



STATE OF NORTH CAROLINA

STRATEGIC AUDIT REVIEW

PROCUREMENT CARDS

**NORTH CAROLINA AGRICULTURAL & TECHNICAL STATE
UNIVERSITY**

GREENSBORO, NORTH CAROLINA

SEPTEMBER 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
The Board of Directors of North Carolina Agricultural & Technical State University
Stanley F. Battle, Chancellor

Ladies and Gentlemen:

We have completed a strategic review of the procurement cards program (P-Cards) at North Carolina Agricultural & Technical State University (NC A&T). The results of our review, along with recommendations for corrective action, are contained in this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Respectfully submitted,

Leslie W. Merritt, Jr.

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

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INTRODUCTION

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. Rebates based on total statewide annual volume will be paid to participating agencies.

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 participating 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.

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 NCA&T had a total of 20,212 individual transactions that totaled \$5,174,516.13.

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

- Obtained the P-Card electronic file from the Bank of America and identified charges incurred by the University.
- Obtained and reviewed the NC A&T P-Card policy, the Department of Administration's Division of Purchase and Contract P-Card Policy, the North Carolina State Budget Manual, and the University's purchasing policies.
- Obtained the University's chart of accounts by fund type and object code in order to perform classification testing.
- Interviewed appropriate agency P-Card program staff.
- Selected a judgmental sample of P-Card transactions from the Bank of America electronic file to review their supporting documentation. Sample selection focused on

INTRODUCTION (CONCLUDED)

transactions that appeared inappropriate based on such factors as merchant name, merchant category description and/or item description.

- Extracted all purchases where the limit by per-transaction amount was exceeded.
- Extracted all the University's finance charges from the Bank of America electronic file. The Department of Administration's Division of Purchase and Contract's Procurement card contract with the Bank of America requires the organization to which the card is issued to pay Bank of America the full balance of the bill at least once a month. Payment of interest is in violation of the State's Cash Management Plan.
- Matched the names of NC A&T 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 "incompatible" with holding a P-Card (for example, identity theft or credit card fraud).

This report presents the results of our strategic review. The review was conducted pursuant to North Carolina General Statute §147-64.6(c)(16).

FINDINGS AND RECOMMENDATIONS

1. USE OF P-CARDS TO PURCHASE NON-ALLOWABLE ITEMS

The following P-Card purchases were not legitimate business expenditures according to University and/or State policies:

- 1) Purchases were made for participation in the Jena Six Rally. The purchases were made from Auxiliary Funds.
- 2) A purchase of men's suits was made for the Executive Board of the Student Government Association. Article IV Section 3 of the North Carolina A & T State University Student Government Constitution states, "To assist in the provision of homecoming coronation attire, the following amounts will be paid: SGA President, not to exceed \$300.00; Miss A and T, not to exceed \$500.00." However, the purchase totaled \$1,672.45 and was for not only the SGA President, but the Vice President of External Affairs, the Secretary, and the Chief of Staff.
- 3) One clothing purchase was not supported by any documentation (receipts). However, the Purchase Card Reconciliation described the purchase as being for suits. The University's Basic Spending Guidelines by Fund Source addresses Unallowable Purchases from State Budget Codes and states, "The purchase of personal clothing items or t-shirts which are not part of required uniforms, or safety related is not allowable."
- 4) We identified two cases of gift and gift cards purchased with state funds. The University's Basic Spending Guidelines by Fund Source states, "The purchase of gifts or flowers for an employee or non-employee is considered a personal expense and is not allowable."
- 5) We identified four purchases for which documentation (receipts, invoices) was not submitted. All four purchases were made by the same P-Card holder, a Departmental Chairperson. The four instances appeared on two separate P-Card reconciliations. For both reconciliations, segregation of duties was not observed because the cardholder approved their own reconciliation. The University's Purchasing Office Procurement Card Users Guide requires cardholders submit itemized original receipts for all purchases. The Guide also requires the Department Head/Budget/Program Administrator to sign the reconciliations along with the cardholder. Personnel at the Department Head/Chairperson/Manager level or higher who have been issued a procurement card are required to obtain additional approval for their purchases and the approval must minimally be a higher level manager or designee.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Recommendation: The University should ensure that all purchases made with P-Cards are in compliance with the North Carolina Office of State Budget and Management's Budget Manual as well as the University's own policies.

Auditee's Response:

- 1) We do not agree with this finding. The \$206 purchase in support of approved student bus travel was a legitimate business expenditure, allowable using any method of payment. The Student Union Advisory Board, utilizing their non-State Auxiliary funds, determined that it would be appropriate to carry emergency and first aid supplies for use by students who were traveling on the buses with the University. The supplies they purchased were intended to provide emergency provisions for male and female students, and are no different than supplies carried by an Athletics trainer on student team sport trips. The items not consumed during the trip were available for review and inspection at the Student Union.
- 2) With respect to suits purchased for student officials, the University believes that the Student Government Association can exercise its right, as conferred by its officials elected by the student body and governed by their constitution, to determine the best use of SGA funds, within reason and within their allotted student fee budget. We respect the Student Senate's right to review and approve the Student Government's annual operating budget, including purchases that may be a unique part of our culture and tradition, but are otherwise consistent with University purchasing guidelines. A copy of the approved SGA budget, which does include a budgeted clothing allowance for various student events (President and Miss A&T, Hall of Fame Pageant, Homecoming, Black Shadows Day, etc.) is available for review.
- 3) We concur with this finding. Supporting documentation is required to be submitted with the procurement card reconciliation. We have increased our campus training efforts with respect to the University's Basic Spending Guidelines and with use of the p-card.
- 4) We concur with this finding. Supporting documentation is required to be submitted with the procurement card reconciliation. We have increased our campus training efforts with respect to the University's Basic Spending Guidelines and with use of the p-card.
- 5) We concur with this finding. The University strengthened its approval policy as noted by the audit team, requiring itemized original receipts for all purchases and a management level approval higher than the p-card holder. Campus training and auditing of the monthly departmental p-card reconciliations has been intensified as well.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. FINANCE CHARGES ASSESSED ON P-CARDS PURCHASES

We identified two finance charges that totaled \$755.90. P-Card participants should not incur finance charges. The current statewide P-Card contract states: “The full balance is to be paid at least once a month, as specified in our contract with Bank of America. Payment of interest goes against the State’s Cash Management Plan.”

Recommendation: NC A&T should pay Bank of America the full balance of their bill at least once a month as required by the Division of Purchase and Contract’s Procurement card contract with Bank of America.

Auditee’s Response: The University practice is to pay the full balance of the p-card bill in a timely manner so as to avoid finance charges.

In the first of the two cases noted, the former p-card processor did not request a refund of the \$224.71 finance fee that was generated by a payment received three days past the due date. In the second instance, the payment was receipted by the bank one day late and our current p-card processor requested a refund of the charge. The bank credited the University account the \$531.19 late fee in a subsequent billing cycle.

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