

**PURCHASING
WITH
A
PROCUREMENT CARD
VERSES
A
PURCHASE ORDER**

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Index

1. Overview	2
2. Transaction Analysis	2
3. Other Agency Data	5
4. Electronic Card Based Payments	5
5. Implementing the Program	7
6. Implementation Challenges	9

The purpose of this project is to implement the Procurement Card purchasing program for wider use within our agency to save money, streamline the payment process and to receive goods in a timely manner.

Overview

The State has in place the Bank of America (BOA) Visa card program. This program was set up as a Procure-To-Pay service to save State Agency's money by streamlining payments and eliminating the administrative burdens and costs associated with traditional methods of payment for small purchases, utilities and leases.

Bank of America (BOA) offers rebate/incentives after one million dollars in net sales volume each calendar year under this program. However, due to not utilizing the card program the way it is intended to be used, our agency, the Department of Health & Human Services (DHHS), does not qualify for any rebates.

Currently we are using our Procurement Cards on an as needed or emergency basis instead of for the purpose for which they were issued. For instance, since November 5, 2012 the agency has issued 6464 checks under \$2500; one for \$0.98. This alone, taking into consideration, that each Purchase Order or check issued from start to finish costs approximately \$71 - \$125 (Voight Shealy Jan 8, 2013 CPM class State Government Process), the agency has easily spent/lost over \$458,944.00 in tax payer dollars.

Transaction Analysis

The following 8% & 15% in transaction volumes per month analysis from Bank of America (BOA) shows how much the agency could save by using the Procurement Card.

Percent of all transactions under \$2,500 paid by card	Number of employees 1,253	Annual total PCard spend	Annual number of purchasing card transactions	Number of cards currently issued	Number of cards used in a typical month	Savings per transaction*
8.0 %	1253	\$112,000	720	40	20	\$20
15.0%	1253	\$112,000	720	40	20	\$20

*Value entered based on known transaction savings.

Bank of America (BOA) compiled the following Industry Benchmarking Report using the 8% of transactions under \$2500 paid by the Procurement Card to reflect what our potential opportunity could be if we moved into the top quartile of spending with the Procurement Card.¹ In other words, what the following chart reflects is that should the agency increase our Procurement Card usage to include leases and utilities along with purchases under \$2500 we could see an opportunity to increase our volume of spending.

Potential Opportunity Results	Current Program	Incremental Potential Opportunity	Total Top Quartile Potential Opportunity
Total card program potential opportunity	\$112,000	\$39,906,236	\$40,018,236

If your program were to optimize, you could realize the following potential opportunity:

Total process savings potential opportunity	\$5,145,055
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The following table shows your program metrics, the top quartile benchmark values, and where you fall relative to the benchmarks:

Comparison to Peer Industry and Revenue Groups

State and Federal Government	Your Metric	Benchmark*	Performance			
			0-25%	25-50%	50-75%	75-100%
Monthly total purchasing card spend	\$9,333	\$3,334,853	Below Median Performance			
Monthly spend per card	\$233	\$1,943	Below Median Performance			
Monthly transactions per card	2	7	Below Median Performance			
Total card spend per employee	\$89	\$321		Above Median Performance		
Average transaction size	\$156	\$337		Above Median Performance		
Card-to-employee ratio	3.2%	24.0%	Below Median Performance			
Percent of active cards	50.0%	90.0%	Below Median Performance			
Percent of transactions under \$2,500 paid by purchasing card	8.0%	80.0%	Below Median Performance			
Percent of transactions between \$2,500 and \$10,000 paid by purchasing card	0.0%	54.0%	Below Median Performance			

*Benchmark is the 75th percentile.

¹ Data for this report was assembled specifically for Visa from the RPMG Research 2010 Purchasing Card Industry Benchmark Survey conducted with 1,915 U.S. and Canadian organizations

Using the Benchmark chart the agency can improve our Purchasing Card performance

using the steps created in the Benchmarking Report.

Metric	Your Quartile	Quartile Guide: 0-25% ■ 25-50% ■ 50-75% ■ 75-100% ■				Recommendations
Monthly total purchasing card spend	0-25%	■				<ul style="list-style-type: none"> • Increase the number of cardholders • Mandate use of the card for eligible transactions • Increase spend limits • Use card in Accounts Payable • Implement meetings card and ghost accounts • Unblock MCC Codes
Monthly spend per card	0-25%	■				<ul style="list-style-type: none"> • Increase the number of cardholders • Mandate use of the card for eligible transactions • Unblock MCC codes • Increase spend limits
Monthly transactions per card	0-25%	■				<ul style="list-style-type: none"> • Build awareness of card-eligible spend through training and access to card policies • Mandate use of the card for eligible transactions • Enforce card usage policies
Total Card Spend per employee	25-50%		■			<ul style="list-style-type: none"> • Increase the number of cardholders • Mandate use of the card for eligible transactions • Increase spend limits • Use card in Accounts Payable • Implement meetings card and ghost accounts • Unblock MCC Codes
Average transaction size	25-50%		■			<ul style="list-style-type: none"> • Mandate use of the card for eligible transactions • Increase spend limits • Investigate new spend categories • Implement meetings card and ghost accounts
Card-to-employee ratio	0-25%	■				<ul style="list-style-type: none"> • Establish optimal issuance criteria • Identify employees who should be issued cards based on their purchasing needs • Review expense reimbursement data in the Accounts Payable (AP) department to identify employees who may need cards
Percent of transactions under \$2,500 paid by purchasing card	0-25%	■				<ul style="list-style-type: none"> • Mandate use of cards for purchases under \$2,500 • Pay catalog suppliers by card • Ensure all spend with suppliers paid by Visa is captured • Investigate automated payables
Percent of transactions between \$2,500 and \$10,000 paid by purchasing card	0-25%	■				<ul style="list-style-type: none"> • Mandate use of card for purchases under \$5,000 • Pay catalog suppliers by card • Ensure all spend with suppliers paid by Visa is captured • Investigate automated payables
Percent of active cards	0-25%	■				<ul style="list-style-type: none"> • Establish optimal issuance criteria • Mandate card use • Review invoice data in the Accounts Payable (AP) department to identify employees who may need cards • Use Commercial Card in Accounts Payable

While these figures from the Benchmark Report are for information only and may not reflect today's market it is overwhelming to know that should our agency have the means to increase our spending volume as noted in the report we could have the potential to save thousands of dollars just by increasing our Procurement Card activity. For instance, in Fiscal Year 2011-2012 we issued 5712 checks under \$2500 for various supplies, utilities and leases. (Check report from Fiscal Analyst, Brian Paeth) Had the agency used the Procurement Card at a savings of \$20 per transaction instead of the bottom line figure of \$71 that it cost to issue a check we could have saved \$114,240. Also due to the Fiscal Year spending of \$8,815,098.71 (Appendix C) for supplies, utilities and leases the agency could have received a rebate from Bank of America (BOA) for \$61,705.69 had payments/purchase been made with the Procurement Card. (Appendix D)

Other Agency Data

To get a general idea of what another State Agency spends on a monthly basis, I contacted the Department of Juvenile Justice (DJJ), and was informed by their Procurement Director, Steve Pullie, that they currently have 34 active Procurement Cards and spends an average of \$15,000 per month on various office, computer, and general supplies. This alone is a \$5667 monthly volume more than our agency spends with 40 active cards.

Electronic Card Based Payments

In 2011 Bank of America (BOA) compiled a study through Visa Performsource called: Realize the value of implementing an accounts payable solution. This study gives the marketing trends, payment strategies and automation of payments for the Procurement Card and its effectiveness in the public and private sector organizations.

Currently, the vast majority of business-to-business (“B2B”) payments are administered by organizations’ accounts payable (“AP”) departments through costly and inefficient paper-based processes. According to PayStream Advisors, 71% of indirect spend and 78% of B2B payment transactions are still processed via check; while Aberdeen reports that AP departments receive 83% of inbound invoices via paper.²

The PayStream Advisors study also shows checks have been on the decline since 2006 and predicts displacement of checks in favor of electronic payments will continue beyond 2012. The benefits of payment automation can include:

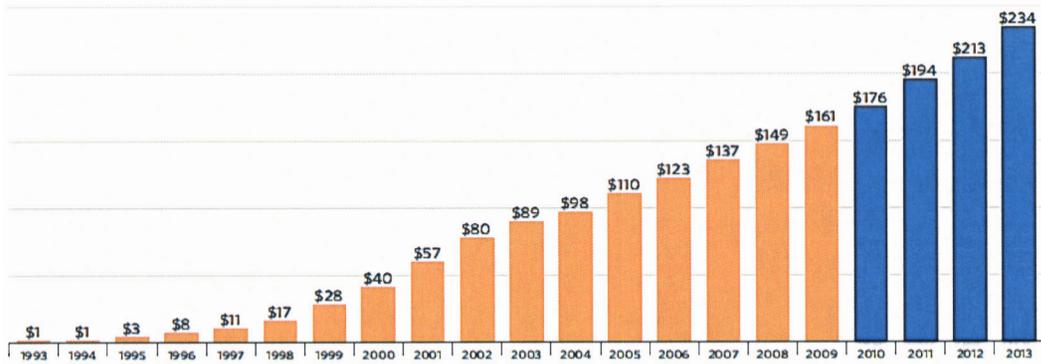
- Streamlined payment and reconciliation processes
- Reduced transaction costs and cycle times
- Enablement of straight through processing to accounting systems
- Improved cash flow forecasting
- Reduce the risk of fraud
- Improve the process inefficiencies

The growth in electronic card based payments as an alternative to paper are expected to increase significantly by 2014. Per the 2010 RPMG Research survey respondents expect to experience an 11.6% average annual growth.³

² PayStream Advisors, Inc., “Electronic Payments: Streamline P2P, Reduce Costs,” 2010 Aberdeen Group, “E-Payables 2010: An Exit Strategy to Paper the Paper Quagmire.”

³ RPMG 2010 Purchasing Card Benchmark Survey Results

Purchasing Card Spending in North America (in \$ billions)
Source: RPMG 2010 Purchasing Card Benchmark Survey Results



Therefore, embedding an electronic payment within the Accounts Payable (AP) process can facilitate the expansion of the card payments into new spend categories by doing away with paper checks. They alone consume over 674 million gallon of fuel over the course of their lifetime.⁴

Implementing the Program

By collaborating with internal and external interests such as Procurement, Accounts Payable (AP), Finance, Information Technology (IT) and vendors the agency can on average process more than twice the number of payments electronically, have the needed supplies faster and see significant savings with the implementation of the Procurement Card program.⁵

To do this we must develop a payment automation strategy based on supplier type, transaction amount, payment terms, etc.; identify an Executive sponsor to support the payment automation strategy and implementation project, and establish internal collaboration and shared goals throughout the agency. Once these processes are in place we can reach out to new card holders and vendors to establish production working relationships.

⁴ Sungard Avantgard "Benefits of B2B E-Payments: (Finally) Leaving the paper Check Behind", 2008.

⁵ Aberdeen Group, The E-Payables Benchmark Series: Strategies for Success, "September 2008"



Once we have the automated payable process in place and working we can proceed with identifying additional cardholders. To do this each division within the agency will need to:

- Justify their need for a Procurement Card
- Identify the appropriate budget for payments
- Identify the daily and monthly credit card limits per card
- Identify a Department Liaison to oversee cardholder transactions
- Identify the Cardholder/s
- Send a Procurement Card request to Procurement Card Coordinator located in our Procurement department

Upon receiving the Procurement Card request, I the Procurement Card Coordinator, will request the card/s from Bank of America (BOA). The cards are then delivered directly to me from Bank of America (BOA). Once I have the cards I will schedule training on how the card is to be used and what it can and cannot be used for. Currently the card cannot be used for any type of service other than utilities.

All card holders must receive training prior to receiving a card. The training will include:

- The mandatory Cardholder Agreement specifying the terms and conditions for using the card
- The State Procurement Card Policy
- The internal Procurement Card Policy
- The User Manual
- Form familiarity

At the end of class all cardholders will be required to sign the Cardholder Agreement (**Appendix A**) and the back of the Procurement Card in the presence of the Procurement Card Coordinator.

All Procurement Card purchases will be documented on the agency 192 form, (**Appendix B**) and sent to the Procurement Department where it will be logged in and stamped with the Bank of America stamp before it is sent to Fiscal for processing through the automated payment process.

Implementation Challenges

The major problem we have with implementing the card program throughout the agency is our Fiscal department giving approval to use the card for purchases other than for emergencies/as needed basis. They state that due to the fact that we split funds sometimes more than 6 ways they can't split Procurement Card purchases this way. However, with new management in the department and no additional cost to the agency, this should be alleviated within the next 3 – 6 months.

Once the program is fully in place, I along with the Fiscal Analyst assigned to oversee the Procurement Card payments will monitor the number of transactions per month verses the number of checks issued monthly to determine our overall annual savings to the agency.

In summary, with the approval for implementation of an automated payment processing system, additional cardholders and usage the Department of Health and Human Services (DHHS) will be able to save the agency and tax payer's money as well as receive yearly rebates from Bank of America (BOA).

Appendix A

**SOUTH CAROLINA DEPARTMENT OF HEALTH & HUMAN SERVICES
PROCUREMENT CARD HOLDER AGREEMENT**

Requirements For Use

The Purchasing Card is to be used only to make purchases at the request of and for the legitimate business benefit of DHHS.

The Purchasing Card must be used in accordance with the provisions of the Purchasing Card Program Cardholder Manual and in accordance with the Purchasing Card policies and procedures established by DHHS.

Violations of these requirements may result in revocation of use privileges and/or disciplinary action, up to and including termination of employment. Employees who are found to have inappropriately used the Purchasing Card will be required to reimburse DHHS for all costs associated with such improper use.

Purchasing Card Account Number: _____

Monthly Credit Limit: _____

Received by: _____
(Print Cardholder Name)

Cardholder Signature: _____

Date: _____

Witnessed by: _____
(DHHS Purchasing Card Coordinator)

Appendix C

Fiscal Year	2011-2012	
Business area	DEPT OF HEALTH & HUMAN SERVICE	
G/L Account		Ending Balance
5020090000	TELEPHONE & TELEGRPH	\$819.15
5020090001	TELEPHONE - DESK SVC	\$661.20
5020090003	STATE- LCL SVC T&T	\$76,447.33
5020090004	STATE- LG DIST T&T	\$22.50
5020090005	NON-ST LCL SRV T&T	\$80,196.41
5020090006	NON-ST LNG DIST T&T	\$117,976.72
5020110000	TELECOM SERVICES	\$495.13
5020110001	DATA TRANS LINE-FAX	\$677,218.59
5020120000	CELLULAR PHONE SVCS	\$84,043.81
5030010000	OFFICE SUPPLIES	\$137,924.89
5030010002	OFF SUP - MIN OFF EQ	\$213.59
5030010003	OFF SUP&EQ-NON-IT PL	\$29,170.05
5030010004	SUBSCRIPTIONS	\$26,436.07
5030010005	CONTROLLABLE OFF SUP	\$22,964.08
5030020000	COPY EQUIP SUPP	\$1,214.80
5030020001	PHOTOCOPY SUPPLIES	\$105,119.40
5030030000	PRINTING	\$10,877.77
5030030001	PRT COMM-CONSUM	\$42,051.60
5030050000	PHOTO & VISUAL SUPP	\$821.07
5030060000	DATA PROCESS SUPP	\$106,946.39
5030060001	DATA PROC SUP-MIN EQ	\$19,281.35
5030060002	DATA PROC SUP-SOFT	\$591.72
5030070000	POSTAGE	\$2,458,555.56
5030090000	COMMUNICATION SUPP	\$862.83
5031010000	GRD/MAINT/JANTL SUPP	\$2,237.26
5031530000	GASOLINE	\$16.12
5032410000	MED/SCIENT/LAB SUPP	\$16.81
5032810000	EDUCATIONAL SUPPLIES	\$278.00
5032820000	INSTRUCTIONAL MAT	\$8,468.38
5033010000	FOOD SUPPLIES	\$403.99
5033030000	PROMOTIONAL SUPPLIES	\$11,232.25
5033090000	EMPLOYEE RECOG AWARD	\$5,686.03
5033110000	P-CARD EXPEND	\$2,944.97
5033990000	OTHER SUPPLIES	\$2,626.93
5040010000	RENT-OFFICE EQUIP	\$39,297.93
5040010001	RENT OFF EQ-NON-IT	\$20,961.80
5040020000	RENT-COPYING EQUIP	\$8,170.05
5040050000	RENTAL-CONT RENT PMT	\$354,783.06
5040060000	RENT-NON ST OWN PROP	\$4,115,943.25
5040070000	RENT-ST OWNED R PROP	\$139,616.68
5040490000	RENT-OTHER	\$27,151.00
5040490001	RENT-OTH- NON-IT PL	\$31,425.50
5040490002	RENT-OTH-MTG RM&VID	\$10,880.63
5041010000	DUES & MEMBER FEES	\$16,319.00
5150010000	WATER AND SEWER UT	\$1,365.41
5150020000	NATURAL GAS	\$1,597.33
5150030000	ELECTRICITY	\$12,764.32
Overall Result		\$8,815,098.71

Appendix D

State of SC Rebate Grid

Rebate is expressed in basis points, minimum spend to qualify is \$1MM.

Rebate calculation period for State of SC August 31 thru July 31

Less than \$1MM	Do Not Qualify	Rebate Minimum
\$1MM- \$2.9MM	60 bps	\$6,000
\$3MM- \$4.9MM	65 bps	\$19,500
\$5MM-\$9.9MM	70 bps	\$35,000
\$10MM- \$14.9MM	75 bps	\$75,000
\$15MM-\$19.9MM	80 bps	\$120,000
\$20MM - \$29.9MM	95 bps	\$190,000
\$30MM +	100 bps	\$300,000

Our Rebate \$8,815,098.71 X .007 = \$61,705.69