

Performance Audit Report

Purchasing Card Program Used by the North Dakota University System

Report No. NP-001-15

August 30, 2016

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STATE AUDITOR

Office of the State Auditor
Division of NDUS Performance Audit

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Transmittal Letter

August 30, 2016

Honorable Jack Dalrymple, Governor
State Board of Higher Education
Members of the North Dakota Legislative Assembly

We are pleased to submit this performance audit. The subject matter of this audit included certain aspects of the purchasing card program at the North Dakota University System.

We conducted this audit under the authority granted within North Dakota Century Code Section 54-10-30. Included in the report are the audit scope and objectives, findings and recommendations, and management responses.

The in-charge auditor for this audit was Alec Grande, CPA. Craig Hashbarger, CPA, CIA, CFE was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7274. We wish to express our appreciation to the staff and management of the North Dakota University System for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota University System's institutions utilize a MasterCard through J.P. Morgan Chase as a method for processing vendor transactions. The purpose of our audit was to evaluate certain aspects of the North Dakota University System's purchasing card program. Following is a description of our audit objectives and a brief overview of our findings.

Objective 1 – Purchase Card Policies

- To what extent are North Dakota University System purchasing card policies uniform among its institutions and designed in accordance with best practices?
 - The purchasing card policies were inconsistent among the various North Dakota University System institutions; the institutions and offices could benefit from a University System-wide policy. (pages 8-9)
 - We identified opportunities to strengthen policies and procedures in accordance with accepted standards of internal control and best practices. (pages 9-14)
 - We identified certain inconsistencies in processes which we recommend be resolved in order to improve efficiency of the purchasing card program. (page 14)

Objective 2 – Maximizing Financial Benefit

- In what ways can the North Dakota University System institutions maximize the financial benefits of utilizing the purchasing cards?
 - We determined that the purchasing card is currently not being utilized to the fullest extent possible. (pages 15-23)
 - Payments made by a purchasing card are eligible for a cash rebate payable annually to each institution. If the institutions had fully utilized the purchasing cards at every opportunity, the average annual amount of additional net cash rebates for the two years ended January 4, 2016 is \$794,000 on vendor transactions, and approximately \$121,000 on employee reimbursements, excluding employee reimbursements for in-state lodging. (pages 17-19)
 - If all in-state lodging paid by and reimbursed to employees had instead been paid with a purchasing card, an additional \$46,000 average per year in estimated rebates and lodging tax savings could have been realized. (pages 19-20)
 - Based on outside research reports, use of the purchasing card results in a lower per-transaction cost than traditional purchasing methods. Estimated annual average transaction cost savings during the two-year audit period were as follows (pages 20-22):
 - Vendor payments – Estimated cost savings in a range from \$1.26 million to \$4.88 million annually, based on the low and high transaction cost savings identified in outside reports.
 - In-state lodging – Estimated cost savings of approximately \$123,000.

Background Information

The North Dakota University System (NDUS or University System) participates in the state of North Dakota purchasing card program. Purchasing cards (P-Cards) are MasterCard issued through J.P. Morgan Chase. PaymentNet is J.P. Morgan Chase's internet-based system whereby P-Cards and related transactions are administered. Currently, all 11 state colleges and universities, as well as the System office and Core Technology Services participate in the program.

The 11 colleges and universities, as well as the abbreviations for the same which will be used in the course of this report are as follows:

- Bismarck State College (BSC)
- Dakota College at Bottineau (DCB)
- Dickinson State University (DSU)
- Lake Region State College (LRSC)
- Mayville State University (MaSU)
- Minot State University (MiSU)
- North Dakota State College of Science (NDSCS)
- North Dakota State University (NDSU)
- University of North Dakota (UND)
- Valley City State University (VCSU)
- Williston State College (WSC)

Also, where indicated, the audit will include the North Dakota University System Office (NDUSO), as well as NDUS Core Technology Services (CTS).

The P-Card program was implemented by North Dakota state agencies in 2009. It was implemented by eight of the NDUS institutions as of January 2010, and implemented at all 11 institutions, plus the University System office and CTS, as of January 2012. The University System has generally increased its utilization of the card in terms of total dollars. Table 1 summarizes the P-Card expenditures made by the University System during calendar years 2011 through 2015:

Table 1 – Five-Year P-Card Purchases

	2011	2012	2013	2014	2015
NDSU	\$ 4,924,518	\$ 6,763,818	\$ 7,720,652	\$ 9,940,975	\$ 11,806,248
UND	16,521,121	17,504,493	14,924,235	16,470,991	15,739,670
Other Entities*	11,077,645	11,113,535	13,597,041	16,134,366	15,836,130
NDUS Total	\$ 32,523,284	\$ 35,381,846	\$ 36,241,928	\$ 42,546,333	\$ 43,382,048

**** "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing***

The Office of Management and Budget, as well as the University System's institutions encourage use of the P-Card whenever possible. Some of the reasons cited to encourage use of the cards are as follows:

- Widely accepted – can be used with any vendor who accepts MasterCard.
- Lower transaction costs.
- Rebate based on combined P-Card expenditures.
- Reduction in paperwork.
- Improved cash float.
- Ability to make purchases exempt from certain state taxes.
- Customary cardholder protections available on purchases made by credit card.

Cards are issued in the name of each individual cardholder and are considered to be the responsibility of the cardholder. However, purchases made and balances incurred on the card are a liability of the institution. The statement balance as of the close of each billing cycle is paid centrally by each institution on a monthly basis.

The types of purchases allowed to be made using P-Cards vary by institution based on each institution's written policies and procedures. However, in all cases personal purchases with the cards are prohibited.

Each cardholder is assigned a per-purchase credit limit as well as a monthly credit limit. The amounts of these limits are determined by institutional policies and procedures. Credit limits, once established, may be modified either temporarily or permanently by the institution's P-Card administrator.

Each cardholder is assigned to a Merchant Category Code (MCC) group upon issuance of the card. MCC groups may provide the institution or office an additional layer of protection by restricting purchases to certain types of vendors. The process for determining and assigning MCC groups is determined by each institution's individual policies and procedures. MCC groups can be temporarily or permanently modified by the P-Card administrator for each institution or office.

Each institution or office has a minimum of one designated P-Card administrator. This individual has access within the PaymentNet system to add and disable cardholder accounts, set and modify credit limits and MCC groups, and generally serves as the institution's contact with respect to P-card matters.

J.P. Morgan offers a rebate to the state based on the state's total annual P-Card expenditures during the February through January statement periods each year. OMB allocates the rebate to the NDUS institutions and offices based on each institution/office's P-Card expenditures. The rebate percentage allocated to the NDUS institutions for the period ended January 2015 and 2016 was 1.60% and 1.61% of P-Card expenditures, respectively. The rebate is received in approximately May following the January cutoff. The rebates earned and received by the System for the calendar years 2011 through 2015 are as follows:

Table 2 – Five Year P-Card Rebate Trends

	2011	2012	2013	2014	2015
NDSU	\$ 61,153	\$ 89,034	\$ 103,449	\$ 159,356	\$ 190,310
UND	205,161	230,418	199,970	264,034	253,714
Other Entities*	137,562	146,292	182,187	258,636	255,269
NDUS Total	<u>\$ 403,876</u>	<u>\$ 465,744</u>	<u>\$ 485,606</u>	<u>\$ 682,026</u>	<u>\$ 699,293</u>

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

Purchases made using the P-Card qualify as tax-exempt purchases under North Dakota state law, and all P-Cards include the state of North Dakota's tax exempt number on the face of the card. The exemption applies to state and local sales taxes (which also includes lodging taxes) within the state of North Dakota.

As is described in the September 2012 *Sales Tax Guideline* issued by the North Dakota State Tax Commissioner entitled *Sales Tax: Hotels and Motels*, under North Dakota sales tax law, the state government is exempt from payment of sales tax. As described in the *Guideline*, "accommodation for [representatives of federal, state, or local government entities] are taxable unless payment for the room is made directly by government warrant, check, or a government issued credit card that is centrally billed to and paid by the issuing agency." The *Guideline* goes on to clarify that government employees are subject to sales tax on hotel stays if they personally pay for their own lodging and are reimbursed by the government entity. Because the P-Card qualifies as a "government issued credit card that is centrally billed and paid by the issuing agency," lodging purchases made with the card are exempt from sales and lodging tax.

Objectives, Scope, and Methodology

Purpose and Authority

This performance audit of the North Dakota University System purchasing card program has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code (NDCC) Chapter 54-10.

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so management and those charged with governance and oversight can use the information to improve performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The purpose of this report is to provide analysis, findings, and recommendations with respect to the audit objectives.

Objectives of the Audit

The objectives of our audit were to answer the following questions:

- To what extent are the North Dakota University System purchasing card policies uniform among its institutions and designed in accordance with best practices?
- In what ways can the North Dakota University System institutions maximize the financial benefits of utilizing the purchasing cards?

Audit Scope and Methodology - General

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of this audit included the P-Card program at the 11 NDUS colleges and universities (institutions). The scope of the audit, specifically Objective 2, also included the University System Office and CTS.

Audit Results – Purchasing Card Policies

Statement of Objective and Conclusion

The first objective of our audit was to answer the following question:

- To what extent are the North Dakota University System purchasing card policies uniform among its institutions and designed in accordance with best practices?

As a result of our testing, we concluded that, in many respects, institutional policies were not uniform among institutions. Furthermore, we identified several areas in which policies were not designed in accordance with best practices.

We also communicated certain matters of lesser significance in a separate letter to management.

Relevant Laws, Policies, Contracts, and Agreements

The legal basis for the establishment of procurement policies for the North Dakota University System and its institutions is defined in North Dakota Century Code, and further defined in the State Board of Higher Education policies.

In accordance with NDCC Section 15-10-17.5, the State Board of Higher Education (SBHE) may “determine policy for purchasing by the university system.” Accordingly, the SBHE has established certain system-wide policies and procedures.

SBHE Policy Section 803.1 part 1 states, in part, that “each institution shall develop and implement necessary and appropriate policies and procedures to ensure compliance with laws and State Board of Higher Education policies governing purchasing.”

In accordance with SBHE Policy 803.1, each institution has developed individual purchasing policies and procedures, including P-Card policies and procedures. The individual institutional policies and procedures are the primary subject matter of this objective.

Also applicable to this objective is House Bill 1003 from the 2015 legislative session. Section 42 of this bill identified certain data inconsistency issues which the SBHE was directed to evaluate “at institutions and entities under its control and develop policies and procedures to correct the inconsistencies.” Item 5 within Section 42 of the bill specifically identified, among other things, “inconsistent practices and policies at institutions” for using the purchasing card.

Audit Scope

The subject matter for this objective consisted primarily of the institutional P-Card policies and procedures in place as of January 1, 2016. When selected statements, applications, or other documents were obtained and inspected to gather evidence regarding implementation of policies and procedures, those documents were selected from the period January 2015 through January 2016.

Methodologies Used

To accomplish our objective:

- We obtained an understanding of the nature of each institution’s P-Card policies and procedures. To accomplish this, we obtained and reviewed each institution’s written policies and procedures. We also conducted inquiries of institutional management and staff involved with the administration of the purchasing card program at each institution.
- We performed procedures to evaluate whether the P-Card policies and procedures were in place (implemented) as written. We interviewed members of management and staff responsible for P-Card administration. We conducted a survey of existing cardholders at each institution. We generated and analyzed various reports from the J.P. Morgan system. We also obtained and reviewed selected P-card statements, applications, training materials, checklists, as well as other documentation related to administration of the P-Cards.
- We evaluated whether the institutional policies and procedures were designed in accordance with the elements of internal control established by the Committee of Sponsoring Organizations of the Treadway Commission (hereafter, COSO elements of internal control, or COSO). To accomplish this, we researched COSO, developed a list of internal control attributes for each element specific to P-Card policies, and compared these attributes to the institutional P-Card policies as designed and implemented.
- We evaluated whether institutional policies and procedures were designed in accordance with existing best practices and benchmarks. We first identified potential sources of best practices by reviewing the State of North Dakota OMB policies, Government Finance Officers Association (GFOA) Best Practice, as well as other trade organization and consultant materials, and applicable policies and procedures of other university systems and institutions. We then compared our identified best practices to the University System institutions’ P-Card policies and procedures as designed and implemented.
- We identified and evaluated the significant inconsistencies among the various institutional P-Card policies and procedures. To accomplish this, we compared the policies of each institution to each other.

Findings, Recommendations, and Responses

University System-wide policy

Recommendation 1-1

During our testing, we noted that each of the eleven colleges and universities has its own unique P-Card policy and noted a general lack of uniformity in the various policies and procedures. As described in greater detail below, we identified deficiencies and opportunities for improvement within the various policies. To this end, and in light of 2015 House Bill 1003 requiring a plan to correct certain inconsistencies with the P-Card program, as well as NDUS’ stated goal within its 2015-2020 Strategic Plan to “maximize

the strengths of the unified system,” **we recommend the North Dakota University System adopt a uniform University System-wide policy for the administration of purchasing cards. Such policy should include sufficient elements to enhance compliance by each institution with COSO and other established best practices, to maximize the efficiency and effectiveness of the purchasing card program, as well as ensure sufficient internal control to minimize the risk of errors, fraud or noncompliance with respect to the P-Card program. Moreover, the system-wide policy should be developed in a way that allows for an element of flexibility (perhaps by forming the system-wide policy in the format of guidelines or a general framework), to allow individual institutions to tailor the policies based on their individual circumstances while remaining within the framework of the system-wide policy.**

NDUS Response:

Agree. NDUS had begun development of a system-wide policy in 2015 as part of a data inconsistencies project. The effort was put on hold when this performance audit began to allow for incorporation of audit recommendations into the final product. NDUS will develop a system-wide policy and corresponding procedures by 7/1/2017.

NDUS will consult with the ND Office of Management and Budget (OMB) to utilize the state’s purchasing card model when developing the policies, procedures, and training program for the University System.

Institutional Policies – Internal Control and Best Practices

As a result of our evaluation of institutional policies and procedures in the context of the COSO elements of internal control, we identified several deficiencies in internal control with respect to the institutions’ P-Card policies and procedures.

Adoption, Approval, and Updating of P-Card Policies and Procedures

Control Environment is one of the five COSO elements of internal control. An effective control environment should include formally adopted policies and procedures approved by an appropriate level of management and, where appropriate, those charged with governance.

Information and Communication is another of the five COSO elements of internal control. This element supports the other elements of internal control because it encompasses the communication of internal control responsibilities, policies, and procedures upstream and downstream within the organization, as well as to external parties.

The Monitoring element of internal control includes evaluations of existing internal controls by management to determine whether the other components of internal control are functioning over time. In the context of the P-Card program, monitoring includes, among other things, periodic evaluation of P-Card policies and procedures and evaluation of the functioning thereof.

We identified the following with respect to adoption and distribution of policies and procedures:

Recommendation 1-2

In November 2015, NDUS issued an updated cardholder application/agreement form to be adopted University System-wide and completed by all new and existing cardholders. While the new form included several enhancements and improvements over many of the previous individual policies by institution, there were certain elements of the policy which contradicted existing institutional policies. First, the agreement includes a deadline for completion of the paperwork on or before the 15th of each month, which in some institutions was later than the existing date. Second, the agreement specifically required the cardholder to agree that all charges would “conform to North Dakota OMB Purchasing Card policy.” Both of these elements represent a change in policy which may conflict with existing institutional P-Card policies. **We recommend NDUS reevaluate the cardholder application and update as necessary to ensure its elements are consistent with the System-wide policy.**

NDUS Response:

Agree. NDUS had begun modifying the existing cardholder/application agreement in 2015 as part of a data inconsistencies project. The effort was put on hold when this performance audit began to allow for incorporation of any audit recommendations into the final product. NDUS will develop a cardholder/application agreement that aligns with the system-wide policy by 7/1/2017.

Establishment of Roles and Responsibilities, Adequate Skills, and Training

While the use of a P-Card can result in efficiencies and cost-savings for organizations by eliminating excess paperwork, multiple approvals, etc., P-Card transactions may have an increased risk over traditional purchasing procedures if appropriate segregation of duties and other safeguards are not implemented. An effective control environment should include an appropriate organizational structure, proper segregations of duties, and establishment of roles and responsibilities through written job descriptions. Effective information and communication in the context of internal control requires that employees, management, and others with roles and responsibilities in internal control be adequately informed of their responsibilities in a manner and timeframe which allows them to carry out their responsibilities. Furthermore, GFOA best practices indicate that P-Card policies should include “instructions on employee responsibility” and “ongoing training of cardholders and supervisors.” With respect to the P-Card specific roles and responsibilities, management should ensure that the individuals in those roles have appropriate skills and are properly trained to carry out the essential functions.

We identified the following with respect to establishment of appropriate roles and responsibilities, skills and training.

Recommendation 1-3

Eight of the NDUS institutions currently have only informal training programs for new P-Card holders and lack a means for tracking completion of training. Moreover, currently the institutions do not have training in place to help cardholders identify P-Card eligible vendors. As a result, there is an increased risk that cardholders will incorrectly or improperly use the card. Moreover, the cards may not be fully utilized, resulting in decreased rebates and financial benefits which are addressed in Objective 2.

We recommend NDUS adopt a formalized cardholder training program which covers the significant elements of the P-Card program. The University System institutions should formally track the completion of such training prior to issuance of cards.

NDUS Response:

Agree. NDUS will develop and implement a comprehensive training program for both cardholders and reviewers by 12/31/2017.

Recommendation 1-4

None of the NDUS institutions has a formalized training program or written acknowledgment for individuals assigned to review and approve purchasing card statements and supporting documentation (e.g. "Reviewer" role). The Reviewer role is critical to ensure proper control over P-Card purchases, given the risk inherent in P-Card transactions resulting from the fact that use of the P-Card eliminates certain approval and documentation processes of the traditional purchasing process. **We recommend the Reviewer receive sufficient, formally documented training to ensure that this role is properly carried out.**

NDUS Response:

Agree. NDUS will develop a comprehensive training program for both cardholders and reviewers by 12/31/2017.

Recommendation 1-5

As part of clearly assigning authority, roles and responsibilities, the institutions should have policies which strictly prohibit sharing of cards. This will help ensure that all users of the card are adequately trained and to ensure accountability for P-Card purchases. It also will ensure the institutions are able to take full advantage of fraud protections which are customarily available to users of credit cards vs. payments by other means. In the course of our audit we noted that one institution routinely shares cards within its departments. We also noted that the written policies at two institutions permit occasional or limited sharing of the cards, though they discourage it. **We recommend P-Cards only be used by the cardholder named on the card, and written policies expressly prohibit sharing of cards.**

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will strictly prohibit sharing of purchasing cards and require that cards are only used by the official cardholder. NDUS will develop a system-wide policy and corresponding procedures by 7/1/2017.

Standards of Conduct, Responses to Deviations

A well-designed system of internal control in accordance with COSO includes an environment in which management sets an appropriate tone at the top. This includes establishing standards of conduct and appropriate responses if violations are identified.

Recommendation 1-6

For three of the institutions, we identified the following with respect to the policies regarding consequences for violations:

- Policies did not clearly define what constitutes a violation.
- Policies provide for a progressive system of consequences for violations, with three violations resulting in loss of P-Card privileges. However, the disciplinary actions are either not enforced in accordance with policy, or enforcement actions are not documented.
- Policies do not, as written, allow for more severe and immediate penalties, especially for egregious violations.

We recommend management establish a policy which clearly defines P-Card violations and the nature of any consequences, including more severe penalties if circumstances warrant. Management also should implement a means for documenting violations and responses thereto.

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will clearly define policy violations and the corresponding consequences, as well as require documentation of enforcement actions. NDUS will develop a system-wide policy and corresponding procedures by 7/1/2017.

Issuance of Cards - Merchant Codes

When a P-Card is issued, it is assigned to a three-digit Merchant Carrier Code (MCC) group. There are more than 320 unique merchant codes which may be used to allow or restrict certain types of purchases made with a card. The following table identifies only a small sample of selected merchant codes which are allowed or disallowed depending on the MCC group assigned to the cardholder:

Table 3 – Selected Merchant Codes by MCC Group

	<u>950</u>	<u>951</u>	<u>952</u>	<u>953</u>	<u>954</u>	<u>956</u>	<u>957</u>
Airlines	No	Yes	Yes	Yes	Yes	Yes	Yes
Bars, Taverns	No	No	Yes	No	Yes	No	Yes
Billiard Establishments	No	No	Yes	No	No	Yes	Yes
Car Rental	No	Yes	Yes	No	Yes	Yes	Yes
Cigar Stores/Stand	No	No	Yes	No	No	Yes	Yes
Department Stores	Yes	Yes	Yes	Yes	Yes	Yes	Yes
General Contractors	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Liquor Stores	No	No	Yes	No	No	Yes	Yes
Lodging	No	Yes	Yes	No	Yes	Yes	Yes
Membership/Country Clubs	No	No	Yes	No	Yes	Yes	Yes
Motion Picture Theatres	No	No	Yes	No	No	Yes	Yes
Office Furniture	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pawn Shops	No	No	No	Yes	Yes	Yes	Yes
Recreation Services	No	Yes	Yes	No	No	Yes	Yes
Service Stations	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wholesale Clubs	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: this is not an all-inclusive list of all available merchant codes

The following table provides a breakdown of the number of cards assigned to each MCC group by institution.

Table 4 – MCC Groups of Issued P-Cards by Institution

	<u>Total</u>	<u>950</u>	<u>951</u>	<u>952</u>	<u>953</u>	<u>954</u>	<u>956</u>	<u>957</u>
BSC	146			140				6
DCB	21	4	3	5		9		
DSU	53		1	16			17	19
LRSC	35			8			27	
MASU	89		79	10				
MISU	51			47				4
NDSCS	95	4	88	3				
NDSU	541		2	538				1
NDUS	16		6	2	8			
UND	631		1	94	536			
VCSU	138		1			2	97	38
WSC	81	18	20	43				
	<u>1,897</u>	<u>26</u>	<u>201</u>	<u>906</u>	<u>544</u>	<u>11</u>	<u>141</u>	<u>68</u>

Recommendation 1-7

Our review of MCC groups and allocations of cards by MCC group, as well as our review of institution policies and procedures, identified that several of the institutions do not have a risk-based approach for assigning MCC groups to cardholders. As noted in Table 4 above, there is wide utilization of MCC groups 952 and 957, which are highly permissive groups with broad purchasing authority. MCC groups are a useful preventative control, in that they limit the types of vendors from whom P-Card purchases can be made. Furthermore, once implemented, MCC group assignments are an automated, vs. a manual control and, therefore, require minimal ongoing time and effort. GFOA best practices recommends that P-Card policies include clear guidelines regarding appropriate uses of P-Cards, including utilization of MCC groups for that purpose. **We recommend management assign MCC groups to cardholders based on identified purchasing needs.**

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will require MCC groups be assigned according to institutional purchasing needs. NDUS will develop the system-wide policy and corresponding procedures by 7/1/2017.

Communication of Terminated Employees

Control Activities is one of the five COSO elements of internal control. Control activities are the actions established through policies and procedures and carried out to help accomplish the organization's objectives. We identified opportunities for adoption and implementation of certain control activities which may help management accomplish the System's goals with respect to the P-Card program.

Recommendation 1-8

Six of the institutions have only an informal process for communicating terminated employees to the P-Card administrator. Without a formalized process, there is an increased risk that terminating employees' cards may not be timely deactivated and, therefore, the terminated employee could continue to use the P-Card account, even if the physical card is surrendered. We generated a listing of cardholders as of December 21, 2015 and identified six cardholders among four institutions who were no longer employed at those institutions. **We recommend NDUS establish a formalized process for communicating terminating employees to the P-Card administrator to facilitate timely deactivation of those individuals' cards.**

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will established a formalized process to deactivate individual cards in a timely manner upon employee termination. NDUS will develop the system-wide policy and corresponding procedures by 7/1/2017.

Independent Approval of P-Card Purchases

Recommendation 1-9

In two of the institutions, some or all cardholders' P-Card purchases are not reviewed by a supervisor or other responsible official within the purchaser's department. Instead, the purchase documentation is reviewed by an individual in the accounting or purchasing department.

The COSO model of internal control includes incorporating segregation of various financial-related functions where possible in order to mitigate the risk of errors or fraud. Moreover, GFOA best practices recommend a segregation of the functions of approving payments, accounting, and reconciliations. We conclude, therefore, that the initial review of cardholder transactions should be performed by a direct supervisor or by a responsible and knowledgeable individual within the department who is familiar with the department's budget. This separates the initial review process from other purchase card administrative functions performed by the purchasing and/or accounting departments.

Having the initial review performed at the department level would enable the accounting office to more efficiently utilize its time and resources. Rather than performing an initial review, the purchasing or accounting department could perform functions which would further enhance internal control, such as analysis of institution-level cardholder reports or spot-checking/auditing transactions on a sample basis.

We recommend the detailed review of P-Card transactions be performed by a supervisor or other responsible official familiar with the departmental budget and expenditures. In addition, rather than being a first reviewer, the P-Card administrator or designated official in the accounting/finance office should perform only audits or spot-checks of statements and transactions on a test basis.

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will require an employee's direct supervisor or department official to review and approve purchasing card transactions. NDUS will develop the system-wide policy and corresponding procedures by 7/1/2017.

Institutional Policies – Inconsistencies

We compared elements of the institutional policies and procedures to identify areas of inconsistency which could result in reduced efficiency or effectiveness of the P-Card program. We have previously identified in this report several inconsistencies regarding the nature and extent of policies and procedures by institution. In addition, we identified the following:

Recommendation 1-10

The NDUS institutions do not currently utilize a consistent "hierarchy" when setting up cardholder accounts. Hierarchy consists of fields available for each cardholder within the J.P. Morgan PaymentNet system and is established when a cardholder is added.

Currently, the three institutions with inconsistent hierarchies must separately import P-Card transaction data from J.P. Morgan PaymentNet to Peoplesoft. If the hierarchy fields are utilized consistently across all institutions, the process for importing P-Card transaction data may be performed once for all institutions, resulting in time savings. **We recommend that NDUS implement a system for entering cardholder data consistently University System-wide.**

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will direct that a consistent hierarchy is used by all institutions to facilitate efficiency during the data import processes. NDUS will develop the system-wide policy and corresponding procedures by 7/1/2017.

Audit Results – Maximizing Financial Benefits

Statement of Objective and Conclusion

The second objective of our audit was to answer the following question:

- In what ways can the North Dakota University System institutions maximize the financial benefits of utilizing the purchasing cards?

We identified several opportunities for the System to increase the financial benefits it derives from utilizing the P-Card.

Relevant Laws, Policies, Contracts, and Agreements

In developing this audit objective and the testing to accomplish this objective, we obtained an understanding of the nature and implementation of the purchasing card policies and procedures at the System level as well as the institutional level. Specifically, we identified, through inquiry of management and review of P-Card policies, the nature and extent of institutional/policy restrictions which might prevent or limit use of the P-Card. We also determined that certain aspects of North Dakota sales tax laws are applicable as identified in the Findings and Recommendations section.

Audit Scope

The scope of the subject matter for this objective included all North Dakota University System expenditures within the date range of January 3, 2014 to January 4, 2016. P-Card transactions with a *purchase* date in this range were included in the scope of this audit, and non-P-Card transactions with a *payment* date in this range were included in the scope of the audit.

Methodologies Used

To accomplish our objective, we performed the following:

- We identified various financial benefits of utilizing P-Cards vs. traditional payment methods. We obtained and reviewed the following documents:

- J.P. Morgan rebate information paid to NDUS.
 - North Dakota sales and lodging tax laws and regulations.
 - Outside research reports from various sources identifying per-transaction savings attributed to the use of P-Cards.
- We performed inquiries of management to identify methods used by the institutions to encourage use of the cards, as well as barriers preventing maximized use of the cards.
 - We estimated the potential dollar amount of additional rebates theoretically realizable if the institutions had maximized the use of P-Cards.
 - We estimated the potential tax savings which could have been realized if in-state hotel rooms had been paid with a P-Card.
 - We estimated the potential cost savings in terms of per-transaction costs resulting from fully utilizing the purchasing card.

Our audit methodology is described in further detail in the Findings, Recommendations, and Responses section below.

Findings, Recommendations, and Responses

Financial Benefits of Utilizing the P-Cards

As identified in the Background Information section of this report, there were a number of benefits identified by North Dakota OMB of utilizing P-Cards over traditional purchasing and payment methods. As part of our testing, we identified three significant, measurable financial benefits of utilizing the P-Card:

- Rebates based on the P-Card expenditures;
- Transaction cost savings due to efficiencies in processing each purchase transaction; and
- Lodging tax savings on in-state hotels due to the tax-exempt nature of P-Card purchases.

Additional Potential Rebates

As previously noted, J.P. Morgan pays a rebate to the state of North Dakota based on the total P-Card expenditures at the state level. OMB allocates the rebate to each institution based on the spending at each individual institution using the rebate percentage earned by the state, 1.60% and 1.61% for the 12-months ended January 2015 and January 2016, respectively. The spending and rebates earned by institution were as follows:

Table 5 – Rebates Earned, Years Ended January 2015 and 2016

	2015		2016	
	<u>P-Card</u>		<u>P-Card</u>	
	<u>Purchases</u> 1	<u>Rebates</u> 2	<u>Purchases</u> 1	<u>Rebates</u> 2
NDSU	\$ 9,940,975	\$ 159,356	\$ 11,806,248	\$ 190,310
UND	16,470,991	264,034	15,739,670	253,714
Other Entities*	16,134,366	258,638	15,836,130	255,269
Total NDUS	\$ 42,546,332	\$ 682,028	\$ 43,382,048	\$ 699,293

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

1 This total represents actual expenditures made via P-Card during the reporting period ended January of each year

2 This total represents actual rebates received by the institutions for purchases made during the applicable period

To estimate an amount of additional rebates which might have been received by the institutions if they had utilized the P-Cards to their fullest extent:

- We identified disbursements paid by check or ACH which could possibly have been paid by P-Card.
- We multiplied this total by the average rebate percentage for 2015 and 2016.
- We adjusted the estimated gross rebate by the estimated rebates arising from expenditures of federal awards. The applicable amount would be required to be reimbursed to the awarding federal agency or applied to additional federal expenditures.

Our analysis of the potential additional rebates is as follows:

Vendor Payments

We generated a listing of vendor disbursements made by check or ACH between January 3, 2014 and January 4, 2016 for each NDUS institution and office. We obtained a list of vendors who had been paid by P-Card at some point by either an NDUS institution or by a North Dakota state agency during the period January 2014 to January 2016. We compared these two lists of vendors to identify matching vendor names between the two lists. The purchases from vendors for whom we identified a match were deemed potential P-Card purchases.

From the list of potential P-Card purchases, we reviewed vendor invoices and directly contacted vendors for all individual payments in excess of \$100,000 to determine whether the individual transactions could have been paid via P-Card and without the institution incurring any surcharges. All transactions with any vendors we identified in this test who would not have been payable via P-Card were subtracted from the amount of potential P-Card purchases.

We estimated the rebate on these transactions by multiplying this subtotal by the average applicable rebate percentage of 1.60%. This subtotal was adjusted by the

estimated federal rebate. The annualized average estimated potential rebates were as follows:

Table 6 – Potential Rebates – Vendor Payments

<u>Institution</u>	<u>Potential P-Card Payments</u> ¹	<u>Potential Rebate (1.6%)</u> ²	<u>Estimated Federal Rebate</u> ³	<u>Net Potential Rebate</u> ⁴
NDSU	\$ 19,136,378	\$ 306,182	\$ 16,626	\$ 289,556
UND	14,955,335	239,285	13,567	225,718
Other Entities *	17,991,371	287,862	9,170	278,692
Total NDUS	\$ 52,083,084	\$ 833,329	\$ 39,363	\$ 793,966

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

¹ All amounts presented in this table are the average annual amounts during the two-year audit period.

² The rebate percent is the average of the two most recent years' rebate percentages; future rebate percentage may fluctuate.

³ The federal rebate is estimated based on federal expenditures via p-card during the audit period.

⁴ The dollar amount of net potential rebates represent a "best case" scenario. As a practical matter, the full amount of this net potential rebate is likely not attainable.

It is important to note that the above results are only an estimate based on vendors who at some time during the engagement period had accepted and been paid with a P-Card. We did not inspect invoices or contact vendors for 100% of transactions. Therefore, there may have been cost benefit considerations, vendor-imposed restrictions, identified risk factors, or other factors or limitations that would prevent the institutions from paying specific transactions via P-Card, which would reduce the overall potential rebate. Conversely, there may have been vendors who were not paid by any System entity or North Dakota state agency during the two-year period but would have accepted a P-Card; those instances would increase the potential rebate amount.

Employee Reimbursements

In some cases, expenses paid by employees and submitted for reimbursement could have been paid using the P-Card. Therefore, we performed testing to estimate the amount of potential rebates which could have been realized if those expenditures had been made instead with a P-Card.

We generated a listing of employee reimbursements paid during the two years ended January 4, 2016. We excluded specific transactions which were likely not to be eligible P-Card transactions, or which were included in other results. Among those excluded were:

- In-state lodging.
- Reimbursements for payments made to other individuals.
- Mileage and meals.
- International travel.

From the remaining reimbursement transactions, we estimated the potential rebate by multiplying the sum of those transactions by the average rebate of 1.60%. We then adjusted that subtotal by the estimated federal rebate. The estimated potential additional annualized average rebates for the two-year period are as follows:

Table 7 – Potential Rebates – Employee Reimbursements

<u>Institution</u>	<u>Amount of Reimbursements</u> ¹	<u>Potential Rebate (1.6%)</u> ²	<u>Estimated Federal Rebate</u> ³	<u>Net Potential Rebate</u> ⁴
NDSU	\$ 3,452,184	\$ 55,235	\$ 2,999	\$ 52,236
UND	3,276,124	52,418	2,972	49,446
Other Entities *	1,284,615	20,552	795	19,757
Total NDUS	\$ 8,012,923	\$ 128,205	\$ 6,766	\$ 121,439

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

¹ All amounts presented in this table are the average annual amounts during the two-year audit period.

² The rebate percent is the average of the two most recent years' rebate percentages; future percentage may vary.

³ The federal rebate is estimated based on federal expenditures via p-card during the audit period.

⁴ The dollar amount of net potential rebates represent a "best case" scenario. As a practical matter, the full amount of this net potential rebate is likely not attainable.

In-State Lodging – Additional Potential Lodging Tax Savings and Rebates

As previously noted, under North Dakota tax law, in-state lodging purchases made with the P-Card are exempt from sales and lodging tax, while in-state lodging purchases reimbursed to employees are not exempt. We performed an analysis to estimate the sales and lodging tax savings which could have been realized if all in-state lodging reimbursements were instead paid with a P-Card.

To estimate an amount of potential sales and lodging tax savings, as well as additional P-Card rebates, which may have been received by the institutions if they had utilized the P-Cards to their fullest extent:

- We generated a listing of expenditures coded to "in-state lodging."
- We filtered this listing to exclude payments made directly to vendors (to avoid double-counting).
- From this listing, we reviewed documentation for a random sample of 25 reimbursements at UND and 25 reimbursements at NDSU.
- We estimated a financial benefit rate which consisted of the combination of lodging tax savings plus P-Card rebate.

The resulting effective rate of lodging tax savings plus rebate savings for UND and NDSU combined was applied to the University System institutions and offices. The resulting estimated average annualized financial benefit is as follows:

Table 8 – Potential Tax Savings and Rebates – In-State Lodging

<u>Institution</u>	<u>Amount of In-State Lodging</u> ¹	<u>Blended Rebate and Tax Savings Rate</u> ²	<u>Potential Rebate and Tax Savings</u> ³
NDSU	\$ 243,114	8.89%	\$ 21,613
UND	143,623	8.89%	12,768
Other Entities *	130,973	8.89%	11,643
Total NDUS	\$ 517,710		\$ 46,024

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

1 The Amount of In-State Lodging and Potential Rebate and Tax Savings presented in this table are the average annual amounts during the two-year audit period.

2 See "In-State Lodging -Additional Potential Lodging Tax Savings and Rebates" paragraph above for calculation of blended rate.

3 The dollar amount of potential rebates and tax savings represent a "best case" scenario. As a practical matter, the full amount of this potential rebate and tax savings is likely not attainable.

Transaction Cost Savings

Studies have demonstrated that transactions paid with purchasing cards have a lower average per-transaction cost than transactions paid through more traditional purchasing methods, such as issuance of a purchase order and settlement by check or ACH. Savings which occur include reductions in salaries and wages expense due to reduced approval and documentation time per transaction, as well as reduced supplies and postage costs.

To estimate potential transaction cost savings for the North Dakota University System, we obtained and reviewed several outside studies and reports. We reviewed reports or segments of reports from the National Association of Purchasing Card Professionals (NAPCP), RPMG Research Corporation, and the federal General Services Administration (GSA). The NAPCP report was based on research and analysis of individual government entities, including two cities, a school district, and a state department of transportation, conducted in 2011 and 2012. The RPMG report segment, issued in 2014, provided aggregate cost savings based on survey results received from a number of entities in industry, as well as the government and not-for-profit sectors. The GSA report, last reviewed in 2016, provided an estimate of savings realized by federal agencies utilizing the federal purchasing card.

The range of transaction cost savings as presented by these entities was as follows:

Table 9 – Transaction Cost Savings – Outside Studies

<u>Source</u>	<u>Traditional Purchase</u>	<u>Purchasing Card</u>	<u>Cost Avoidance per Transaction</u>
NAPCP - City of Arvada, CO	\$ 45.80	\$ 27.74	\$ 18.06
NAPCP - City of Tacoma, WA	38.92	18.32	20.60
NAPCP - WA State Dept. of Transportation	63.88	19.85	44.03
NAPCP - Harford County Public Schools, MD	83.65	25.50	58.15
RPMG Study	90.20	20.38	69.82
GSA SmartPay Program	-	-	70.00 ¹
Average Cost Avoidance Per Transaction	\$ 64.49	\$ 22.36	\$ 46.78

¹ Transactions Fees for Traditional and Purchasing Cards were not seperately identified in this individual report

The results of these studies and reports were used as a practical expedient to provide an approximation of potential transaction cost savings. The actual cost savings per transaction will vary significantly, either higher or lower, depending on the individual purchasing policies and procedures at each individual NDUS institution or office.

Using the results from our previous testing of vendor transactions and in-state lodging, we estimated the potential transaction cost savings for those transactions by multiplying the number of individual transactions which could have been paid by P-Card by the average transaction cost savings identified in Table 9, except where otherwise described. The categories of disbursements in which we evaluated transaction cost savings are as follows:

Vendor Payments

The number of vendor payments associated with the results of the Vendor Transactions test for rebates in Table 6 was multiplied by the highest and lowest cost avoidance rates identified in Table 9 to estimate the range of potential cost savings. The estimated average annual cost savings on vendor transactions are as follows:

Table 10 – Potential Transaction Cost Savings – Vendor Payments

<u>Institution</u>	<u>Number of Transactions</u> ¹	<u>Estimated Low Cost Avoidance (\$18.06)</u> ^{2 3}	<u>Estimated High Cost Avoidance (\$70.00)</u> ^{2 3}
NDSU	36,296	\$ 655,506	\$ 2,540,720
UND	16,088	290,549	1,126,160
Other Entities *	17,273	311,950	1,209,110
Total NDUS	69,657	\$ 1,258,005	\$ 4,875,990

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

- 1 The number of transactions and estimated cost avoidance presented in this table are the average annual amounts during the two-year audit period.
- 2 The estimated cost avoidance is based on the highest and lowest cost avoidance per transaction listed on Table 9.
- 3 The dollar amount of potential cost avoidance represents a "best case" scenario. As a practical matter, due to vendor restrictions, cost benefit considerations or other factors, the full amount of this cost avoidance is likely not attainable.

In-State Lodging

For lodging transactions, we used the average transaction cost savings of \$46.78 from Table 9. In the random sample of 50 in-state lodging transactions reviewed by us, there were instances in which multiple hotel stays were reimbursed on one form and repaid in one payment, whereas each hotel stay would have required a separate P-Card transaction. We adjusted the average cost avoidance per transaction to account for this factor. This resulted in an average estimated in-state lodging cost avoidance of \$35.65 per transaction based on our sample of 50 hotel reimbursement vouchers. The information in the following table represents the estimated annual potential cost savings during the engagement period if all hotels had been paid with a P-Card.

Table 11 – Potential Transaction Cost Savings – In-State Lodging

<u>Institution</u>	<u>Number of Hotel Reimbursements</u> ¹	<u>Savings per Reimbursement</u> ²	<u>Potential Cost Avoidance</u> ³
NDSU	1,578	\$ 35.65	\$ 56,256
UND	969	35.65	34,545
Other Entities *	907	35.65	32,335
Total NDUS	3,454		\$ 123,135

* "Other Entities" include non-research institutions as well as CTS and the NDUSO. See Appendix A for full listing

- 1 The Number of Hotel Reimbursements and Estimated Potential Cost Avoidance presented in this table are the average annual amounts during the two-year audit period.
- 2 See "In-State Lodging" paragraph above for calculation of Savings per Reimbursement
- 3 The dollar amount of potential cost avoidance represents a "best case" scenario. As a practical matter, the full amount of this potential cost avoidance is likely not attainable.

Procedures which encourage or discourage maximum utilization of P-Cards

As identified above, there are potential financial benefits if the cards are used more fully. To identify possible reasons why the cards were not being utilized to their fullest extent, we conducted inquiries of individuals at each institution familiar with that institution's P-Card policies and procedures, primarily in the accounting/business office. Through these inquiries, we obtained an understanding of the process for identifying vendors eligible to be paid via P-Card, training programs or other communications to encourage employees to more fully utilize the P-Card, and barriers (both internal and external, real and perceived) which may prevent each institution from fully utilizing the cards.

Recommendation 2-1

There is not a consistent means for timely monitoring traditional purchases, which could have been made using the P-Card, or for timely providing feedback to the purchasing employees. As a result, recurring vendors who could be paid with the P-Card are being paid by traditional means. This may prevent the University System from maximizing the potential financial benefits of utilizing the P-Card, which are quantified in the various tables in this section of the report. **We recommend the University System incorporate into its P-Card policy a framework for monitoring and providing feedback to purchasing employees regarding utilizing the P-Card in specific circumstances.**

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will encourage use of a purchasing card for regular and periodic payments. NDUS will develop the system-wide policy and corresponding procedures by 7/1/2017.

Recommendation 2-2

Four of the institutions currently have policy or procedural restrictions which do not allow certain types of otherwise valid purchases to be made with the P-Card. Examples of such restrictions include in-state lodging, capital purchases, medical supplies, and purchases in excess of certain dollar thresholds. Any purchases not allowed to be made using the P-Card result in reduced financial benefits to the University System, as is demonstrated in this section of the report. **We recommend the University System eliminate restrictions on paying for otherwise allowable purchases using the P-Card.**

NDUS Response:

Agree. The NDUS system-wide policy and/or procedures will encourage use of a purchasing card for all regular and periodic payments, regardless of expenditure type or dollar amount. NDUS will develop the system-wide policy and corresponding procedures by 7/1/2017.

Recommendation 2-3

Two of the institutions do not have a process whereby individual cardholders may increase their limits on a temporary or permanent basis to make large-dollar purchases. In those cases, larger purchases are either paid by traditional means, or paid by P-Card by someone in the purchasing or accounts payable function. When a P-Card purchase is paid using the accounting/purchasing office P-Card, many of the efficiencies of the card are lost, since the purchase essentially follows traditional purchasing processes up to the point of payment. **We recommend the institution increase purchasing limits for employees authorized to make large-dollar purchases, either on a permanent basis, or on a temporary as-needed basis. We also recommend management study the viability of other payment options which could facilitate more efficient large-dollar purchasing while receiving the same rebate, such as, but not limited to, the “single-use-account” offered by J.P. Morgan.**

NDUS Response:

Agree. The NDUS will evaluate the ongoing need for existing institutional limits, as well as additional payment options, in order to maximize the efficiencies generated by use of purchasing cards. These issues will be addressed in the system-wide policy and corresponding procedures by 7/1/2017.

Appendix A - Detailed Institutional Data

Objective 1

The following are the detailed tables from Objective 1, with all institutions and offices presented in detail.

Table 1 – 5-Year P-Card Purchases

	2011	2012	2013	2014	2015
BSC	\$ 2,228,235	\$ 2,736,697	\$ 3,117,572	\$ 3,597,962	\$ 3,697,829
DCB	654,009	603,473	918,452	862,457	643,787
DSU	2,906,084	3,167,268	3,330,215	3,214,674	2,936,535
LRSC	192,452	232,592	245,670	396,591	369,958
MaSU	1,039,463	989,841	972,745	1,005,233	1,430,805
MISU	1,919,067	1,028,665	965,904	1,035,134	1,040,644
NDSCS	336,075	532,784	980,360	2,503,474	2,432,400
NDSU	4,924,518	6,763,818	7,720,652	9,940,975	11,806,248
UND	16,521,121	17,504,493	14,924,235	16,470,991	15,739,670
VCSU	779,464	1,044,650	1,589,897	1,873,432	2,005,627
WSC	1,022,797	777,532	1,003,067	855,879	762,253
NDUSO	-	-	-	81,795	195,858
CTS	-	33	473,159	707,736	320,434
	\$32,523,284	\$35,381,846	\$36,241,928	\$42,546,333	\$43,382,048

Table 2 – 5-Year P-Card Rebate Trends

	2011	2012	2013	2014	2015
BSC	\$ 27,670	\$ 36,024	\$ 41,772	\$ 57,676	\$ 59,607
DCB	8,122	7,944	12,306	13,825	10,377
DSU	36,088	41,692	44,622	51,532	47,335
LRSC	2,390	3,062	3,292	6,357	5,964
MaSU	12,908	13,030	13,034	16,114	23,064
MISU	23,831	13,541	12,942	16,593	16,775
NDSCS	4,173	7,013	13,136	40,131	39,209
NDSU	61,153	89,034	103,449	159,356	190,310
UND	205,161	230,418	199,970	264,034	253,714
VCSU	9,679	13,751	21,303	30,032	32,329
WSC	12,701	10,235	13,440	13,720	12,287
NDUSO	-	-	-	1,311	3,157
CTS	-	-	6,340	11,345	5,165
	\$ 403,876	\$ 465,744	\$ 485,606	\$ 682,026	\$ 699,293

Objective 2

The following are the detailed tables from Objective 2, with all institutions and offices presented individually.

Table 5 – Rebates Earned, Years Ended January 2015 and 2016

	2015		2016	
	<u>P-Card Purchases</u> ¹	<u>Rebates</u> ²	<u>P-Card Purchases</u> ¹	<u>Rebates</u> ²
BSC	\$ 3,597,962	\$ 57,676	\$ 3,697,829	\$ 59,607
DCB	862,457	13,825	643,787	10,377
DSU	3,214,674	51,532	2,936,535	47,335
LRSC	396,591	6,357	369,958	5,964
MaSU	1,005,233	16,114	1,430,805	23,064
MiSU	1,035,134	16,593	1,040,644	16,775
NDSCS	2,503,474	40,131	2,432,400	39,209
NDSU	9,940,975	159,356	11,806,248	190,310
UND	16,470,991	264,034	15,739,670	253,714
VCSU	1,873,432	30,032	2,005,627	32,329
WSC	855,879	13,720	762,253	12,287
NDUSO	81,795	1,311	195,858	3,157
CTS	707,736	11,345	320,434	5,165
	\$ 42,546,333	\$ 682,028	\$ 43,382,048	\$ 699,292

¹ This total represents the actual expenditures made via P-Card during the reporting period ended January of each year

² This total represents actual rebates received by the institutions for purchases made during the applicable period

Table 6 – Potential Rebates – Vendor Payments

<u>Institution</u>	<u>Potential P-Card Payments</u> ¹	<u>Potential Rebate (1.6%)</u> ²	<u>Estimated Federal Rebate</u> ³	<u>Net Potential Rebate</u> ⁴
BSC	\$ 3,938,715	\$ 63,019	\$ 1,853	\$ 61,166
DCB	352,398	5,638	180	5,458
DSU	431,283	6,901	230	6,671
LRSC	1,974,240	31,588	1,001	30,587
MaSU	785,452	12,567	650	11,917
MiSU	3,559,818	56,957	2,905	54,052
NDSCS	1,990,836	31,853	1,704	30,149
NDSU	19,136,378	306,182	16,626	289,556
UND	14,955,335	239,285	13,567	225,718
VCSU	1,067,597	17,082	97	16,985
WSC	2,032,656	32,522	550	31,972
NDUSO	207,630	3,322	-	3,322
CTS	1,650,746	26,412	-	26,412
	\$ 52,083,084	\$ 833,329	\$ 39,363	\$ 793,966

- 1** All amounts presented in this table are the average annual amounts during the two-year audit period.
- 2** The rebate percent is the average of the two most recent years' rebate percentages; future rebate percentage may fluctuate.
- 3** The federal rebate is estimated based on federal expenditures via p-card during the audit period.
- 4** The dollar amount of net potential rebates represent a "best case" scenario. As a practical matter, the full amount of this net potential rebate is likely not attainable.

Table 7 – Potential Rebates – Employee Reimbursements

<u>Institution</u>	<u>Amount of</u> ¹ <u>Reimbursements</u>	<u>Potential Rebate (1.6%)</u> ²	<u>Estimated</u> ³ <u>Federal Rebate</u>	<u>Net Potential</u> <u>Rebate</u> ⁴
BSC	\$ 78,780	\$ 1,260	\$ 37	\$ 1,223
DCB	31,858	510	16	494
DSU	132,275	2,116	71	2,045
LRSC	67,506	1,080	34	1,046
MaSU	40,712	651	34	617
MiSU	471,318	7,541	385	7,156
NDSCS	229,528	3,672	196	3,476
NDSU	3,452,184	55,235	2,999	52,236
UND	3,276,124	52,418	2,972	49,446
VCSU	47,704	763	4	759
WSC	65,252	1,044	18	1,026
NDUSO	44,387	710	-	710
CTS	75,295	1,205	-	1,205
	\$ 8,012,923	\$ 128,205	\$ 6,766	\$ 121,439

¹ All amounts presented in this table are the average annual amounts during the two-year audit period.

² The rebate percent is the average of the two most recent years' rebate percentages; future percentage may vary.

³ The federal rebate is estimated based on federal expenditures via p-card during the audit period.

⁴ The dollar amount of net potential rebates represent a "best case" scenario. As a practical matter, the full amount of this net potential rebate is likely not attainable.

Table 8 – Potential Tax Savings and Rebates – In-State Lodging

<u>Institution</u>	<u>Amount of In-State Lodging</u> ¹	<u>Blended Rebate and Tax Savings Rate</u> ²	<u>Potential Rebate and Tax Savings</u> ³
BSC	\$ 11,445	8.89%	\$ 1,017
DCB	11,395	8.89%	1,013
DSU	4,768	8.89%	424
LRSC	2,940	8.89%	261
MaSU	2,139	8.89%	190
MiSU	38,221	8.89%	3,398
NDSCS	26,543	8.89%	2,360
NDSU	243,114	8.89%	21,613
UND	143,623	8.89%	12,768
VCSU	2,077	8.89%	185
WSC	10,995	8.89%	977
NDUSO	3,784	8.89%	336
CTS	16,666	8.89%	1,482
	\$ 517,710		\$ 46,024

- 1** *The Amount of In-State Lodging and Potential Rebate and Tax Savings presented in this table are the average annual amounts during the two-year audit period.*
- 2** *See "In-State Lodging -Additional Potential Lodging Tax Savings and Rebates" paragraph above for calculation of blended rate.*
- 3** *The dollar amount of potential rebates and tax savings represent a "best case" scenario. As a practical matter, the full amount of this potential rebate and tax savings is likely not attainable.*

Table 10 – Potential Transaction Cost Savings – Vendor Payments

<u>Institution</u>	<u>Number of Transactions</u> ¹	<u>Estimated Low Cost Avoidance (\$18.06)</u> ^{2 3}	<u>Estimated High Cost Avoidance (\$70.00)</u> ^{2 3}
BSC	1,449	\$ 26,169	\$ 101,430
DCB	367	6,628	25,690
DSU	443	8,001	31,010
LRSC	3,109	56,149	217,630
MaSU	1,195	21,582	83,650
MiSU	5,225	94,364	365,750
NDSCS	2,645	47,769	185,150
NDSU	36,296	655,506	2,540,720
UND	16,088	290,549	1,126,160
VCSU	663	11,974	46,410
WSC	1,724	31,135	120,680
NDUSO	162	2,926	11,340
CTS	291	5,255	20,370
	69,657	\$ 1,258,005	\$ 4,875,990

- 1 The number of transactions and estimated cost avoidance presented in this table are the average annual amounts during the two-year audit period.*
- 2 The estimated cost avoidance is based on the highest and lowest cost avoidance per transaction listed on Table 9.*
- 3 The dollar amount of potential cost avoidance represents a "best case" scenario. As a practical matter, due to vendor restrictions, cost benefit considerations or other factors, the full amount of thisof this cost avoidance is likely not attainable.*

Table 11 – Potential Transaction Cost Savings – In-State Lodging

<u>Institution</u>	<u>Number of Hotel Reimbursements</u> ¹	<u>Savings per Reimbursement</u> ²	<u>Potential Cost Avoidance</u> ³
BSC	70	\$ 35.65	\$ 2,496
DCB	94	35.65	3,351
DSU	44	35.65	1,569
LRSC	29	35.65	1,034
MaSU	19	35.65	677
MiSU	274	35.65	9,768
NDSCS	149	35.65	5,312
NDSU	1,578	35.65	56,256
UND	969	35.65	34,545
VCSU	15	35.65	535
WSC	77	35.65	2,745
NDUSO	31	35.65	1,105
CTS	105	35.65	3,743
	3,454		\$ 123,135

- ¹ *The Number of Hotel Reimbursements and Estimated Potential Cost Avoidance presented in this table are the average annual amounts during the two-year audit period.*
- ² *See "In-State Lodging" paragraph above for explanation*
- ³ *The dollar amount of potential cost avoidance represents a "best case" scenario. As a practical matter, the full amount of this potential cost avoidance is likely not attainable.*