OBJECTIVE 2

Effectiveness of Oversight

Each of the five participating universities had established policies and procedures for their respective procurement card programs. Prior to implementation of a procurement card program, the Division of Purchase and Contract reviews and approves the university's procurement procedures. However, P&C does not have enough staff to perform periodic procurement card compliance reviews. Each university maintained a database of procurement card purchases. The bankcard company provides transaction data directly to the individual universities, and summary reports to P&C. However, P&C does not require the individual program administrators at each university to report serious card use violations to P&C.

Review of a sample of transactions from each of the participating universities showed only minor concerns such as lack of written policies and procedures for card cancellation, lack of procedures for reviewing card inactivity and necessity, and transactions that exceeded or circumvented established spending limits. Additionally, we noted that vendors would at times manually accept transactions above the established limit for the cardholder. Overall, the p-card program at the universities was well run and its intended purposes achieved. The five participating universities averaged using procurement cards for less than 5% of their total purchases for fiscal year 2001-02. Had p-card purchases been increased to 10% of total purchases, the rebates received by the universities would have increased by 159% for that year.

Lastly, the State could realize a significant increase in rebates for use of procurement cards by consolidating its buying power for all entities using the cards. If this option had been used for the five participating universities in fiscal year 2001-02, the amount of the total rebate would have been increased by \$6,787 overall. It would also have allowed the universities not at the maximum rebate level based on total p-card expenditures to have doubled their individual rebate amounts. If the State utilizes this option, it could allow P&C, as the state level Program Administrator, to retain a small portion of the statewide rebate, which could be used to fund needed monitoring positions for the program.

OBJECTIVE 3

Universities Not Using Procurement Cards

Eleven of the sixteen universities did not have a fully-implemented procurement card system at the time of the audit. However, seven of those were in the process of implementing the system. For the four remaining universities, the major concern delaying p-card implementation was the belief that the costs for additional personnel to handle the program would outweigh the potential savings from the program. All eleven of the universities did have established and active policies and procedures for procurement and utilized such tools as petty cash and reimbursements to employees to purchase small items. These procedures, however, were more costly and time consuming than the use of the procurement cards.

Specific Findings

Objective 1: Number and Assignment of Cards

- ❑ Five universities had fully-implemented procurement card programs during fiscal year 2001-02 9
- ❑ Five additional universities were approved for p-card use during fiscal years 2002-03 and 2003-04 10

Objective 2: Effectiveness of Oversight

- ❑ Division of Purchase and Contract does not have enough staff to perform periodic procurement card compliance reviews..... 13
- ❑ Participating universities have only minor internal control concerns..... 14
- ❑ Low spending limits result in program inefficiencies. 15
- ❑ Vendors or procurement card program administrators allowed purchases above card spending limits..... 17
- ❑ Participating universities are not maximizing potential savings related to the procurement card program 18

Objective 3: Universities not using Procurement Cards

- ❑ Eleven universities have not fully implemented the use of procurement cards..... 23
- ❑ Universities not using p-cards have existing oversight and purchasing authorization systems 23

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AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

North Carolina General Statutes (GS) 147-64.6 empowers the State Auditor to conduct performance audits of any State agency or program, as well as local entities receiving State and federal funds. Performance audits are reviews of activities and operations to determine whether the resources are being used economically, efficiently, and effectively or whether program objectives are being achieved.

This audit of **university procurement card operations** was undertaken at the discretion of the State Auditor. The audit encompassed the fully implemented procurement card operations at five of the sixteen universities in the University of North Carolina System: ECU, NC A&T, NCSU, UNC-CH, and UNC-W. The other eleven universities did not have fully implemented procurement card operations at the time this audit began. The audit sought to answer several questions relative to procurement card operations. Questions included:

- ◆ *Which universities are currently using procurement cards?*
- ◆ *How many cards does each have and to whom are they issued?*
- ◆ *What procedures are in place for approval of procurement card purchases for payment?*
- ◆ *Does each university's accounting system contain details for each procurement card purchase, and are they available for analysis?*
- ◆ *Can detailed reports be obtained from the bankcard company supplying the procurement cards?*
- ◆ *Does analysis of a statistical sample of procurement card purchases indicate potential problems?*
- ◆ *What purchasing process(es) are the other universities using, and how does it differ from the procurement card procedures?*

These questions lead to the development of the following objectives:

- *Objective 1: Number and Assignment of Cards:* Determine the number of procurement cards at each of the universities with fully implemented programs and to whom they are assigned.
- *Objective 2: Effectiveness of Oversight:* Examine the procurement card oversight process and its effectiveness.
- *Objective 3: Universities not using Procurement Cards:* Determine the following for the universities not using the procurement card:
 - Reasons for not using the card
 - Procurement process and tools used
 - Oversight and purchasing authorization.

We conducted the fieldwork during the period May 2003 to September 2003. The scope of the audit encompassed the procurement card operations at the five universities and the small purchase procedures and operations for the eleven other universities. Because of the timing of the fieldwork, all samples were drawn from fiscal year 2001-02 data.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

To achieve the audit objectives, we employed various auditing techniques that adhere to the generally accepted auditing standards as promulgated in *Government Auditing Standards* issued by the Comptroller General of the United States. These techniques included:

- Review of existing General Statutes and the North Carolina Administrative Code relating to procurement card operations.
- Review of each university's policies and procedures for procurement card operations.
- Review of internal and external audit reports on procurement card operations.
- Review of contracts with the bankcard company.
- Interviews with key personnel at the North Carolina Department of Administration's Division of Purchase and Contract, MBNA America Bank N.A. (the bankcard company), and the Universities.
- Review of a statistical sample of transactions made between July 1, 2001 and June 30, 2002 at each of the five universities with fully implemented procurement card programs.
- Research on use of procurement cards by other states' universities for comparison.

This report contains the results of the audit including conclusions and recommendations. Specific recommendations aimed at improving the operations of the program in terms of economy, efficiency, and effectiveness are reported. Because of the test nature and other inherent limitations of an audit, together with the limitations of any system of internal and management controls, this audit would not necessarily disclose all weaknesses in the systems or lack of compliance. Also, projections of any of the results contained in this report to future periods are subject to the risk that procedures may become inadequate due to changes in conditions and/or personnel, or that the effectiveness of the design and operation of the procedures may deteriorate.

FINDINGS AND RECOMMENDATIONS

Program Overview: The 1997 General Assembly enacted a procurement card (p-card) pilot program that included universities, state agencies, local school systems, and community colleges. The program was established to provide a more rapid turnaround on purchases of small-dollar value goods and to reduce processing costs, paper flow, and processing time, as well as to provide spending controls. By moving toward the use of procurement cards, North Carolina joins a growing number of states making efforts to reduce paperwork and better manage procurement resources.

To assess the potential benefits of procurement cards, a group of five State agencies, five universities, two community colleges, and two local school systems participated in a pilot program¹ overseen by the Department of Administration, Division of Purchase and Contract (P&C). Table 1 shows the pilot program participants. As a part of the pilot, each participating agency was asked to identify savings in the areas of staff, non-personnel costs, and non-monetary areas to determine the potential savings from the use of procurement cards. Benefits identified by the participants included:

- Immediate acquisition of small purchases,
- Fewer purchase orders issued, fewer invoices processed, and fewer checks written to vendors, and
- Reduced processing costs and postage for vendor bills.

The North Carolina Office of State Budget Planning and Management (OSBPM) conducted a study² in 2000 on the savings resulting from the use of the procurement cards. This study recommended p-cards be made available to all State agencies based on the successful implementation of the pilot program. The study recommendation received the endorsement of the Management Improvement Council, P&C, the Office of State Controller, the Office of State Budget, and the pilot agencies.

Based on the recommendation and endorsements, the General Assembly adopted legislation in 2001³ authorizing the Secretary of the Department of Administration to adopt temporary rules to expand the procurement card program statewide. These rules are contained in North Carolina Administrative Code (NCAC) 01 NCAC 05B.1523 and establish the Division of Purchase and Contract as the statewide P-Card Administrator. The rules establish a per transaction limit of \$2,500 unless an exception is granted by P&C or the circumstances fit into

TABLE 1 Entities Participating in Procurement Card Pilot Program	
Category	Entity
State Agency	Dept. of Administration
	Office of the State Auditor
	Dept. of Environment and Natural Resources
	Dept. of Health and Human Services – Murdoch Center
	Dept. of Health and Human Services – Vocational Rehabilitation
University	NCSU
	UNC-CH
	UNC-W
	NC A&T
Community College (CC)	Central Piedmont CC
	Alamance CC
Local School System	Wake County Schools
	Guilford County Schools
Source: NC Office of State Budget Planning and Management Report and P&C	

¹ Department of Transportation (DOT) was slated to be one of the pilot agencies for the program. However, due to DOT's unique accounting system, the p-card program was never implemented for DOT.

² Procurement Card Pilot Study FY2000, Office of State Budget Planning and Management, September 2000 (directed by 1999 Session Laws).

³ GS 143-49, Powers and Duties of Secretary, contained in Article 3 "Purchases and Contracts."

FINDINGS AND RECOMMENDATIONS

one of the exceptions described in the regulations⁴. Use of procurement cards by any agency is contingent on a satisfactory compliance review of established procurement procedures prior to p-card program implementation, as determined by P&C.

This audit examines the implementation of the procurement card program within the University System as of May 2003. The individual findings and recommendations for each of the major objectives of the audit are detailed in this section of the report. Performance audits, by nature, focus on areas where improvements can be made to increase the effectiveness and efficiency of the operation under audit. The identification of areas for improvement should not be taken to mean that the program has not provided the State with needed services within the existing resource constraints. The findings and recommendations contained in this report should be viewed in that light.

Objective 1--NUMBER AND ASSIGNMENT OF CARDS: Determine the number of procurement cards at each of the universities with fully implemented programs and to whom they are assigned.

Overview: Five of the sixteen universities had fully implemented procurement card (p-card) programs at the time of the audit. Each of these universities has established procedures for attainment and use of the cards. University employees who are authorized to purchase goods and services can obtain p-cards at the request of the department where the potential cardholder is assigned. The process includes verification of employment, approval from an official of the department, and maintenance of a register of approved cardholders. The bankcard company⁵ does not charge for the issuance of a card. Prior to receiving the card, the individual must attend training on the proper use of the card. The cardholder may continue use of the card as long as university guidelines are followed. Cards have a specified expiration date. Replacement cards are mailed directly to the p-card administrators at all universities except NC A&T. Cards must be surrendered immediately upon termination of employment or upon the request of either the cardholder's supervisor or the university p-card Program Administrator. The names of both the university and the cardholder appear on the card. The university is responsible for payment of all charges on the cards; the cardholder is not responsible for payment to the bankcard company.

Methodology: Working with university personnel assigned to the procurement card program at each of the five universities with fully implemented programs, we obtained and reviewed policies and procedures for the program. We also obtained a list of, and confirmed, all active cardholders from each university for fiscal year 2001-02. Additionally we reviewed

⁴ Universities that had a procurement card contract in place prior to 1997 were exempt from the statewide procurement card requirements until June 30, 2003.

⁵ MBNA America currently holds the contract to supply procurement cards to state agencies. This contract was executed June 2003 and runs through June 2004. This contract is the fourth amendment to the original 3-year contract with CoreStates Bank of Delaware N.A. First Union National Bank was a successor in interest to CoreStates and MBNA America Bank, N.A. was successor in interest to First Union National Bank.

FINDINGS AND RECOMMENDATIONS

internal and external reports on the procurement card programs and the contract with the bankcard company.

Conclusions: At the time of the audit, five of the sixteen universities had active procurement card programs, with five others in the process of implementing the program during the fiscal years 2002-03 and 2003-04. Applications from two other universities were in process with the Department of Administration's Purchase and Contract Division. For fiscal year 2001-02, the five active programs had issued a total of 2,353 procurement cards to employees. Each participating university maintained records of who the cards were issued to, along with details on the types of purchases allowed and the dollar limits on purchases for each cardholder. The cards were used to purchase \$23.6 million of items for use at the universities. Additionally, under the terms of the contract with the bankcard company operating the program for the State, the five universities had received rebates on purchases totaling \$87,500 for that year.

Objective 1: Findings and Recommendations

FIVE UNIVERSITIES HAD FULLY IMPLEMENTED PROCUREMENT CARD PROGRAMS DURING FISCAL YEAR 2001-02.

The five universities that participated in North Carolina's procurement card pilot project had fully implemented programs at the time of the audit. Additionally, five other universities had approval to begin procurement card programs, as shown in Table 2. Each university with a fully implemented program supplied listings of employees to whom p-cards were issued. Table 3 summarizes the number of cards issued, the number of transactions, and the total transaction amount for fiscal year 2001-02. As noted in the table, the University of North Carolina at Chapel Hill and North Carolina State University had significantly more transactions than the other

TABLE 2 University Procurement Card Programs Status As of July 2003	
Status	University
Fully Implemented	ECU, NC A&T, NCSU, UNC-CH, UNC-W
Approved— Not Fully Implemented	Appalachian State, School of the Arts, UNC-Charlotte, Western Carolina, Winston-Salem State
Pending Approval	UNC-Pembroke, UNC-Greensboro, Fayetteville State, NC Central, UNC-Asheville, Elizabeth City State
No Application	
Source: P&C Records and University Reported	

TABLE 3 University Procurement Card Programs Number of Cards, Transactions, Amounts, and Rebates FY2001-02				
University	No. of Cards	No. of Transactions	Total Amt. Of Transactions	Rebates Earned *
ECU	351	8,227	\$ 1,315,195	\$ 3,518
NC A&T	177	3,766	503,185	1,059
NCSU	518	30,909	6,541,491	27,317
UNC-CH	969	69,361	14,143,674	53,396
UNC-W	338	10,814	1,123,748	2,210
TOTALS	2,353	123,077	\$23,627,293	\$87,500
* Rebates are earned based on the total amount of the transactions, as agreed in contract with bankcard company.				
Source: Summarized from University Records				

three universities with fully implemented programs. This was to be expected given the relative sizes of the universities.

Each university has specific procedures that spell out how the card can be used. The types of items generally purchased with the card included office supplies, computers, software, and audiovisual and lab equipment. Under the terms of the contract with the bankcard company, the universities had received rebates on the purchases, totaling \$87,500 for fiscal year 2001-02.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

The universities should continue to maintain records showing which employees have been issued p-cards. These records should continue to contain details relative to the types of purchases and dollar limits on purchases for each p-card user. Records of users should be updated periodically as required by the individual university's policies and procedures. (See discussion on page 15.)

FIVE ADDITIONAL UNIVERSITIES WERE APPROVED FOR P-CARD USE DURING THE FISCAL YEARS 2002-03 AND 2003-04.

The General Assembly approved legislation in December 2001⁶ to allow all state agencies, community colleges, universities, and local school systems to participate in the statewide procurement card program. Implementation of the program is contingent on a satisfactory compliance review of the entity's procurement procedures by P&C. As of July 2003, five additional universities had been approved to participate in the procurement card program as shown in Table 2, page 9. Two other universities have applications pending at the time of the audit.

RECOMMENDATION

New users should work closely with P&C to properly establish programs. They should also consult with universities that have fully implemented p-card programs for insight on efficiently operating the program.

⁶ General Assembly of North Carolina, Session 2001, Session Law 2001-513, House Bill 231, Section 28.(b).

FINDINGS AND RECOMMENDATIONS

Objective 2--EFFECTIVENESS OF OVERSIGHT: Examine the procurement card oversight process and its effectiveness.

Overview: The p-card oversight process involves the cardholder, the department utilizing the card to make purchases, the university purchasing department, the bankcard company, and the State Division of Purchase and Contract. The university purchasing department has primary responsibility for oversight at each of the universities. The State Division of Purchase and Contract has overall responsibility for the statewide procurement card program.

Each cardholder is responsible for the use and security of his/her p-card. Only purchases of allowed items within the specified dollar range should be made. Reconciliation of the monthly statement is performed initially by the **cardholder** and then by the **designated departmental reconciler**. As part of the reconciliation process, the cardholder provides itemized receipts to the reconciler as support for all transactions. The department is also responsible for approving vendor invoices for payment.

The **university purchasing department** is responsible for developing, updating, and communicating p-card policies and procedures, monitoring the program, and conducting periodic compliance reviews of the transaction process. Establishment of daily and monthly transaction amounts and specification of the types of transactions allowed are part of the system of controls for p-card use. The university's **P-Card Administrator** is located in the purchasing department. The purchasing department reviews the invoices and receipts for compliance and sends to the accounting department for payment except for UNC-CH which conducts compliance reviews after payment.

The **bankcard company** monitors the entire program under the terms of its contract with the State. It also provides a daily electronic feed to each university, transmitting details of all transactions posted, as well as monthly electronic statements. Additionally, the bankcard company sends monthly statements to the individual cardholder. The bankcard company reviews card activity and if there has been no activity in 18 months, the card may be cancelled. The bankcard company also provides P&C with summary reports each month.

The **Division of Purchase and Contract** is the statewide P-Card Administrator. As such, its duties include review of each university's purchasing operations as the first step for approval of a p-card program. P&C reviews and comments on specific university policies and procedures, established or new, for p-card use. P&C also has the responsibility for approving exceptions to statewide regulations such as increases over the established \$2,500 single transaction spending limit.⁷ Regulations allow the universities to reduce but not exceed the \$2,500 single transaction amount. P&C is also responsible for on-going monitoring of the p-card program.

⁷ P&C established the \$2,500 per transaction spending limit based on historic data that showed approximately 80% of all purchases were for \$2,500 or less. There is no transaction spending limit for purchases during a Governor declared emergency / disaster; also p-card transactions processed through the State electronic procurement system may be in any amount consistent with agency fiscal policies.

FINDINGS AND RECOMMENDATIONS

Methodology: To examine the effectiveness of oversight procedures, we first obtained and reviewed the statewide procurement card policies and procedures and the regulations contained in the North Carolina Administration Code. Next we obtained specific p-card policies and procedures from each of the five participating universities. We interviewed statewide procurement personnel and procurement personnel from each of the universities to determine actual duties relative to the p-card program. We also reviewed the terms of the bankcard contract with the State and interviewed personnel from the bankcard company to determine the duties it performs. To examine compliance with the established policies, procedures, and regulations, we obtained a database containing all fiscal year 2001-02 p-card transactions for each of the universities. We reviewed the transactions for any obvious anomalies and then identified a statistically valid sample⁸ of transactions from each university to review in detail, including any anomalies noted during the review of all transactions. Next, we pulled the details for the sample transactions, reviewing them for compliance, and discussed any issues with university procurement personnel and, where applicable, with P&C. Additionally we obtained listings of active and revoked cards, identifying statistically valid samples⁹ from each listing. For each sample, we examined compliance with the established policies, procedures, and regulations for active and revoked cards. As part of the process for reviewing active cards, we examined p-card applications and training documents for each of the individual cardholders in the sample.

Conclusions: Each of the five participating universities had established policies and procedures for their respective procurement card programs. Each university has designated a P-Card Administrator in the Purchasing Department to oversee and monitor the program. All five universities had delegated some of the oversight responsibilities to individual university department heads, including purchase approval and payment reconciliation and approval. While the Division of Purchase and Contract approves the university's procurement procedures, it does not have enough staff to perform periodic procurement card compliance reviews. Each university was able to provide accounting data on the procurement card purchases. The bankcard company provides daily electronic data feeds and monthly account statements to each university and summary reports to P&C, the statewide P-Card Administrator. However, P&C does not require the university p-card administrators to notify it of serious violations of established policies for use of the cards.

Review of a sample of transactions from each of the participating universities showed only minor concerns including lack of written policies and procedures for card cancellation and lack of procedures for reviewing card inactivity and necessity. We noted that 4.6% of the p-card purchases exceeded or circumvented established spending limits. We also noted that vendors would at times manually accept transactions above the established limit for the cardholder. Overall, the procurement card program at

⁸ A statistical sample was tested for each university to achieve a 95% confidence level and a +-5% error limit with an expected error rate of zero. Sample size for each university was based on the total number of p-card transactions for fiscal year 2001-02. Anomalies were examined in addition to the sample.

⁹ The samples of the active and revoked cards were identified in the same manner as for the transactions: 95% confidence level, +- 5%.

FINDINGS AND RECOMMENDATIONS

these universities was well run and achieved its intended purposes for the items purchased using the p-cards.

However, we noted that the five participating universities averaged using procurement cards for less than 5% of their total purchases for fiscal year 2001-02. Increasing p-card purchases to 10% of total purchases would have increased the rebates received by the universities by 159% for that year. Lastly, the State could realize a significant increase in rebates for use of procurement cards by consolidating its buying power for all entities using procurement cards. If this option had been used for the five participating universities in fiscal year 2001-02, the amount of the total rebate would have been increased by \$6,787 overall. It would also have allowed the universities not at the maximum rebate level based on total p-card expenditures to have doubled their individual rebate amounts. If the State utilizes this option, it would allow P&C, as the state level P-Card Administrator, to retain a portion of the statewide rebate, which could be used to fund needed monitoring positions for the program. Such a change would require an amendment to the contract with the bankcard company.

Objective 2: Findings and Recommendations

DIVISION OF PURCHASE AND CONTRACT DOES NOT HAVE ENOUGH STAFF TO PERFORM PERIODIC PROCUREMENT CARD COMPLIANCE REVIEWS.

GS 143-49 gives the Secretary of Administration the authority to establish and maintain a procurement card program for use by State agencies, community colleges, institutions of the University of North Carolina System, and local school systems. To implement the procurement card program, P&C entered into a three year contract with CoreStates Bank of Delaware N.A. in 1997 to operate the statewide program. MBNA America, Inc. currently has the contract to operate the program statewide. Cards must be used in accordance with the statewide contract and p-card policies and procedures.

Each university participating in the procurement card program undergoes a procurement procedures compliance review conducted by P&C before receiving approval to begin the program. However after that review is completed and the university's procurement card operations begin, it could be up to five years before P&C conducts further reviews. P&C does receive reports from the bankcard company showing trends, volume, number of cards, and transaction numbers and amounts. These reports are used to monitor the programs. However the universities are not required to report serious violations (i.e., fraud) to the statewide administrator. A major factor in the time between periodic reviews is that P&C's Compliance Review Section has only one employee to perform reviews for all state agencies, 58 community colleges, 16 institutions of the University of North Carolina, and all other state-related entities (and local school systems if requested).

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

The Secretary of the Department of Administration should request additional staff for the P&C Compliance Review Section. These employees should be assigned the responsibility of conducting periodic compliance reviews of universities (and other State agencies) with p-card programs. Consideration should be given to allowing P&C to receive a portion of each participating state entity's rebate from use of procurement cards to offset the cost of additional state level staff. (See page 18 for rebate information.) P&C should also require the universities to report serious violations to the statewide P-Card Administrator as another monitoring tool. The bankcard reports, along with any reported violations, should be used by P&C to assess compliance with established rules and regulations.

PARTICIPATING UNIVERSITIES HAD ONLY MINOR INTERNAL CONTROL CONCERNS.

We reviewed p-card policies and procedures at each of the participating universities. We found that for each university the policies and procedures addressed the responsibilities of the university purchasing department, the department authorizing the purchase, and the cardholder. Table 4 lists the typical responsibilities and the responsible party at the universities.

TABLE 4 University Procurement Cards Responsibilities Noted in Policies and Procedures	
RESPONSIBLE PARTY	RESPONSIBILITY
University Purchasing Department	Names P-Card Administrator, has primary responsibility for program
	Establishes and oversees policies and procedures
	Sets spending limits (except UNC-CH)
	Gives administrative authority to departmental personnel
	Responsible for conducting compliance reviews
	Trains employees on policies and procedures
Department Authorizing Purchase	Keeps master list of employees with p-cards and maintains records database
	Initial approval of employees who receive card
	Requests spending limits based on employee's responsibilities (UNC-CH departments set limits)
	Compares monthly statements from bankcard provider with support documentation provided by cardholder; reviews for inappropriate purchases
Cardholder	Controls the use and security of card
	Reconciles monthly statements from bankcard provider
Source: Summarized from Universities' Policies and Procedures	

However, we noted a number of internal control concerns in the implementation of the policies and procedures. For example:

- None of the five universities had a written policy for card cancellation upon termination or separation of the employee, transfer to another department, change of duties, and/or inappropriate use of the card. The lack of established cancellation policies could lead to delays in cancellation and potential loss of resources.

FINDINGS AND RECOMMENDATIONS

- Cards were not being cancelled timely at three of the five universities. At UNC-Chapel Hill, 43% of the cards sampled (28 of 65) were cancelled 13 to 607 days after transfer or separation. However, we did not find any purchases made after the cardholder's termination or separation date. Failure to acquire and/or deactivate a departed user's card could result in losses to the university through unauthorized use by the cardholder.
- At NC A&T, 26% of the transactions sampled (16 of 60) were paid without the proper signatures of the supervisory authority. Unauthorized purchases could occur without proper approval.
- At UNC-CH, 10% of the cardholder files (6 of 62) did not have documentation showing proper initial approval to obtain cards. Although the documentation was incomplete, the cardholders did meet the criteria for obtaining procurement cards. Lack of specific approval increases the risk of unauthorized and undetected users and / or transactions.
- UNC-CH's procurement card database did not show approving authority, dates of approval, and contained only 15 months of readily accessible data although three years of paper files were available. Most departments did not show signature or date approval on source documentation. For the items tested in the sample we noted 70 exceptions, an error rate of 19%. Inadequate documentation and approval compromises fiscal accountability and increases risk of errors.
- Three of the five universities lacked policies and procedures for reviewing inactivity and necessity of cards. We found that only NCSU had an established policy. While ECU annually reviews the necessity of issued cards, this process has not been formalized in the procurement card policy. Inactive accounts should be closed immediately to reduce the risk of unauthorized use.

RECOMMENDATION

P&C should establish a statewide policy for cancellation of procurement cards clearly outlining the time frame within which cards should be cancelled. Further, P&C should implement and/or enforce stronger sanctions for statewide policy violations. University purchasing departments should ensure approval documentation is complete prior to card issuance. All participating universities should establish policies and procedures for formally reviewing inactivity and necessity of procurement card accounts at least annually. Cards should be cancelled immediately if found to be unnecessary. Each authorizing department should maintain adequate documentation to support procurement card transactions. Purchasing departments should assure that all required information is entered into the procurement card database. Finally, for universities that are maintaining decentralized documentation, electronic approvals should be utilized.

LOW SPENDING LIMITS RESULT IN PROGRAM INEFFICIENCIES.

The use of procurement cards allows university employees to make small purchases quickly and reduces paperwork and processing costs. To control the use of procurement cards, spending limits have been established at the State and university level. Currently, the state has established a single transaction limit of \$2,500 for p-cards as compared to the \$5,000 established spending limit for small purchases using the regular procurement system. The universities are responsible for establishing daily and / or monthly spending limits for p-cards, and have the option of establishing varying spending limits depending on the responsibilities of the cardholder. During the audit, we found that each university had employees that exceeded the set transaction limits. Reasons provided by the universities for exceeding the

FINDINGS AND RECOMMENDATIONS

limits were vendor override (see next finding) and occasional limit adjustments by the university P-Card Administrator for a specific purchase.

Further, we noted instances where the total purchase amount was split into separate transactions in order to exceed the established spending limit. University policy at each institution strictly forbids splitting purchases to circumvent the per transaction spending limits. Table 5 summarizes the exceptions noted for each of the participating universities. We found no evidence that any of these exceptions were for personal purchases or unnecessary for job requirements. In total, the \$1,087,185 of exceptions represents 4.6% of the total p-card purchases (.3% of the transactions).

TABLE 5 University Procurement Cards Transactions Exceeding Spending Limits Noted in Samples FY 2001-02										
University	Single Transaction		Daily*		Monthly		Split Transaction		Total	
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
ECU	7	\$ 5,197	1	\$ 2,260	-	-	2	\$ 181	10	\$ 7,638
A&T	12	4,009	-	-	-	-	3	608	15	4,617
NCSU	20	119,909	9	130,028	-	-	4	1,218	33	251,155
UNC-CH	186	631,525	-	-	58	\$185,500	5	4,082	249	821,107
UNC-W	14	2,207	-	-	1	33	3	428	18	2,668
TOTAL	239	\$762,847	10	\$132,288	59	\$185,533	17	\$6,517	325	\$1,087,185
* A&T, UNC-CH, & UNC-W had not established daily limits.										
Source: University Documentation										

RECOMMENDATION

The State Purchasing Office should consider increasing the single transaction spending limit for p-cards to \$5,000 to be consistent with established spending limits for small purchases using the regular procurement system. Each university should conduct a review of procurement card usage to determine if spending limit increases are necessary. If increases are necessary, then the universities making that determination should request approval from P&C for increased per transaction limits. Finally, each cardholder should be provided periodic training updates. This training should emphasize the importance of adhering to spending limits and the penalties that occur when limits are exceeded or circumvented, as well as review any other changes to policies and procedures. Further, P&C should establish a standardized system for monitoring violations and imposing sanctions. Consideration should be given to implementing a points system¹⁰ such as utilized in other states.

¹⁰ This system is developed to monitor an employee's p-card use violations and provide sanctions for repeat abusers. Points are assessed to the employee's record for any violations of p-card use based on a pre-determined schedule that assigns points by type of violation. When a specified point total has been accumulated during an established time period, the card may be revoked or additional training may be required. If there are no further violations within an established time period, points will be deducted from the employee's records.

FINDINGS AND RECOMMENDATIONS

VENDORS OR PROCUREMENT CARD PROGRAM ADMINISTRATORS ALLOWED PURCHASES ABOVE CARD SPENDING LIMITS.

P&C established an upper limit of \$2,500 per transaction for procurement card use. Regulations allow the universities the discretion to lower this limit, based on their needs. The bankcard company sets a default amount for each cardholder based on the limits established by the university, but no higher than \$2,500 per transaction. During the audit, we found that each of the five universities had cardholders who exceeded their spending limits. (See Table 5, page 16.) In following up with university personnel on these excess purchases, we learned that vendors will allow transactions over the default amount to complete the sale when they know that the university will pay for the item. That is, the vendor manually authorized the sale when the bankcard company would not authorize an amount over the default set for the cardholder. Thus, if the university disputed the sale at a later time, the vendor would be liable, not the bankcard company. Since the bankcard records do not identify purchases that were manually authorized by the vendor, we cannot estimate the magnitude of this problem.

In other instances, the university P-Card Administrator, at the request of the cardholder, temporarily increased an individual cardholder's spending limit for a specific purchase. For example, NCSU had an account that on two occasions exceeded the spending limit approved by the University (\$20,000)¹¹ by a total of \$113,468 and an ECU account with a spending limit of \$1,500 on two occasions exceeded it by a total of \$2,919.

RECOMMENDATION

P&C, as the statewide P-Card Administrator, should modify the contract with the bankcard company to require the highlighting of purchases that have exceeded the established spending limit on the monthly statement. The university departments should be required to report all violations of policy immediately to the university P-Card Administrator. The university P-Card Administrator should investigate such transactions and administer proper sanctions. Additionally, all transactions exceeding authorized spending limits should be reported to the Vice Chancellor and/or Chancellor of Finance at the respective universities.

¹¹ NCSU had an on-going procurement card program with spending limits over the \$2,500 limit set by P&C for the statewide program. This contract remained in effect until June 30, 2003.

FINDINGS AND RECOMMENDATIONS

PARTICIPATING UNIVERSITIES ARE NOT MAXIMIZING POTENTIAL SAVINGS RELATED TO THE PROCUREMENT CARD PROGRAM.

TABLE 6 University Procurement Cards Comparison of Processing Steps		
University	Traditional Method	Procurement Card
East Carolina	23	12
NC A&T	26	9
NC State	9	5
UNC-Chapel Hill	17	6
UNC-Wilmington	19	11
Average Steps	19	9
Source: Universities		

According to research, the biggest obstacle in fully achieving the potential savings of procurement cards is the perceived loss of control by the purchasing department. When using p-cards for routine purchases, accounting and purchasing departments rely on employees to remain within budgets and purchase quality items at the best price. All of North Carolina's universities with procurement card programs cited a reduction in processing steps when using the procurement card instead of the traditional method to

pay for items. The reduction in steps, as shown in Table 6, subsequently leads to savings in supplies, postage, and personnel processing time.

It is difficult to pinpoint cost saving resulting from increased p-card use since internal processing procedures vary from one university to another. As reported in the 2000 OSBM¹² report, the participating universities estimated a savings of \$.64 per transaction for "hard costs" such as postage and supplies. There are other potential savings that should be included, however. Other studies¹³ have found savings ranging from \$20 to \$100 per transaction, including personnel and processing time costs. In fact, UNC-Wilmington estimated that it realized a reduction in costs of \$30 per transaction when including personnel savings.

Rebates are a direct saving dependent on spending levels, as shown in Table 7. In determining the possible savings for the participating universities, one would need to include the "hard costs" savings, savings from reduced personnel needs (either fewer staff or redirected efforts), as well as rebates on total purchases from the bankcard company. We used the data available from the universities to estimate additional savings **if the number of transactions** increased, excluding personnel cost reductions. We first identified the fiscal year 2001-02 per transaction savings estimated for each university using the university-estimated "hard costs" (non-personnel) savings of \$.64 per transaction and the actual per transaction rebate. We then projected what the savings would be if the number of transactions increased by certain percentages. This projection is contained in Table 8, page 19, and is conservative since it *does not include any personnel savings*. As can be seen, the average per transaction savings increased from \$.64 to \$1.35 when the rebates were factored in. The reader should note that as the total dollars spent through the procurement cards increase the amount of rebate would increase. *For the projection in Table 8, we held the rebates constant.*

TABLE 7 Bankcard Company Rebate Levels FY2001-2002	
Expenditure Level	Rebate Percent
\$0 to \$2,999,999	.2%
\$3,000,000 to \$5,999,999	.3%
\$6,000,000 and up	.4%
Source: MBNA	

¹² Procurement Card Pilot Study, FY2000, Office of State Budget Planning and Management.

¹³ See Bibliography on page 25.

FINDINGS AND RECOMMENDATIONS

TABLE 8 Non-Personnel Savings Based on FY2001-02 Procurement Card Transactions								
University	Number of FY01-02 Transactions	Estimated Non-Personnel Savings *	Rebates **	FY01-02 Est. Saving Per Transaction	Additional Saving If Transaction Levels Increase			
					20%	30%	40%	50%
	A	B (A x \$.64)	C	D (B + C/A)	E (A x D x .2)	F (A x D x .3)	G (A x D x .4)	H (A x D x .5)
ECU	8,227	\$ 5,265	\$ 3,518	\$1.07	\$ 1,760	2,641	3,521	4,401
NC A & T	3,766	2,410	1,059	0.92	693	1,039	1,386	1,732
NCSU	30,909	19,782	27,317	1.52	9,396	14,095	18,793	23,491
UNC-CH	69,361	44,391	53,396	1.41	19,560	29,340	39,120	48,900
UNC-W	10,814	6,921	2,210	0.84	1,817	2,725	3,634	4,542
Total	123,077	\$78,769	\$87,500	Avg.=\$1.35	\$33,226	\$49,840	\$66,454	\$83,066
* \$.64 only includes hard cost savings (postage, supplies, etc). Personnel savings are not included.								
** The bankcard company computed the rebates based on calendar year data. We were unable to convert to fiscal year due to lack of data from bankcard company. However, the differences appear to be minimal based on estimates using fiscal year data from the universities.								
Source: Universities, OSBM, and Bankcard Records								

Additional savings would be realized as p-card use increased since the rebates would increase. Currently only UNC-CH and NCSU are using the single transaction limit of \$2,500. These two universities are the only ones of the five participating that have reached the maximum rebate percent by spending over \$6,000,000 annually, as shown in Table 3 on page 9. However, spending levels are influenced by single transaction limits. Lower single transaction limits cause more transactions to flow through the traditional payment methods. The universities indicated that increasing the single transaction limit to \$5,000 would increase use of p-cards. (See discussion on page 16.)

To project the increased rebates for the participating universities **if the total dollars expended through procurement cards increased**, we first determined the percentage procurement card purchases were of total non-construction purchases for fiscal year 2001-02. This examination showed that on average the universities used the cards to pay for less than 5% of purchases. Next, using fiscal year 2001-02 total purchases, we projected increased p-card use at 10%, 20%, and 30%. Then we determined the appropriate rebate percentage based on the projected spending totals at these different levels to arrive at the increased rebate amount for each school. These projections are shown in Table 9, page 20. As can be seen, the five participating universities could increase the rebates received by approximately 159% from an increase in p-card spending to 10% (approximately 5% above the fiscal year 2001-02 levels). The reader should note that these projections are for the rebates only and do not take into account any other savings from p-card use. (See previous discussion and Table 8.)

Research suggests that there are also other ways to more fully take advantage of procurement card program savings. One method is to assign a card to a specific vendor for high volume purchases. For example, North Carolina State University has assigned one card for purchasing office supplies from a specific vendor and another card to make lease payments and gas purchases for gas storage cylinders. The National Institute of Governmental Purchasing¹⁴ cited this as a best practice for high volume purchases, allowing the entity to receive additional discounts from the vendor for prompt payment.

¹⁴ National Institute of Governmental Purchasing: Best Practices Articles, Topic: Procurement Card Usage, 1999.

FINDINGS AND RECOMMENDATIONS

TABLE 9
University Procurement Cards
Potential Rebate Increase From Increased Use of P-Cards
FY 2001 -02

University	Total Purchases	Total P-card Purchases	Current Procurement Card Level of Spending C (B/A)	Rebates Received *	Increase in P-card Purchases as % of Total Purchases			Estimated Rebate Increase		
					10%	20%	30%	10%	20%	30%
	A	B		D	E (A x .1)	F (A x .2)	G (A x .3)	H (E x K **)	I (F x K)	J (G x K)
ECU	\$67,390,731	\$1,315,195	2.0%	\$ 3,518	\$6,739,073	\$13,478,146	\$20,217,219	\$26,956	\$53,913	\$80,869
NC A&T	\$21,571,082	\$503,185	2.3%	1,059	\$2,157,108	\$4,314,216	\$6,471,325	\$4,314	\$12,943	\$25,885
NCSU	\$167,732,084	\$6,541,491	3.9%	27,317	\$16,773,208	\$33,546,417	\$50,319,625	\$67,093	\$134,186	\$201,279
UNC-CH	\$310,829,117	\$14,143,674	4.6%	53,396	\$31,082,912	\$62,165,823	\$93,248,735	\$124,332	\$248,663	\$372,995
UNC-W	\$20,639,180	\$1,123,748	5.4%	2,210	\$2,063,918	\$4,127,836	\$6,191,754	\$4,128	\$12,384	\$24,767
Total	\$588,162,194	\$23,627,293	Avg. 4.0%	\$87,500	\$58,816,219	\$117,632,438	\$176,448,658	\$226,823	\$462,089	\$705,795
Percent Increase Over Current Rebate Total								159%	428%	707%

* The bankcard company computed the rebates based on calendar year data. We were unable to convert to fiscal year due to lack of data from bankcard company.

** K = Appropriate Rebate Percentage Based on total P-card purchases

Source: University and Bankcard Records

Another method that could potentially increase annual rebates would be to consolidate the buying power of all the participating state entities. For example, if the total amount spent by the five participating universities through procurement cards for fiscal year 2001-02 had been used to compute the total rebate due to the State, then the amount received would have increased by \$6,787 or 7.8%. Table 10, page 20, shows the increase in rebates that would have occurred if this method had been utilized. This amount would then have been pro-rated to each of the universities based on their individual level of p-card spending. Since UNC-CH and NCSU already received a rebate of .4% of p-card expenditures (the maximum rebate percentage), they would not have received any additional rebate. However, the three universities not at the maximum rebate level would increase to that level, effectively doubling their rebate amounts. This method could also allow P&C, as the state P-Card Administrator, to retain a small portion of the statewide rebate amount to fund needed positions to conduct more compliance reviews of active p-card programs. This method would, however, require a change to the contract with the bankcard company.

TABLE 10
Potential Rebate Increase From Combined Spending Power

University	Total P-Card Expenditures *	Percent of Total P-Card Expenditures	Rebates Received **	Rebate Computed on Total P-Card Expenditures	Pro-Rated Rebate	Difference (F - D)
A	B	C	D	E	F	G
ECU	\$1,759,000	7.5%	\$3,518		\$7,036	\$3,518
NC A&T	\$529,500	2.2%	\$1,059		\$2,118	\$1,059
UNC-W	\$1,105,000	4.7%	\$2,210		\$4,420	\$2,210
NCSU	\$6,829,250	29.0%	\$27,317		\$27,317	\$0
UNC-CH	\$13,349,000	56.6%	\$53,396		\$53,396	\$0
Total	\$23,571,750		\$87,500	\$94,287	\$94,287	\$6,787
* Represents calendar year expenditures used by bankcard company to compute rebates						
** Actual rebates computed based on calendar year expenditures.						
Source: University and Bankcard Records						

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

The universities have adequate controls in place to ensure that p-cards are not used to circumvent any purchasing laws, rules, regulations or policies if p-card use is expanded. Therefore, each of the participating universities should increase use of procurement cards for routine small purchases by allowing all employees making small purchases to use the cards.¹⁵ Additionally, the universities should consider increasing their single transaction limit to the maximum allowed by P&C and establishing single vendor cards for high volume and recurring purchases with higher single transaction limits. The universities should request prompt payment discounts from these vendors. Lastly, P&C should lead a study on the feasibility of consolidating purchases for all participating universities and state agencies to increase rebates to the overall benefit of the State.

¹⁵ Office of State Controller's E-procurement policy limits p-card use for general government agencies to agencies that have not implemented E-procurement, field personnel who do not have access to the computerized e-procurement program, or emergency situations where it is not feasible to use E-procurement. Universities continue to have the option of using the State's E-procurement system.

FINDINGS AND RECOMMENDATIONS

Objective 3- UNIVERSITIES NOT USING PROCUREMENT CARDS:

To determine the reasons for non-use, tools used in the current procurement process, and the oversight and purchasing process for the universities not using the procurement card.

Overview: As of July 2003, the following universities have not applied to DOA for approval to begin use of the procurement card: Elizabeth City State University, Fayetteville State University, North Carolina Central University, and University of North Carolina at Asheville. Table 11 shows the purchasing mechanisms used by these universities, and the other seven universities in the process of implementing p-card programs, to make small purchases and the oversight performed.

TABLE 11	
Oversight and Purchasing Methods for Non-Users of University Procurement Cards	
Small Item Purchase Process and Tools	
<ul style="list-style-type: none">Financial Reporting System (FRS)<ul style="list-style-type: none">Matches the requisition, purchase order, and receiving report prior to payment on-lineRequires proper authorization/approval before requisitions are processed	
<ul style="list-style-type: none">Reimbursement to employees for out-of pocket expenses	
<ul style="list-style-type: none">Check request prior to purchase	
<ul style="list-style-type: none">Petty cash account	
<ul style="list-style-type: none">Small Purchase Order – pick up items only	
Oversight and Purchasing Authorization Process	
<ul style="list-style-type: none">Financial Reporting System requirements	
<ul style="list-style-type: none">Department personnel	
<ul style="list-style-type: none">Purchase Office	
Source: University Reported	

Methodology: To determine what processes were in use by those universities not using procurement cards for routine purchases, we conducted telephone interviews with the purchasing directors and / or controllers. Additionally we reviewed purchasing information and regulations available on the university websites. Lastly, we researched the procedures used in other states for small purchase transactions. We also reviewed other states' internal audit reports. (See Appendix A, page 31.)

Conclusions: Eleven of the sixteen universities did not have a fully-implemented procurement card system at the time of the audit. However, seven of those were in the process of implementing the system. For the four remaining universities, the major concerns delaying p-card implementation were its low priority status and the belief that the costs for additional personnel to handle the program would outweigh the potential savings from the program. All eleven of the universities did have established and active policies and procedures for procurement and specific tools for small purchases such as petty cash and reimbursements to employees. The major differences between these tools and use of procurement cards is that the amount of time required and costs for the small purchase procedures is considerably more per transaction than the cost for use of the procurement cards.

FINDINGS AND RECOMMENDATIONS

Objective 3: Findings and Recommendations

ELEVEN UNIVERSITIES HAVE NOT FULLY IMPLEMENTED THE USE OF PROCUREMENT CARDS.

The procurement card program was established by the State to reduce the cost of processing small purchases. A pilot project was initiated in 1998 involving fourteen entities, five of which were universities. As of May 2003, only five universities have fully implemented the procurement card program. Table 1, page 7, shows the universities' procurement card program status. Seven of the eleven universities that have not established a procurement card program are in some stage of implementation. Personnel at the four universities that have not started the process of implementing the program believe its implementation is a low priority or would require either hiring or reassigning personnel, thus negating any potential savings. (See discussion of savings on page 18.) However, studies¹⁶ have shown that existing personnel can be reduced or re-directed to other duties. Other benefits of using the purchasing card instead of a traditional method for small purchases are:

- Streamline buying processes which provide immediate acquisition of small purchase,
- Reduction in paper work and processing time which reduce costs,
- Protection when there are unresolved disputes between the vendor and university when purchasing with credit cards,
- Quick payments to vendors (within 48 to 72 hours instead of several days) which improves relationships, and
- Rebates received from the procurement card contractor.

RECOMMENDATION

UNC-Asheville, North Carolina Central University, Elizabeth City State University, and Fayetteville State University should develop a strategy for implementing a procurement card system as soon as feasible. These universities should apply to P&C for approval once they have updated their current procurement procedures to allow for the use of p-cards. Appalachian State University, UNC-Pembroke, UNC-Charlotte, UNC-Greensboro, NC School of the Arts, Western Carolina University, and Winston-Salem State University should continue efforts to implement a procurement card program. All universities should seek insight from the five pilot universities to enhance the success of implementing the program.

UNIVERSITIES NOT USING P-CARDS HAVE EXISTING OVERSIGHT AND PURCHASING AUTHORIZATION SYSTEMS.

All universities utilize the Financial Reporting System (FRS), an integrated general and subsidiary ledger record keeping and reporting system. The system includes purchasing and accounts payable modules. The purchasing module requires proper authorization and approval before requisitions are processed. The accounts payable module matches the requisition, purchase order, and receiving reports prior to payment.

¹⁶ See bibliography on page 25.

FINDINGS AND RECOMMENDATIONS

The universities that do not have the procurement card system use various tools for small purchases. These may include small or “express” purchase orders to expedite purchases for items meeting certain criteria, employee reimbursement for out-of-pocket expenses within a pre-set limit, and petty cash funds. Each of these tools has internal control safeguards to ensure the integrity of the system. Oversight for these small purchase procedures resides primarily at the university department level. This provides each department with flexibility in handling small purchases, assuming the availability of funds and department approval. The university purchasing office monitors all purchases to ensure the items purchased are reasonable and within university guidelines. However, research indicates that these procedures are more expensive than use of the procurement card since they require more personnel time to process the purchases and more paperwork. As shown in Table 6, page 18, universities using p-cards report a decrease of approximately 50% in the number of processing steps.

RECOMMENDATION

Those universities that have not yet adopted p-cards should compare the effectiveness of their current purchasing policies and procedures to those offered by universities with p-cards. Then management at each university should develop a formal strategy for establishing a p-card system to take advantage of benefits for the respective universities.

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APPENDICES

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APPENDICES

Appendix	Description	Page
A	Procurement Use – Other State Universities	31
B	Response from Universities:	39
	• UNC-Chapel Hill	39
	• North Carolina State University	46
	• East Carolina University	52
	• UNC-Wilmington	55
	• North Carolina A&T State University	57
	• Fayetteville State University	60
	• North Carolina Central University	61
	• UNC-Asheville	65
	• UNC-Charlotte	66
	• UNC-Greensboro	67
C	Response from Department of Administration	68

APPENDICES

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APPENDICES

APPENDIX A

Procurement Card Use Other State Universities

University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
Alabama University	Single Transaction Limit \$1,999 University Monthly limit \$500,000	Standard policies and procedures. They do use a CCSi software package for ordering and reconciling.	No	No
Arkansas State University	Single Transaction Limit \$450	Standard policies and procedures. The Dept. Liaison maintains a Transaction log for each card. That information is maintained for 5 years.	No	No
University of Arkansas, Fayetteville	Single Transaction Limit \$2,500 Monthly Transaction Limit \$25,000	Standard policies and procedures.	No	No
California State University	Transaction Limit \$25,000	Standard policies and procedures.	No	Yes
Colorado University, Boulder	Single Transaction Limit \$4,999	Each note violation is worth 50 points. If cardholder gets 150 points the card is suspended for 6 months. You must go 2 yrs. w/o violation to have points removed. They also provide a Handbook for Approving Officials.	No	No
University of Connecticut	Single Transaction Limit \$1000 Monthly Transaction Limit \$5000 Transaction limits of 20 per day and 100 per month.	Standard policies and procedures.	No	No
University of Delaware	Single Transaction Limit \$5000 Monthly Transaction Limit \$20,000	Standard policies and procedures.	No	No
University of Florida	Single Transaction Limit \$1000 for commodities and approved services, \$2000 for travel. Monthly limits vary.	Standard policies and procedures. (Cardholder is to stop using the card 2 wks. prior to employment termination or transfer date.)	No	Yes
Florida State University	Single Transaction Limit \$1000 Daily Transaction Limit \$3,000 and Monthly Transaction Limit \$10,000.	Standard policies and procedures. (Collect cards to be cancelled due to employment change, during exit interview)	No	No

APPENDICES

APPENDIX A (continued)

Procurement Card Use Other State Universities

University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
University Of Georgia	Single Transaction Limit \$4,999 Recommended Monthly Limit \$15,000	Standard policies and procedures.	No	No
University of Hawaii	Do Not Use a Procurement Card			
University of Idaho	Single Transaction Limit \$5000 Monthly Transaction Limit \$10,000 Transactions Limit 19 per day	Standard policies and procedures.	No	No
University of Illinois (@ Springfield, Chicago and Urbana-Champaign)	Single Transaction Limit \$4,999 Monthly Transaction Limit \$100,000 Transaction Limits: 999/day and 9,999/month	Blanket Policy and Procedure for all 3 State Universities.	No	No
Indiana University and IUPUI	Single Transaction Limit \$1,000 and Monthly Transaction Limit \$10,000	Blanket Policy and Procedure for both State Universities.	No	No
Purdue (Indiana)	Single Transaction Limit \$2,500 Monthly Limits determined by the Departments.	They have individual and Department Cards	No	No
Iowa State University	Single Transaction Limit \$2,000 and Monthly Transaction Limit \$10,000	Standard policies and procedures.	No	No
University Of Kansas	Single Transaction Limit \$2,000	If the card is inactive for 12 months the cardholder is contacted to see if use needs to be continued. Also they have a Automotive Card for gas and minor repairs/service.	Yes	No
Kansas State University	Single Transaction Limit \$2,000	Standard policies and procedures.	No	No
University of Kentucky	Single Transaction Limit \$2,500	Standard policies and procedures.	No	No
Louisiana State University	Transaction per vendor/day \$1,000 Monthly Transaction Limit \$30,000	Limits are set according to per vendor/per day amounts.	No	No
University of Maine	Single Transaction Limit \$2,500	Standard policies and procedures.	No	No
University of Maine @ Fort Kent	Single Transaction Limit \$2,000	Standard policies and procedures.	No	No
University of Maryland - College Park	Single Transaction Limit \$5,000	Standard policies and procedures. (They have a quality assurance review policy in place)	No	Yes

APPENDICES

APPENDIX A (continued)

Procurement Card Use Other State Universities

University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
University of Maryland - Baltimore Co.	Single Transaction Limit \$4,999 Monthly Transaction Limit \$15,000	No more than 3 cards per person. If a cardholder needs more than 3 fund accounts a special clearing account must be set up.	No	Yes
Frostburg State University - Maryland	They follow the State of Maryland policies and procedures for the Corporate Purchasing Card Program		No	Yes
University of Massachusetts - Boston	Single Transaction Limit \$1,000 Monthly Transaction Limit \$5,000 with a 999 transaction limit per day and 999 per month.	They have no Specific P-Card Manual	No	No
University of Massachusetts - Dartmouth	Single Transaction Limit \$500	Standard policies and procedures.	No	No
University of Michigan	Single Transaction Limit \$5,000	Standard policies and procedures.	No	Yes
University of Minnesota	Single Transaction Limit \$2,499	Standard policies and procedures.	No	No
Minnesota State University	Single Transaction Limit \$1,000	Standard policies and procedures.	No	No
University of Mississippi	Single Transaction Limit \$3,499 if point-of-sale transaction and \$50 if manual sale.	Have both individual and departmental cards. The department cards are signed out by the users only when they are to be used.	No	No
University of Southern Mississippi	Single Transaction Limit \$500	Standard policies and procedures.	No	No
Mississippi State University	Single Transaction Limit \$3500 Monthly Transaction Limit \$30,000 and 500 transactions per cycle.	Standard policies and procedures.	No	No
University of Missouri - St. Louis	Single Transaction Limit \$5,000 Monthly Transaction Limit \$25,000 with 99 transactions per day and 999 per month.	Standard policies and procedures.	No	No
Southwest Missouri State University	Do Not Use a Procurement Card	They use department order forms for transactions under \$750.	No	No
Lincoln University - Missouri	Do Not Use a Procurement Card	They use petty cash and Purchase Order policies for all transactions.	No	No
Montana State University - Billings	Single Transaction Limit \$2,000	If the card shows no activity for 3 months it can be revoked by the P-Card administer.	Yes	Yes

APPENDICES

APPENDIX A (continued)

Procurement Card Use Other State Universities

University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
University of Montana	Single Transaction Limit \$5,000 Monthly Transaction Limit \$15,000	Standard policies and procedures.	No	Yes
University of Nebraska @ Omaha	Single Transaction Limit \$ 4,999	Standard policies and procedures.	No	No
University of Nebraska @ Lincoln	Single Transaction Limit \$1,499	Standard policies and procedures.	No	No
University of Nevada - Las Vegas	In the process of establishing a program			
University of Nevada - Reno	Single Transaction Limit \$2,000	No Policies located	No	No
University of New Hampshire	Single Transaction Limit \$1,000	Standard policies and procedures.	No	No
Plymouth State University - N.H.	Single Transaction Limit \$1,000 Monthly Transaction Limit \$10,000 with 10 transactions per day and 100 per month.	Standard policies and procedures.	No	No
The College of New Jersey	Single Transaction Limit \$1,000	Standard policies and procedures.	No	No
New Mexico State University	Single Transaction Limit \$500 Monthly Transaction Limit \$2500	Standard policies and procedures.	No	No
University of New Mexico	Single Transaction Limit \$1,000	Standard policies and procedures.	No	No
State University of New York	No Use Noted			
Buffaloe State University - NY	No Use Noted			
University of North Dakota	P-Card Coming Soon			
North Dakota State University	No Use Noted			
Ohio State University	Single Transaction Limit \$1,000 Monthly Transaction Limit \$5,000	Standard policies and procedures, however they have individual and department cards as well as Standard Cards, Airfare Cards and the Plus Card.	No	No
Xavier University - (Ohio)	No Use Noted			
University of Cincinnati - (Ohio)	They use the card but access to policies and procedures was restricted to faculty and staff only.			
University of Oklahoma	Single Transaction Limit \$2,500 and Monthly Transaction Limit \$25,000	Standard policies and procedures	No	No

APPENDICES

APPENDIX A (continued)

Procurement Card Use Other State Universities

University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
Oklahoma State University	No Use Noted			
University of Oregon	Single Transaction Limit \$5,000 and Monthly Transaction Limit \$5,000	Standard policies and procedures	No	No
Oregon State University	Single Transaction Limit \$4,999	Standard policies and procedures	No	No
Penn State University (Penn)	Single Transaction Limit \$2,000 and Monthly Transaction Limit \$18,000	Access to policies and procedures was restricted .		No
Temple University (Penn)	Single Transaction Limit \$1,000	Standard policies and procedures	No	No
University of Rhode Island	No Use Noted			
Clemson University (S.C.)	Single Transaction Limit \$1,500	Standard policies and procedures	No	No
University of South Carolina	Single Transaction Limit \$1,500 and Monthly Transaction Limit \$5,000	Standard policies and procedures	No	Yes
The Citadel (S.C.)	Single Transaction Limit \$1,500 and Monthly Transaction Limit \$10,000	Standard policies and procedures	No	No
Coastal Carolina University (S.C.)	Single Transaction Limit \$1,500 and Monthly Transaction Limit \$5,000	Standard policies and procedures	No	No
University of South Dakota	No Use Noted			
South Dakota State University	Single Transaction Limit \$300	Few policies and procedures		
University of Tennessee	Single Transaction Limit \$2,000 and Monthly Transaction Limit \$10,000	Standard policies and procedures	No	Yes
University of Memphis (Tenn.)	Single Transaction Limit \$1999 and Monthly Transaction Limit from \$2,000 to \$20,000	Standard policies and procedures	No	No
Middle Tennessee State University	Single Transaction Limit \$1,499	Standard policies and procedures	No	No
University of Texas	Single Transaction Limit \$999	Standard policies and procedures	No	No
Texas A&M University	Single Transaction Limit \$5,000 and Monthly Transaction Limit \$5,000	Standard policies and procedures exist but they do have a "State" funds card and a "Local" funds card.	No	No
University of Houston	No Use Noted			

APPENDICES

APPENDIX A (continued)

Procurement Card Use Other State Universities

University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
University of Texas - Health-Science Center, Houston	Single Transaction Limit \$5,000	Standard policies and procedures	No	No
University of Utah	Single Transaction Limit \$5,000	Standard policies and procedures	No	No
Utah State University	Single Transaction Limit \$1,000 Monthly Transaction Limit \$15,000	Standard policies and procedures	No	No
Weber State University (Utah)	Single Transaction Limit \$1,000 Single Travel Transaction Limit \$5,000 and Monthly Transaction Limit \$5,000	Standard policies and procedures. They award points for violations and specific point totals result in restrictions	No	No
University of Vermont	Single Transaction Limit \$2,500 and Monthly Transaction Limit \$15,000	Standard policies and procedures	No	No
University of Virginia	Single Transaction Limit \$1,999 and Monthly Transaction Limit \$7,500	Standard policies and procedures. May increase monthly limits but each increase must be reviewed and renewed yearly.	No	No
Virginia Commonwealth University	Single Transaction Limit \$5,000 Monthly limits determined by departments.	Standard policies and procedures	No	No
College of William and Mary (VA)	Single Transaction Limit \$2,000 and Monthly Transaction Limit \$20,000	Standard policies and procedures, and if no activity for 12 consecutive months, the card may be deactivated unless the cardholder can provide reasonable justification for keeping it open.	Yes	No
University of Washington	Single Transaction Limit \$2,000	Standard policies and procedures	No	No
Washington State University	Single Transaction Limit \$2,500	Standard policies and procedures	No	No
Central Washington State University	Single Transaction Limit \$800 and Monthly Transaction Limit \$2,500	Standard policies and procedures	No	No
West Virginia University University of Charleston (W.V.) Marshall University (W.V.)	Single Transaction Limit \$2,500	Policies and procedures are established by the State Auditors Office. The State Auditor's office has 8 personnel that deal with the Procurement Card Program. Misuse of the card can result in a Felony Charge.	No	No
University of Wisconsin - Milwaukee	Single Transaction Limit \$5,000	Standard policies and procedures	No	No
University of Wisconsin - Superior	Single Transaction Limit \$5,000	Standard policies and procedures	No	No

APPENDICES

APPENDIX A (continued)

Procurement Card Use Other State Universities				
University	Limits	Policy and Procedures (Differences)	Inactivity Policy	Audit Reports
University of Wisconsin - Green Bay	Single Transaction Limit \$5,000	Standard policies and procedures	No	No
University of Wyoming	Single Transaction Limit \$1,500 and Monthly Transaction Limit \$5,000	Policies and procedures are established by the State Auditors Office.	No	No
University of Alaska - Anchorage	Single Transaction Limit \$2,500	Standard policies and procedures	No	No
University of Alaska - Fairbanks	Single Transaction Limit \$2,500	Standard policies and procedures	No	No
University of Arizona, Tucson	Single Transaction Limit \$5,000	Standard policies and procedures, but also have Departmental Cards.	No	No
Arizona State University - Tempe	Single Transaction Limit \$5,000 Monthly Transaction Limit \$10,000 with 10 transactions per day and 75 transactions per month limits. (Single Limit increased from \$1,000 to \$5,000 in 5/03)	Standard policies and procedures, but also have Departmental Cards.	No	No

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APPENDICES

APPENDIX B

Response from Universities




THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL
Office of the Chancellor

James C. Moeser
Chancellor

103 South Building
Campus Box 9100
Chapel Hill, NC 27599-9100
(919) 962-1365 Fax (919) 962-1647
james_moeser@unc.edu

MEMORANDUM

TO: Ralph Campbell, Jr., State Auditor

FROM: James Moeser, Chancellor UNC Chapel Hill 

DATE: December 1, 2003

RE: Response to Performance Audit of UNC System P-Card Operations

=====

The University of North Carolina at Chapel Hill is very pleased that your review of our purchasing card transactions revealed only minor concerns and that a major conclusion of the report recommends increasing the purchasing card limit from \$2,500 to \$5,000. As you will note in our response, the University is committed to addressing each recommendation, even if the findings are minor and our suggested approach differs slightly.

After your review of our responses, if you have any questions please direct them to Mr. Roger Patterson, Associate Vice Chancellor for Finance, at roger_patterson@unc.edu, or at 919-962-7242.

JM:bl

cc: Molly Broad
Jeff Davies
George Burnette
Nancy Sutenfield
Roger Patterson
Martha Pendergrass
Phyllis Petree
Phil Charneskie

Moeser/audit

The University of North Carolina at Chapel Hill is a constituent institution
of The University of North Carolina

Response from Universities

OBJECTIVE 1 – NUMBER AND ASSIGNMENT OF COSTS

Five Universities Had Fully-Implemented Procurement Card Programs During Fiscal Year 2001-02

Recommendation: The universities should continue to maintain records showing which employees have been issued p-cards. These records should continue to contain details relative to the types of purchases and dollar limits on purchases for each card user. Records of users should be updated periodically as required by individual university's policies and procedures.

Response: The University of North Carolina at Chapel Hill continues to maintain records of employees issued p-cards. The records contain the details noted above and are updated periodically per the University's internal procedures. Additional written policies and procedures have been developed and included in the Material and Disbursement Services section of the Business Manual as recommended.

Five Additional Universities Were Approved For P-Card Use During Fiscal Years 2002-03 and 2003-04

Recommendation: New users should work closely with P&C to properly establish programs. They should also consult with universities that have fully implemented p-card programs for insight on efficiently operating the program.

Response: The University of North Carolina at Chapel Hill is not a new user, so this recommendation is not applicable to our campus.

OBJECTIVE 2 – EFFECTIVENESS OF OVERSIGHT

Division of Purchase and Contract (P&C) Does Not Have Enough Staff To Perform Periodic Procurement Card Compliance Reviews

Recommendation: The Secretary of the Department of Administration should request additional staff for the P&C Compliance Review Section. These employees should be assigned the responsibility of conducting periodic compliance reviews of universities (and other State agencies) with p-card programs. Consideration should be given to allowing P&C to receive a portion of each participating state entity's rebate from the use of procurement cards to offset the cost of additional state level staff. P&C should also require the universities to report serious violations to the statewide P-Card Administrator as another monitoring tool. The bankcard reports, along with any reported violations, should be used by P&C to assess compliance with established rules and regulations.

Response from Universities

Response: We disagree with some statements in this recommendation and agree with others.

No evidence exists that state p-card compliance officers are needed. As noted in the performance audit report, “participating universities had only minor internal audit concerns”. This shows existing controls (policies, procedures, system controls, management reviews, internal audit reviews, and performance reviews by the State Auditors Office) are sufficient without adding an extra level of review at the Division of Purchase and Contract.

If additional positions are added, we do not agree with the recommendation to fund the new positions by capturing a portion the University’s rebate funds. This would equate to a budget reduction. The University of North Carolina at Chapel Hill uses rebate money to fund its P-Card Administrator. Without this funding source the University of North Carolina at Chapel Hill’s internal controls surrounding the p-card program will be weakened. There are in excess of 15,000 accounts in the University’s accounting system. It would be unrealistic to believe that personnel in P&C would have either the knowledge or the timely access to the information to perform compliance reviews of this magnitude.

We disagree with the requirement for universities to report serious violations to the statewide P-Card Administrator. Such reporting is not required in other situations since the universities are responsible for resolving violations on their campuses. We believe universities should report serious violations to the Office of the President’s Financial Division. This will allow staff at the Office of the President to serve as a central communication hub to share learned experiences among the universities. If the reporting is limited to serious violations as recommended, this additional service could be provided without additional staffing at the Office of the President or campus level and without capturing rebate funds from the Universities.

Participating Universities Had Only Minor Internal Control Concerns

Recommendation: P&C should establish a statewide policy for cancellation of procurement cards clearly outlining the time frame within which cards should be cancelled. Further, P&C should implement and/or enforce stronger sanctions for statewide policy violations. University purchasing departments should ensure approval documentation is complete prior to card issuance. All participating universities should establish policies and procedures for formally reviewing inactivity and necessity of procurement card accounts at least annually. Cards should be cancelled immediately if found to be unnecessary. Each authorizing department should maintain adequate documentation to support procurement card transactions. Purchasing departments should assure that all required information is entered into the procurement card database. Finally, for universities that are maintaining decentralized documentation, electronic approvals should be utilized.

Response: We agree that proper controls should be in place surrounding the establishment and revocation of p-cards, however we believe the policies and procedures should be established and enforced at the campus level. A decentralized approach allows controls to be adapted to individual circumstances and systems, thereby achieving a reduced level of risk as

Response from Universities

opposed to centralized controls, which are often implemented with a one-size fits all approach.

The University has requested a special report from MBNA that will be used to perform an annual review of inactivity. Estimated completion date is November 30, 2003.

While the audit discovered no instances where a purchase was made after the cardholder's termination or separation date, the University is implementing a policy of requiring supervisors to obtain the p-card from the terminating employee on or before the employee's last day of employment. This will replace the policy in which the cardholder is responsible to turn in the p-card upon leaving the position. Within the last year Human Resources has created a report of all transfers and terminations, which will be used by Purchasing Services to monitor the surrender of p-cards. Estimated completion date is March 31, 2004.

A complete update of the approval files is underway. Estimated completion date is November 30, 2003.

Instances of single transactions exceeding the limit were virtually eliminated when improved management tools became available from MBNA in April 2003.

The University's computer system has been modified to contain 24 months of readily accessible data. Any additional months of data will reduce system performance. The University's technical support staff can produce a report of 36 months of data overnight.

The University of North Carolina at Chapel Hill will add an electronic capture of the reconciliation/approval step to make it obvious to the reconciler that they are in fact approving invoices for payment. At this approval step an electronic signature will be created and archived. Estimated completion date is March 31, 2004.

Low Spending Limits Result In Program Inefficiencies

Recommendation: The State Purchasing Office should consider increasing the single transaction limit for p-cards to \$5,000 to be consistent with established spending limits for small purchases using the regular procurement system. Each university should conduct a review of procurement card usage to determine if spending limit increases are necessary. If increases are necessary, then the university making that determination should request approval from P&C for increased per transaction limits. Finally, each cardholder should be provided periodic training updates. This training should emphasize the importance of adhering to spending limits and the penalties that occur when limits are exceeded or circumvented, as well as review any other changes to policies and procedures. Further, P&C should establish a standardized system for monitoring violations and imposing sanctions. Consideration should be given to implementing a points system such as utilized in other states.

Response from Universities

Response: We agree that the single transaction limit should be increased to \$5,000. This is based upon the University's review of procurement card usage. This would eliminate a source of confusion by standardizing the rules governing small purchases. Raising the limit would be a strong signal to those who are reluctant to sign up for the card that the university purchasing card system is well run and achieving its intended purposes. An increase of the limit would be a strong marketing tool to help expand the program and achieve the promised savings.

Cardholders who are in non-compliance with University p-card policies are required to attend periodic training updates. This training emphasizes the importance of adhering to spending limits and the penalties that occur when limits are exceeded or circumvented, as well as review any other changes to policies and procedures.

We disagree with the recommendation that P&C establish a standardized system for monitoring violations and imposing sanctions (e.g. point system). We agree that proper controls should be in place surrounding the establishment and revocation of p-cards, however we believe the policies and procedures should be established and enforced at the campus level. A decentralized approach allows controls to be adapted to individual circumstances and systems, thereby achieving a reduced level of risk as opposed to centralized controls, which are often implemented with a one-size fits all approach. The University is in the process of developing its own sanction system. Estimated completion date is March 31, 2004.

Vendors or Procurement Card Program Administrators Allowed Purchases Above Card Spending Limits

Recommendation: P&C, as the statewide P-Card Administrator, should modify the contract with the bankcard company to require the highlighting of purchases that exceed the established spending limit on the monthly statement. The university P-Card Administrator should investigate such transactions and administer proper sanctions. Additionally, all transactions exceeding authorized spending limits should be reported to the Vice Chancellor and/or Chancellor of Finance at the respective universities.

Response:

The University is already receiving a report from the bankcard company that highlights purchases that exceed the established spending limit on the monthly statement. Carolina's P-Card Administrator investigates such transactions and sends a memorandum requiring an explanation as to the exception. We agree that transactions exceeding authorized spending limits should be reported to a higher level, but believe the words "Associate Vice" should be inserted before the phrase "Chancellor of Finance".

Participating Universities Are Not Maximizing Potential Savings Related To The Procurement Card Program

Recommendation: The universities have adequate controls in place to ensure that p-cards are not used to circumvent any purchasing laws, rules, regulations or policies if p-card use is

Response from Universities

expanded. Therefore, each of the participating universities should increase use of procurement cards for routine small purchases by allowing all employees making small purchases to use the cards. Additionally, the universities should consider increasing their single transaction limit to the maximum allowed by P&C and establishing single vendor cards for high volume and recurring purchases with higher single transaction limits. The universities should request prompt payment discounts from these vendors. Lastly, P&C should lead a study on the feasibility of consolidating purchases for all participating universities and state agencies to increase rebates to the overall benefit of the State.

Response:

The University has experimented with single vendor cards for high volume and recurring purchases with higher single transaction limits and will continue to do so. The University will continue to request prompt payment discounts from these vendors. It should be noted that at the University of North Carolina at Chapel Hill, both Purchasing and Disbursement Services have been champions of p-card implementation.

OBJECTIVE 3 – UNIVERSITIES NOT USING PROCUREMENT CARDS

Eleven Universities Have Not Fully Implemented The Use Of Procurement Cards

Recommendation: UNC-Ashville, North Carolina Central University, Elizabeth City State University, and Fayetteville State University should develop a strategy for implementing a procurement card system as soon as possible. These universities should apply to P&C for approval once they have updated their current procurement procedures to allow for the use of p-cards. Appalachian State University, UNC-Pembroke, UNC-Charlotte, UNC-Greensboro, NC School of the Arts, Western Carolina University, and Winston-Salem State University should continue efforts to implement a procurement card program. All universities should seek insight from the five pilot universities to enhance the success of implementing the program.

Response: The University of North Carolina at Chapel Hill would be glad to assist new users with implementing their programs. As an example of assistance provided to date, the University's Director of Internal Audit has spoken the auditors at three of the schools listed above.

Universities Not Using P-Cards Have Existing Oversight And Purchasing Authorization Systems

Recommendation: Those universities that have not yet adopted p-cards should compare the effectiveness of their current purchasing policies and procedures to those offered by universities with p-cards. The management at each university should develop a formal

Response from Universities

strategy for establishing a p-card system to take advantage of benefits for the respective universities.

Response: The University of North Carolina at Chapel Hill is already using the P-card system, so this recommendation is not applicable to our campus.

APPENDICES

APPENDIX B

Response from Universities

North Carolina State University is a land-grant university and a constituent institution of The University of North Carolina

Office of the Chancellor
Box 7001 / A Holladay Hall
Raleigh, North Carolina 27695-7001

NC STATE UNIVERSITY

919.515.2191 (phone)
919.831.3545 (fax)

November 25, 2003

Mr. Ralph Campbell, Jr.
State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601


Dear Mr. Campbell:

Enclosed are responses from North Carolina State University to the recommendations in your October 30, 2003 performance audit entitled **North Carolina University System Procurement Card Operations**.

We would like to thank you and your staff for the cooperative way in which the audit was conducted.

If you or your staff have any questions regarding the responses, please contact Ernie Murphrey, Executive Director for Financial Services, at 919-513-0410 or ernest_murphrey@ncsu.edu.

Sincerely,



Marye Anne Fox
Chancellor

MAF/EGM/lbo

Enclosure

cc: President Molly Corbett Broad, University of North Carolina
Mr. Jeffery R. Davies, Vice President of Finance, University of North Carolina
Mr. George Worsley, Vice Chancellor for Finance and Business
Ms. Ericka F. Kranitz, Director, Internal Audit
Mr. Ernest G. Murphrey, Executive Director for Financial Services
Mr. Robert D. Wood, Director, Materials Management

Response from Universities

North Carolina University System Procurement Card Operations

Performance Audit

North Carolina State University Response

1. Recommendation: The universities should continue to maintain records showing which employees have been issued p-cards. These records should continue to contain details relative to the types of purchases and dollar limits on purchases for each p-card user. Records of users should be updated periodically as required by the individual university's policies and procedures. (See discussion on page 15.)

Response: N. C. State University has maintained the records noted in the recommendation in the past and will continue to do so.
2. Recommendation: New users should work closely with P&C to properly establish programs. They should also consult with universities that have fully implemented p-card programs for insight on efficiently operating the program.

Response: N. C. State University will be pleased to assist new users by providing insights into operating an efficient and successful program.
3. Recommendation: The Secretary of the Department of Administration should request additional staff for the P&C Compliance Review Section. These employees should be assigned the responsibility of conducting periodic compliance reviews of universities (and other State agencies) with p-card programs. Consideration should be given to allowing P&C to receive a portion of each participating state entity's rebate from use of procurement cards to offset the cost of additional state level staff. (See page 18 for rebate information.) P&C should also require the universities to report serious violations to the statewide P-Card Administrator as another monitoring tool. The bank card reports, along with any reported violations, should be used to assess compliance with established rules and regulations.

Response: The dollar amounts of rebates are not sufficient to provide staffing for P&C in addition to university personnel. Sharing part of the rebate would reduce the resources that the universities have to manage the purchasing card programs at the local level, putting the programs at risk. In our opinion, no policy violations found in the performance review justify the

Response from Universities

need for additional oversight of the program or the additional expense of adding P&C personnel.

4. Recommendations: P&C should establish a statewide policy for cancellation of procurement cards clearly outlining the time frame within which cards should be cancelled. Further, P&C should implement and/or enforce stronger sanctions for statewide policy violations. University purchasing departments should ensure approval documentation is complete prior to card issuance. All participating universities should establish policies and procedures for formally reviewing inactivity and necessity of procurement cards at least annually. Cards should be cancelled immediately if found to be unnecessary. Each authorizing department should maintain adequate documentation to support procurement card transactions. Purchasing departments should ensure that all required documentation is entered into the procurement card database. Finally, for universities that are maintaining decentralized documentation, electronic approvals should be utilized.

Response: The university uses an internal on-line application for all p-cards, and this application requires supervisory approval prior to processing by the Purchasing Card Administrator. The university has guidelines in place for p-card inactivity and cancellation, and includes this information in our mandatory p-card training classes. We are also developing an operations manual that will include detailed written procedures for p-card cancellation, review of p-card inactivity and the justification for issuance of a p-card. N.C. State University maintains documentation in a centralized location and enters all required documentation into the procurement card database.

5. Recommendation: The State Purchasing Office should consider increasing the single transaction spending limit for p-cards to \$5,000 to be consistent with established spending limits for small purchases using the regular procurement card system. Each university should conduct a review of procurement card usage to determine if spending limit increases are necessary. If increases are necessary, then the universities making that determination should request approval from P&C for increased per transaction limits. Finally, each cardholder should be provided periodic training updates. This training should emphasize the importance of adhering to spending limits and the penalties that occur when limits are exceeded or circumvented, as well as

Response from Universities

review any other changes to policies and procedures. Further, P&C should establish a standardized system for monitoring violations and imposing sanctions. Consideration should be given to implementing a points system such as utilized by other states.

Response: We support the recommendation that the State Purchasing Office increase the \$2,500 single transaction limit for p-cards to \$5,000 to be consistent with established limits for small purchasing.

The university will conduct a review to determine if spending limit increases are necessary and request approval from P&C for any increased limits.

The Purchasing Department will continue to provide periodic informational/training updates and will emphasize the importance of adhering to the guidelines.

6. Recommendations: P&C, as the statewide P-Card Administrator, should modify the contract with the bank card company to require highlighting of purchases that have exceeded the established spending limit on the monthly statement. The university departments should be required to report all violations of policy immediately to the university P-Card administrator. The university p-card administrator should investigate such transactions and administer proper sanctions. Additionally, all transactions exceeding spending limits should be reported to the Vice Chancellor and/or Chancellor of Finance at the respective universities.

Response: The Purchasing Card Administrator at N. C. State University currently receives daily notification from the bank card company which highlights any purchases exceeding the spending limit. The Purchasing Department will notify the Executive Director for Financial Services monthly of transactions exceeding the limits. The information will be provided to the administrators of major units for appropriate action if/when there are any significant issues.

The two large transactions noted in the audit as exceeding spending limits were part of our centralized payment for gas cylinder purchases. This practice is noted later in the audit as

Response from Universities

being nationally recognized as a “best practice” for high volume purchases, and did not occur from any lack of proper controls.

7. Recommendation: The universities have adequate controls in place to ensure that p-cards are not used to circumvent any purchasing laws, rules, regulations, or policies if p-card use is expanded. Therefore, each of the participating universities should increase use of procurement cards for routine small purchases by allowing all employees making small purchases to use the cards. Additionally, the universities should consider increasing their single transaction limit to the maximum allowed by P&C and establishing single vendor cards for high volume and recurring purchases with higher single transaction limits. The universities should request prompt payment discounts from these vendors. Lastly, P&C should lead a study on the feasibility of consolidating purchases for all participating universities and state agencies to increase rebates to the overall benefit of the state.

Response: We agree that increasing the use of the p-card for small purchases would have some positive cost benefits and will further promote its use. Based on our experience, however, some employees at the university are better prepared than others to complete the tasks (maintaining receipts, reconciling, meeting deadlines) associated with using p-cards than others. We believe our current process provides a better balance of efficiency, controls, and cost savings than a more general distribution of the cards.

The \$2,500 single transaction limit used by our campus is already at the maximum allowed by P&C. The university has requested higher limits from P&C for use in high dollar, centralized purchases. We will request prompt payment discounts from high dollar vendors on a case by case basis.

8. Recommendation: UNC-Asheville, North Carolina Central University, Elizabeth City State University, and Fayetteville State University should develop a strategy for implementing a procurement card system as soon as feasible. These universities should apply to P&C for approval once they have updated their current procurement procedures to allow for the use of p-cards. Appalachian State University, UNC-Pembroke, UNC-Charlotte, UNC-Greensboro, NC School of the Arts, Western Carolina University, and Winston-Salem State University should continue their efforts to

APPENDICES

APPENDIX B

Response from Universities

implement a procurement card program. All universities should seek insight from the five pilot universities to enhance the success of implementing the program.

Response: Not applicable.

9. Recommendation: Those universities that have not yet adopted p-cards should compare the effectiveness of their current purchasing policies and procedures to those offered by universities with p-cards. Then, management at each university should develop a formal strategy for establishing a p-card system to take advantage of benefits for the respective universities.

Response: Not applicable.

Response from Universities



Office of the Chancellor

East Carolina University
105 Spilman Building • Greenville, NC 27858-4353
252-328-6212 office • 252-328-4155 fax
www.ecu.edu

November 24, 2003

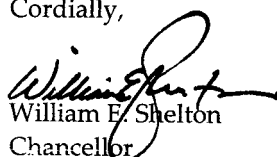
The Honorable Ralph Campbell, Jr.
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

Thank you for the opportunity to review and comment on the findings and recommendations contained in the *North Carolina University System Procurement Card Operations* report dated October 2003. You will find our responses to the recommendations in the attached document.

We also would like to commend your staff for their cooperation, objectivity, and professionalism exhibited during the course of the audit. We look forward to future collaborative efforts between East Carolina University and the North Carolina State Auditor's Office.

Cordially,


William E. Shelton
Chancellor

Attachment

c: President Molly Corbett Broad
Jeffrey R. Davies
James R. Talton Jr.
Richard Brown
Chuck Hawkins
Stacie Tronto

Response from Universities

East Carolina University Response to the North Carolina University System Procurement Card Operations Audit

Objective 1: Findings and Responses

FIVE UNIVERSITIES HAD FULLY IMPLEMENTED PROCUREMENT CARD PROGRAMS DURING FISCAL YEAR 2001-02.

Response: We will continue to maintain records showing which employees have been issued p-cards as well as details relative to the types of purchases and dollar limits on purchases for each p-card user.

FIVE ADDITIONAL UNIVERSITIES WERE APPROVED FOR P-CARD USE DURING THE FISCAL YEARS 2002-03 AND 2003-04.

Response: We will gladly assist the other universities to provide insight on the efficient operation of the p-card program.

Objective 2: Findings and Recommendations

DIVISION OF PURCHASE AND CONTRACT DOES NOT HAVE ENOUGH STAFF TO PERFORM PERIODIC PROCUREMENT CARD COMPLIANCE REVIEWS.

Response: We understand the need for additional staff at the Division of Purchase and Contract; however, we respectfully suggest that all rebates from the p-card program remain with the agency that earned the rebates in order to offset the expenses of administering the p-card program. Currently, the East Carolina University administrator of the p-card program as well as the Office of Internal Audit and Management Advisory Services conducts compliance reviews of the p-card program. We will report any "serious" violations such as fraud to P & C, if required.

PARTICIPATING UNIVERSITIES HAD ONLY MINOR INTERNAL CONTROL CONCERNS.

Response: We will ensure approval documentation is complete prior to card issuance. Further, we will establish policies and procedures for formally reviewing inactivity and necessity of procurement card accounts at least annually. Cards found to be unnecessary will be cancelled immediately.

Response from Universities

East Carolina University Response to the North Carolina University System Procurement Card Operations Audit

SPENDING LIMITS WERE EXCEEDED ON OCCASION.

Response: We will conduct a review of procurement card usage to determine if spending limit increases are necessary. If found to be necessary, we will request approval from P& C to increase our transaction spending limit for p-cards to \$5,000.

VENDORS OR PROCUREMENT CARD PROGRAM ADMINISTRATORS ALLOWED PURCHASES ABOVE CARD SPENDING LIMITS.

Response: The p-card administrator will investigate transactions that are above the spending limit and administer proper sanctions. This violations will be reported to senior management as deemed necessary.

PARTICIPATING UNIVERSITIES ARE NOT MAXIMIZING POTENTIAL SAVINGS RELATED TO THE PROCUREMENT CARD PROGRAM.

Response: We will encourage the use of the p-cards for small purchases.

Objective 3: Findings and Recommendations

ELEVEN UNIVERSITIES HAVE NOT FULLY IMPLEMENTED THE USE OF PROCUREMENT CARDS.

Response: We will gladly assist the other universities to provide insight on the operation of the p-card program.

UNIVERSITIES NOT USING P-CARDS HAVE EXISTING OVERSIGHT AND PURCHASING AUTHORIZATION SYSTEMS.

Response: We will gladly assist the other universities to provide insight on the operation of the p-card program.

Response from Universities



THE UNIVERSITY OF NORTH CAROLINA AT WILMINGTON

November 24, 2003

ROSEMARY DEPAOLO
Chancellor

Ralph Campbell, Jr.
State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Campbell:

With regard to the Procurement Card Audit and your October 30th correspondence to me, I'd like to respond on behalf of UNCW. Your findings of 'minor' control concerns, for those universities that have implemented the procurement card, will be carefully analyzed to improve our processes wherever possible.

Although most recommendations addressed the State's Purchase & Contract Division or all the schools involved in the audit as a whole, UNCW has taken the information seriously:

- 1) UNCW shall continue to maintain itemized records on individual cardholders.
- 2) UNCW is not inclined to share rebate revenues with P&C for the purpose of audits. The rebate funds seem better utilized at the University level to contribute to programming costs. In these tough budget times, individual rebates serve as incentive for program improvements.
- 3) Although cards are cancelled on a timely basis at UNCW, we will create a clear card cancellation policy and share such with P&C.
- 4) Inactivity will be reviewed on a regular basis. It is possible that some cards may be used seasonally and may be "frozen" due to inactivity in an inactive season but not cancelled if activity is expected within the same year.
- 5) UNCW will continue to ensure approval documentation is complete prior to card issuance.
- 6) UNCW is exploring an increase of our fixed assets threshold to \$2500, and in turn, the procurement card single transaction limit to \$2500 as well.
- 7) UNCW is considering cardholder and coordinator 'refresher' training prior to the renewal date on cards. Spending limits will continually be emphasized.

601 SOUTH COLLEGE ROAD · WILMINGTON, NORTH CAROLINA 28403-5931 · 910-962-3030 · FAX 910-962-4050 · DEPAOLO@UNCW.EDU

Response from Universities

Mr. Ralph Campbell, Jr.

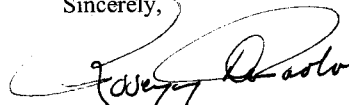
Page 2

November 24, 2003

- 8) UNCW is not in favor of a points system which will create unnecessary complication to our current 'three strikes you're out' policy.
- 9) UNCW is very much in favor and support of program growth. Goals may be set to project increased p-card growth. Programming for single vendor cards for high volume and recurring purchases with higher single transaction limits will be reviewed and prompt payment discounts will be pursued.
- 10) UNCW is actively sharing our processes to assist other Universities with their procurement card implementation programs.

UNCW appreciates the efforts made by the Office of State Auditors to review our performance and make recommendations for improvement to our UNCW Procurement Card program.

Sincerely,



Rosemary DePaolo
Chancellor

APPENDICES

APPENDIX B

Response from Universities



NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY

November 25, 2003

VICE CHANCELLOR FOR
BUSINESS & FINANCE

Ralph Campbell, Jr.
State Auditor
NC Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Centet
Raleigh, NC 27699-06061

Dear Mr. Campbell:

Attached are North Carolina Agricultural and Technical State University's Procurement Card Performance audit responses. We appreciate the opportunity to participate in this review and the valuable insight provided by your staff.

Please contact me if you have any questions or concerns related to the attached audit concerns and university responses.

Sincerely,

A handwritten signature in black ink, appearing to read "Willie T. Ellis, Jr.", is written over a faint, larger version of the same signature.

Willie T. Ellis, Jr.
Vice Chancellor
Business & Finance

Cc: James C. Renick, Chancellor
Reginald E. Wade, Assistant Vice Chancellor Business Services
Ted A. Little, Director Purchasing
Larry R. Kreiser, Interim Internal Auditor

Response from Universities

AUDIT CONCERN

None of the five universities had a written policy for card cancellation upon termination or separation of the employee, transfer to another department, change of duties, and/or inappropriate use of the card. The lack of established cancellation policies could lead to delays in cancellation and potential loss of resources.

RESPONSE FROM THE UNIVERSITY

North Carolina A&T's Procurement Card Users Guide has a section titled Transfer or Termination of Employment. The section informs the cardholder that "the card remains the property of the bank and must be surrendered immediately upon transfer of assignment, termination of employment or upon request of either the cardholder's supervisor or the procurement card program administrator". The following is also documented in the Procurement users Guide. "Note: Supervisors are required to report any cardholder that has a transfer or assignment or termination of employment to the procurement card program administrator".

Additionally, all final clearance forms for personnel separating from the university must be signed off by the procurement card program administrator. This required procedure provides reasonable assurance that all cards are captured and cancelled prior to employee separation. The Procurement Card Users Guide also addresses inappropriate use of the card including cause to revoke individual cards and cause to revoke all department cards. However, we will review our current policy for enhancement and compliance with any requirements that may be implemented by the Office of State Purchasing and Contract.

AUDIT CONCERN

At NC A&T, 26% of the transactions sampled (16 of 60) were paid without the proper signatures of the supervisory authority. Unauthorized purchases could occur without proper approval.

RESPONSE FROM THE UNIVERSITY

We partially agree with the audit finding. Eight of the sixteen cited are Vice Chancellors or Department Chairpersons/Managers who are also listed as the cardholder. These individuals have operational authorization to purchase equipment and materials that greatly exceed the small purchase amount without additional line approval. We will revise our users' guide to reflect that personnel at the department Chairperson/Manager level or higher who have been issued a P-card in their name will not be required to obtain additional approval for their purchases. The Procurement Card Administrator reviews transactions for unauthorized purchases.

AUDIT CONCERN

Three of the five universities lacked policies and procedures for reviewing inactivity and necessity of cards. We found that only NCSU had an established policy. While ECU annually reviews the necessity of issued cards, this process has not been formalized in the

Response from Universities

procurement card policy. Inactive accounts should be closed immediately to reduce the risk of unauthorized use.

RESPONSE FROM THE UNIVERSITY

We agree with the audit finding. The University will establish a policy for reviewing the necessity of inactive cards on an annual basis.

AUDIT CONCERN

During the audit, we found that each university had employees that exceeded the set transaction limits. Reasons provided by the universities for exceeding the limits were vendor override and occasional limit adjustments by the university P-Card Administrator for a specific purchase. Further, we noted instances where the total purchase amount was split into separate transactions in order to exceed the established spending limit. University policy at each institution strictly forbids splitting purchases to circumvent the per transaction spending limits.

RESPONSE FROM THE UNIVERSITY

We agree with the audit finding. We will conduct a review of our P-card usage to determine if our single transaction limit of \$750 should be increased. If increases are necessary we will seek formal approval from P&C.

We currently provide an individual review of the P-card users' guide with all new cardholders prior to issuance of the card. We review all topics in the P-card users' guide including single transaction limits and split purchases. We will enhance the current procedure through the implementation of training updates prior to receipt of renewal cards. We currently disseminate major P-card program changes, as they occur, to all cardholders.

A revision to the P-Card Users Guide will be made to reflect that supervisors are required to report any cardholder violations to the University P-Card Administrator immediately. The P-Card Administrator will investigate and administer proper sanctions for those violations. As part of the revisions, a monthly report will be sent to the Vice Chancellor of Business and Finance and the State P-Card Administrator for all transactions exceeding the authorized spending limits.

APPENDICES

APPENDIX B

Response from Universities

OFFICE OF THE CHANCELLOR



November 26, 2003

The Honorable Ralph Campbell, Jr.
State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

We at Fayetteville State University concur with your recommendation to compare the effectiveness of our current purchasing policies and procedures to those offered by universities with purchasing cards.

Our initial analysis indicates that the purchasing card program could result in cost savings. We plan to evaluate these savings considering implementation costs and other university priorities and develop an appropriate plan of action.

We appreciate your recommendations for improving the economy, efficiency and effectiveness of the university procurement card program.

Sincerely,

T. J. Bryan
Chancellor

1200 MURCHISON ROAD / NEWBOLD STATION / FAYETTEVILLE / NC / 28301-4298 / 910.672.1141 / FAX 910.672.1200
FAYETTEVILLE STATE UNIVERSITY IS A CONSTITUENT INSTITUTION OF THE UNIVERSITY OF NORTH CAROLINA

APPENDICES

APPENDIX B

Response from Universities



James E. Shepard, Founder

Office of the Chancellor

December 1, 2003

Mr. Ralph Campbell, Jr., State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Campbell:

North Carolina Central University thanks you and your audit team for presenting the draft report of the "North Carolina University System Procurement Card Operations." We have reviewed the report and prepared a response based on our review of the procurement card and our operations.

Again, thank you for your usual professionalism. Should you have any questions pertaining to the enclosed response, please contact Mr. Charles O'Duor, Vice Chancellor for Financial Affairs, at 919.530.6229 or Ms. Yolanda Banks, AVCFA/Comptroller, at 919.530.7084.

Sincerely,

James H. Ammons
Chancellor

cc: Charles D. O'Duor, Vice Chancellor for Financial Affairs
Yolanda Banks, Associate Vice Chancellor for Financial Affairs/Comptroller
Godfrey B. Herndon, Director of Purchasing

NORTH CAROLINA CENTRAL UNIVERSITY • 1801 FAYETTEVILLE STREET • P.O. BOX 19617 • DURHAM, NC 27707 • (919) 530-6104 • FAX (919) 530-5014

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UNIVERSITY OF NORTH CAROLINA

Response from Universities

FINDING: ELEVEN UNIVERSITIES HAVE NOT FULLY IMPLEMENTED THE USE OF PROCUREMENT CARDS.

RESPONSE:

North Carolina Central University (NCCU) undertook an extensive analysis of the North Carolina University System Procurement Card Program beginning in July 2002 and as recent as November 2003. The guidelines promulgated by the North Carolina Department of Administration, Division of Purchase and Contract, were used as benchmarks in the analysis. Discussions surrounding the implementation of the Procurement Card were held with the various administrative units impacted, which included Information Technology, Systems and Procedure Office, Comptroller's Office, Accounts Payables Office, Budget Office, Contracts and Grants Office, and Internal Audit Office.

Additional information concerning the development and implementation of procurement card programs within the University of North Carolina (UNC) System and at universities and colleges across the country was sought at professional conferences (SETA, NAEB, NCPA, etc.). Conversations were held with representatives from several institutions within the UNC System.

Several issues emerged that required an assessment of the viability of a procurement card for the NCCU campus and the proposed recommendations of the Office of the State Auditor:

- (1) **Additional Headcount:** Most UNC programs required additional headcount or reassignment of duties within the purchasing offices to accommodate the program. The Procurement Card requires an extensive audit function that would create a significant additional burden on the Purchasing staff. It was noted that several programs (internal to the UNC System and outside the State) also cited the extensive oversight that was required to monitor the host bank's charges and administrative fees. With the additional purchasing duties required by the expanding number, nature and complexity of the University's programs, it was estimated that purchasing duties could not be successfully redirected to accommodate a procurement card program and at least one additional full-time person would be necessary to successfully administer a procurement card program. Moreover, additional processing time was experienced by many schools for the accounting function to distribute or allocate the various departmental charges. Some schools reported as much as 2 to 3 days more time. However, we do agree with the savings in postage and checks written.
- (2) **Security/Distribution of Cards:** The security and distribution of the procurement card was a topic of much discussion. Existing purchasing practices internal to many NCCU offices restrict access and spending authority to a select number of individuals. It was noted that the proposed transaction limit of the procurement card (\$2,500) exceeded many departments' annual

Response from Universities

budgets. Therefore, this would entail added administrative oversight such as the Budget Office putting in place a monitoring process to ensure that P-card spending does not exceed the authorized budget (budget checking is automatic within the normal purchasing channels) and canceling the cards when necessary. Accordingly, budgetary restrictions (and budgetary planning) severely limit the distribution of a procurement card thus eliminating many of the economies of scale necessary for a successful program.

- (3) **State Term Contract and Other State Regulatory Purchasing Concerns:** State purchasing procedures would require that many of the purchases for which it was contemplated that the procurement card would be utilized would be made in accordance with State term contracts. Compliance with State regulations will demand dedicated and increased oversight of procurement card purchases. It is further noted that a significant amount of the purchasing efforts at NCCU are expended on “big ticket” procurements (primarily services) for which a procurement card is not suitable or intended. In addition, the methodology for consolidating purchases to increase “rebates” offered through the procurement card program ignores important additional considerations such as HUB participation and the potential impact of such consolidated purchases on local economies.
- (4) **Spirit of Legislation:** The UNC System Procurement Card was offered to participants as a completely voluntary program and is still characterized as such by the North Carolina Department of Administration, Division of Purchase and Contract. The spirit of the legislation and resulting program is that each constituent institution within the UNC System can participate in the procurement card program to the extent that each institution determines to be beneficial.
- (5) **Cash Management:** Currently, NCCU’s purchasing practices advocates adherence to the State’s cash management policy, which encourages the maximization of interest earnings on funds that remain in the State’s treasury for as long as possible. When we consider the millions of dollars that will leave the State’s treasury much earlier than before, it is a cost to be recognized.
- (6) **Internal Controls:** Controls surrounding current purchasing processes are being implemented efficiently and effectively. It is our concern that controls will be challenged constantly when individuals are given “credit cards” to use. It is not a matter of if, but when the University will sustain losses due to having such “convenience.” Controls such as delivery of items to a central location are lost because it is so very convenient to present a “credit card” to the vendor and carry the items with you. At recent conferences related to fraud, it has been shown that fraud has not decreased with technology, but increased.

Response from Universities

North Carolina Central University is committed to growth and technological advancement. We will continue to conduct thorough reviews of procurement cards and seek to implement a procurement card program at a time when the entire utilization of the card would be efficient and effective.

Response from Universities



NORTH CAROLINA'S PUBLIC LIBERAL ARTS UNIVERSITY

November 25, 2003

The Honorable Ralph Campbell, Jr.
State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Campbell:

The University of North Carolina at Asheville routinely seeks opportunities to improve efficiencies and reduce costs and accepts your recommendation to compare the effectiveness of our current purchasing policies and procedures to those offered by universities with purchasing cards.

Our initial analysis indicates that a small cost savings can be realized by implementing a purchasing card program at UNCA. Therefore, we will evaluate these savings against implementation costs and against other university priorities and develop an appropriate plan of action.

We are confident that the recommendations contained within your report will be instrumental in enhancing cost savings, efficiencies, and controls within the statewide purchasing card program.

Sincerely,

A handwritten signature in black ink, appearing to be "JH Mullen, Jr.", written over the printed name.

James H. Mullen, Jr.

Response from Universities



December 3, 2003

Mr. Ralph Campbell, Jr.
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Campbell:

Re: Performance Audit of North Carolina University System Procurement Card Operations

We have completed our review of the draft copy of the Performance Audit of North Carolina System Procurement Card Operations and would like to share with you some of our concerns and observations.

Even though we do not have a procurement card at this time, we are still committed to establishing a p-card program. We presently do not have adequate personnel resources to implement both Banner Finance and a procurement card simultaneously. Although we have postponed the implementation of the Banner system until July 2005, we are still very much involved in that process. It is not cost effective to make changes to the FRS system at this time knowing that Banner will be operational in little over a year. We have also experienced leadership turnover in the Purchasing Department and this, too, contributes to our decision to delay this implementation.

We are also committed to establishing a strong system of internal controls prior to p-card implementation. In addition to exceeding established spending limits we also recognize that there are many other ways in which a card holder can circumvent existing controls and we wish to limit those to the maximum extent possible and ensure procedures that will identify such abuses and levy appropriate consequences as soon as possible.

We are, however, very happy to see that your audit results showed the p-card program had such a positive impact at the five universities that have implemented it. We are confident that we, too, will be able to launch a successful p-card program when we determine we have adequate resources to devote to the project.

I appreciate the opportunity to respond to your audit and look forward to be included in future audits of the program. Please do not hesitate to contact me or Randy Duncan in our Purchasing Department if you need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "O. Smith Jr.", written over the printed name.

Olen B. Smith, Jr.
Vice Chancellor for Business Affairs

OBSjr:sb

APPENDICES

APPENDIX B

Response from Universities

THE UNIVERSITY OF NORTH CAROLINA

GREENSBORO

Business Affairs
Office of the Vice Chancellor

November 19, 2003

Mr. Ralph Campbell, Jr.
Office of the state Auditor
20601 Mail Service Center
Raleigh, NC 47699-0601

RE: North Carolina University System Procurement Card Operations Audit

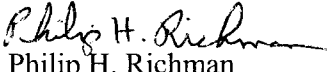
Dear Mr. Campbell:

In response to your draft audit report for the North Carolina University System Procurement Card Operations Audit, the following information is provided concerning the University of North Carolina at Greensboro.

UNCG is committed to the State of North Carolina Procurement Card Program. Our pilot program will begin in January 2004. We are expecting to move to the full campus program beginning in the summer of 2004. Our policies and procedures have been submitted and approved by the Purchase and Contract Division and are in compliance with the State Auditor's recommendations.

If there are any questions concerning the status of the procurement card program at UNCG, please contact either myself or Shannon Burks, Director of Business Services.

Sincerely,


Philip H. Richman
Vice Chancellor

/sg

cc: Chancellor Patricia Sullivan
Mr. George Burnette, Assoc. Vice President for Finance

APPENDICES

APPENDIX C

Response from Department of Administration



North Carolina Department of Administration

Michael F. Easley, Governor

Gwynn T. Swinson, Secretary

December 3, 2003

Honorable Ralph Campbell
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

We have reviewed the findings, conclusions, and recommendations that resulted from your audit of the North Carolina University System Procurement Card Operations. You will find our response attached.

The Department of Administration places great value in the opinions of our customers and stakeholders. Therefore, our management team reviewed the audit report with open minds and in a spirit of collaboration between State agencies. Therefore, we have focused on how each of your recommendations can help us improve the procurement card program.

We hope that our reply demonstrates a high level of action and accountability. In the attached Division of Purchase and Contract Response to Performance Audit Recommendations, you will find over 20 individual action items that we believe will address the recommendations in a positive and business oriented manner.

We believe that the ultimate value of an audit is reflected in the improvement of business practices pursuant to the final report. You and your staff have done a very thorough job of reviewing the University System Procurement Card Operations with objectivity, professionalism, and expertise. The Department of Administration's management team will now do our part by working with the University of North Carolina System and other agencies to transform the audit recommendations into results.

Thank you for the opportunity to work with your agency on improving our business practices and responsiveness to customers. We look forward to future collaborative efforts between our agencies. We would appreciate you forwarding us any additional comments you may receive so that we may also use them as a basis for improvement.

Sincerely,

A handwritten signature in black ink, appearing to read "Gwynn T. Swinson", written over a circular stamp that contains the text "Gwynn T. Swinson".

Gwynn T. Swinson

Mailing Address:
1301 Mail Service Center
Raleigh, N.C. 27699-1301

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Response from Department of Administration**Division of Purchase and Contract
Response to Performance Audit Recommendations**

Purpose

- To provide a written response to the recommendations contained in the final draft of the Performance Audit Report.

General Comments

- The Division of Purchase and Contract (P&C) welcomes the opportunity to improve by using the audit results to increase efficiency and effectiveness of the program.
- Many of the responses are contingent upon the actions of the University of North Carolina system, an entity independent from Purchase and Contract. As such, prudent management dictates that certain options be delayed until appropriate decisions are made by the University of North Carolina and its member institutions.
- Some responses are contingent upon the actions of the General Assembly, the State Budget Office, OSP, or the DOA Human Resources Management Division.
- P&C will submit a monthly report on accomplishments toward these goals to the Department of Administration's senior management team.

Recommendations and Responses

Objective 1: NUMBER AND ASSIGNMENT OF CARDS: Determine the number of procurement cards at each of the universities with fully implemented programs and to whom they are assigned.
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FIVE UNIVERSITIES HAD FULLY IMPLEMENTED PROCUREMENT CARD PROGRAMS DURING FISCAL YEAR 2001-02.

1. Recommendation: The universities should continue to maintain records showing which employees have been issued p-cards. These records should continue to contain details relative to the types of purchases and dollar limits on purchases for each p-card user. Records of users should be updated periodically as required by the individual university's policies and procedures. (See discussion on page 15 of the audit report).

Response:

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

Response from Department of Administration

FIVE ADDITIONAL UNIVERSITIES WERE APPROVED FOR P-CARD USE DURING THE FISCAL YEARS 2003-03 AND 2003-04.

2. Recommendation: New users should work closely with P&C to properly establish programs. They should also consult with universities that have fully implemented p-card programs for insight on efficiently operating systems.

Response:

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- By 1/15/04 - P&C shall forward an updated letter outlining the p-card program including authorizing legislation, administrative rules, and guidelines to all potential p-card user agencies.

Objective 2: EFFECTIVENESS OF OVERSIGHT: Examine the procurement card oversight process and its effectiveness.

DIVISION OF PURCHASE AND CONTRACT DOES NOT HAVE ENOUGH STAFF TO PERFORM PERIODIC PROCUREMENT CARD COMPLIANCE REVIEWS.

3. Recommendation: The Secretary of the Department of Administration should request additional staff for the P&C Compliance Review Section. These employees should be assigned the responsibility of conducting periodic compliance reviews of universities (and other State agencies) with p-card programs. Consideration should be given to allowing P&C to receive a portion of each participating state entity's rebate from use of procurement cards to offset the cost of additional state level staff. (See page 18 {of the audit report} for rebate information). P&C should also require the universities to report serious violations to the statewide P-Card Administrator as another monitoring tool. The bankcard reports, along with any reported violations, should be used by P&C to assess compliance with established rules and regulations.

Response:

Request Additional Staff

- By 1/15/04, P&C shall determine the current cycle time for compliance reviews on all programs.
- By 1/31/04, P&C shall define and/or verify the compliance review cycle time in the best interest of the State of North Carolina for all programs.
- By 2/15/04, P&C, in conjunction with the DOA Human Resources Division, shall determine how many, if any, additional positions are needed to shift from the current compliance review cycle time to the proposed cycle time.

Response from Department of Administration

- By 3/15/04, P&C, in conjunction with the DOA Human Resources Division, shall develop position descriptions for any additional P&C compliance staff needs.
- By 4/15/04, P&C shall review potential funding sources for needed positions and shall recommend the source that would best suite the division while minimizing funding complexity.
- By 5/1/04, P&C shall forward staff need findings to the Secretary of Administration for review, consideration, and action.

Serious Violation Reporting

- By 12/15/03, P&C shall forward a proposed draft of violations, of a nature serious enough to warrant system-wide attention and reporting, to a group of users for comment and consideration. This group shall include, but is not limited to, UNC-GA, one University, NCCCS, one Community College, DPI, one school system, OSBM and, one cabinet level agency.
- By 1/31/04, P&C shall confer with the various aforementioned users to discuss and revise the list of violations serious enough to warrant system-wide attention and reporting.
- By 2/15/04, P&C shall publish a listing, or policy, of serious violations, if any, that requires reporting to P&C.

Compliance Assessment

- By 7/1/04, P&C shall require the p-card vendor to offer consolidated reporting to the greatest extent feasible.
- By 7/1/04, P&C shall use enhanced reporting along with the newly developed serious violation reporting as a part of their standard program compliance reviews.

PARTICIPATING UNIVERSITIES HAD ONLY MINOR INTERNAL CONTROL CONCERNS.

4. Recommendation: P&C should establish a statewide policy for cancellation of procurement cards clearly outlining the time frame within which cards should be cancelled. Further, P&C should implement and/or enforce stronger sanctions for statewide policy violations. University purchasing departments should ensure approval documentation is complete prior to card issuance. All participating universities should establish policies and procedures for formally reviewing inactivity and necessity of procurement card accounts at least annually. Cards should be cancelled immediately if found to be unnecessary. Each authorizing department should maintain adequate documentation to support procurement card transactions. Purchasing departments should assure that all required information is entered into the procurement card database. Finally, for universities that are maintaining decentralized documentation, electronic approvals should be utilized.

Response from Department of Administration

Response:

Cancellation Policy

- By 1/31/04, P&C shall identify a users group to determine the appropriate system level cancellation policy.
- By 4/30/04, P&C, in conjunction with the users group, shall report to the Secretary of Administration on the results of the system level cancellation policy working group.

Universities Ensure Documentation and Use Electronic Approvals

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

LOW SPENDING LIMITS RESULT IN PROGRAM INEFFICIENCIES.

5. Recommendation: The State Purchasing Officer should consider increasing the single transaction spending limit for p-cards to \$5,000 to be consistent with established spending limits for small purchases using the regular procurement system. Each university should conduct a review of procurement card usage to determine if spending limit increases are necessary. If increases are necessary, then the universities making that determination should request approval from P&C for increased per transaction limits. Finally, each cardholder should be provided periodic training updates. This training should emphasize the importance of adhering to spending limits and the penalties that occur when limits are exceeded or circumvented, as well as review any other changes to policies and procedures. Further, P&C should establish a standardized system for monitoring violations and imposing sanctions. Consideration should be given to implementing a points "system such as utilized in other states.

Response:

Consider Increasing Spending Limits

- By 1/31/04, P&C will review current spending limits to determine whether system-wide modifications which may include blanket changes, benchmark oriented changes, or an expedited approval process, are appropriate.

Universities Review P-card Usage

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

Response from Department of Administration

Universities May Request Increased Limits

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system with specific requests.

Continuation Training for Cardholders

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

Standardized System for Monitoring Violations and Imposing Sanctions

- P&C shall request the user group previously mentioned to review a system for monitoring violations and imposing sanctions.

VENDORS OR PROCUREMENT CARD PROGRAM ADMINISTRATORS ALLOWED PURCHASES ABOVE CARD SPENDING LIMITS.

6. Recommendation: P&C, as the statewide P-Card Administrator, should modify the contract with the bankcard company to require the highlighting of purchases that have exceeded the established spending limit on the monthly statement. The university departments should be required to report all violations of policy to the university P-Card Administrator. The university P-Card Administrator should investigate such transactions and administer proper sanctions. Additionally, all transactions exceeding authorized spending limits should be reported to the Vice Chancellor and/or Chancellor of Finance at the respective universities.

Response:

Highlight Spending Limit Violations

- Currently, spending limit violations can be highlighted as part of an online report available from the bankcard provider.
- By 01/15/04, P&C shall obtain written confirmation from the bankcard provider describing all standard reports available to card program administrators.

University Investigation and Reporting

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

Response from Department of Administration

PARTICIPATING UNIVERSITIES ARE NOT MAXIMIZING POTENTIAL SAVINGS RELATED TO THE PROCUREMENT CARD PROGRAM.

7. Recommendation: The universities have adequate controls in place to ensure that p-cards are not used to circumvent any purchasing laws, rules, regulations or policies if p-card use is expanded. Therefore, each of the participating universities should increase use of procurement cards for routine small purchases by allowing all employees making small purchases to use the cards. Additionally, the universities should consider increasing their single transaction limit to the maximum allowed by P&C and establishing single vendor cards for high volume and recurring purchases with higher single transaction limits. The universities should request prompt payment discounts from these vendors. Lastly, P&C should lead a study on the feasibility of consolidating purchases for all participating universities and state agencies to increase rebates to the overall benefit of the State.

Response:

Expand P-Card Use, Increase Individual Card Limits, Establish Single Vendor Cards, and Request Prompt Payment Discounts.

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

Consolidated Purchasing and Rebate Study

- By 12/15/03, the Department of Administration shall request that the Office of State Budget and Management perform the requested study in conjunction with the Department of Administration and the UNC system.

Objective 3: UNIVERSITIES NOT USING PROCUREMENT CARDS: To determine the reasons for non-use, tools used in the current procurement process, and the oversight and purchasing process for the universities not using the procurement card.

ELEVEN UNIVERSITIES HAVE NOT FULLY IMPLEMENTED THE USE OF THE PROCUREMENT CARDS.

8. Recommendation: UNC-Asheville, North Carolina Central University, Elizabeth City State University, and Fayetteville State University should develop a strategy for implementing a procurement card system as soon as feasible. These universities should apply to P&C for approval once they have updated their current procurement procedures to allow for the use of p-cards. Appalachian State University, UNC-Pembroke, UNC-Charlotte, UNC-Greensboro, NC School of the Arts, Western Carolina University, and Winston-Salem State University should continue efforts to implement a

Response from Department of Administration

procurement card program. All universities should seek insight from the five pilot universities to enhance the success of implementing the program.

Response:

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested. P&C shall expedite requests for system setup from the universities.

UNIVERSITIES NOT USING P-CARDS HAVE EXISTING OVERSIGHT AND PURCHASING AUTHORIZATION SYSTEMS.

9. Recommendation: Those universities that have not yet adopted p-cards should compare the effectiveness of their current purchasing policies and procedures to those offered by universities with p-cards. Then management at each university should develop a formal strategy for established a p-card system to take advantage of benefits for the respective universities.

Response:

- The Office of the State Auditor has provided this recommendation to the UNC system for response.
- Although no action is required by P&C, the division stands ready to assist the UNC system if requested.

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