



STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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December 12, 2008

Richard L Mann, Vice Chancellor Finance & Administration  
The University of North Carolina at Chapel Hill  
Campus Box 1000  
300 South Building  
Chapel Hill, North Carolina 27599-1000

Dear Mr. Mann:

We have completed a strategic review to identify improper use of procurement cards (P-Cards) by University of North Carolina at Chapel Hill 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

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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

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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 UNC-CH had a total of 70,611 individual transactions that totaled \$14,362,047.15.

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

- Obtained and reviewed UNC-CH P-Card program policy.
- Selected a judgmental sample of 1,007 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 UNC-CH 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) UNC-CH’s P-Card program policy appears to be adequate.
- 2) We did not identify any P-Card holders that matched the NC Department of Correction felony file.

Based on the results of our review it is our opinion that the P-Card internal controls in place at UNC-CH either helped prevent or deter most improper charges from taking place.

*Agency Response:* The University of North Carolina at Chapel Hill agrees with the State Auditor’s opinion that the internal controls in place for the UNC-CH administered P-Card program are adequate. The University recognizes the importance of the control environment and appreciates the State Auditor’s Office work in this area.