



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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May 30, 2008

Dr. James L. Oblinger, Chancellor
North Carolina State University
Campus Box 7001
Raleigh, North Carolina 27695

Dear Dr. Oblinger:

We have completed a strategic review to identify improper use of procurement cards (P-Cards) by North Carolina State University employees. The statewide rules for P-Card use falls under the Department of Administration's Purchase and Contract Division. All state agencies operate under the Bank of America Card Contract with the Division of Purchase and Contract. The results of our review are contained in this management letter. The review was conducted pursuant to North Carolina General Statute §147-64.6(c)(16) rather than as a financial audit.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Management letters and responses receive the same distribution as audit reports.

Please contact me if you have any questions about these audit findings and recommendations. We express our sincere appreciation to you and your staff for the cooperation extended to us during our strategic review.

Sincerely,

LESLIE W. MERRITT, JR., CPA, CFP
STATE AUDITOR

A handwritten signature in cursive script that reads "Charles T. Williford".

Charles T. Williford, CPA, CITP, CISA, CFE, CPM
Director of Information Systems Audits

LMjr/CTW/TG:mfd

BACKGROUND

The Office of the State Auditor has implemented a strategic review initiative. This initiative is an effort to analyze state agency/university data on a proactive basis and help identify unusual trends and potential problems in this data.

The P-Card program is designed to enable organizations to make small purchases more quickly and efficiently, thereby reducing the volume of requisitions, purchase orders, invoices and checks processed by those organizations. Similar to the VISA and MasterCard formats, procurement cards can be processed by vendors just like personal charge cards. Rather than making multiple small payments to many vendors, the using organization writes one check to the procurement card provider. Vendors receive payments from the procurement card processor within few days without extra paperwork.

In July 2006 the Division of Purchase and Contract entered into a contract with the Bank of America to administer the VISA P-Card program for the state of North Carolina. This contract is set to expire in December 2012. Under this contract, there is no charge for issuance or maintenance of the cards. Each agency that uses these cards receives a rebate on the total amount charged to the P-Cards.

The Division of Purchase and Contract has general guidelines for the participant organizations to follow but has left control of the P-Card program with the chief fiscal officer of the organizations.

The procurement card program administrator at the Department of Administration, Division of Purchase and Contract, in consultation with the individual agency's chief fiscal officer, determines the appropriate limits by transaction amount, billing cycle, and merchant categories.

REVIEW RESULTS

We obtained the P-Card electronic file from the Bank of America that covered the period of December 2006 through December 2007. During that period NCSU had a total of 85,263 individual transactions that totaled \$23,196,973.48.

To conduct our strategic review, we performed the following procedures:

- Obtained and reviewed NCSU P-Card program policy.
- Selected a judgmental sample of 73 P-Card transactions from the Bank of America electronic file to review their supporting documentation. Sample selection focused on transactions that appeared inappropriate based on such factors as merchant name, merchant category description and/or item description.
- Matched the names of NCSU P-Card holders with the names on the “felony” file we received from the NC Department of Correction. The objective here was to determine whether any of the card holders was convicted of a felony that we deemed it “incompatible” with holding a P-Card (for example, identity theft or credit card fraud).
- Extracted all purchases where the limit by per-transaction amount was exceeded.
- Interviewed appropriate agency P-Card program staff.

The results of our review are as follows:

- 1) NCSU’s P-Card program policy appears to be adequate.
- 2) From our review of P-Card transactions we identified two employees who used their P-Card for personal use. One employee repaid his personal charge by check and the other employee had her last paycheck reduced for all personal charges.
- 3) We did not identify any P-Card holders that matched the NC Department of Correction felony file.
- 4) We identified seven purchases that exceeded the single transaction limit. All of these transactions were properly approved by the Division of Purchase and Contract.

Based on the results of our review it is our opinion that the P-Card internal controls in place at NCSU either helped deter or prevent most improper charges from taking place. The questioned personal charges mentioned in item 2) above were identified early and either repaid or deducted from employee pay. The university has dismissed one the two employees identified in item 2) above.

REVIEW RESULTS (CONCLUDED)

Agency Response:

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

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NC STATE UNIVERSITY

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May 22, 2008

The Honorable Leslie W. Merritt, Jr., State Auditor
Office of the State Auditor
2 S. Salisbury Street
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Raleigh, NC 27699-0601

Dear Mr. Merritt:

Thank you for the draft of your strategic review to identify improper use of procurement cards. We are pleased at the verification that our internal controls are working and that our staff had previously identified the items noted in the audit and taken appropriate actions.

We would like to express our appreciation for the auditors' professionalism while working with our staff.

If you have any questions, please contact Ernest G. Murphrey, Associate Vice Chancellor for Financial Services, at (919) 513-0410.

Sincerely,



James L. Oblinger
Chancellor

cc: Cecile M. Hinson
Charles D. Leffler
Ernest G. Murphrey
Charles T. Williford

JLO/EGM:lbo