Reaching for Success

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Establishing & Controlling a Pcard Program
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Objectives

- Planning a Pcard Program
- Implementation of Pcard Program
- Ongoing Controls and Program Monitoring
Planning a Pcard Program

- What are your Agency’s Goals?
- Establish controls through policy and procedures
- Methodology for selecting a program?
- What are your software needs?
- Who will be responsible for administering the program?
- Process mapping
- Procedural revisions
- Training of cardholders, reconcilers and approvers
- Full roll out or pilot program
What are your Agency’s Goals

- Generate revenue based on Pcard spend
- Potential streamlining of the purchase and payment process
- Delegating purchasing authority to agency departments
Goal: Generate revenue based on Pcard spend

- Current industry or contract rebate percentages
  - Bank of America – Hillsborough Linking Agreement
    - Highest Agreement basis points 1.51%
    - City of Port St. Lucie consortium joined the Hillsborough consortium in 2012.
  - Bank of America – State DMS Agreement
    - .4% through .6%
  - Chase – 1.60%
Lean Sigma project rebate goals - Est $3.75m

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<tr>
<th></th>
<th>Baseline</th>
<th>Goal</th>
<th>Best-In-Class</th>
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<tbody>
<tr>
<td>Rebate $</td>
<td>$49,000</td>
<td>$51,000</td>
<td>$57,000</td>
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<tr>
<td>Rebate %</td>
<td>1.32%</td>
<td>1.38%</td>
<td>1.53%</td>
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FY2011 Rebate Factor 1.44%
- Rebate $24,735.51

FY2012 Rebate Factor 1.51%
- Spend $4,002,716.19
- Rebate $59,352.76
Goal: Potential streamlining the purchase and payment process

- Potential of increasing efficiencies in purchase and payment process
- Potential reduction of expenses (hard and soft) for processing purchases and payments.
Goal: Delegating purchasing authority to agency departments

- A Pcard program allows the Agency to delegate purchasing authority to agency departments and staff

PROCEED WITH EXTREME CAUTION!
Establish controls through policy and procedures

- Policy should include:
  - Purpose
  - Definitions
  - Authorization Criteria
  - Limitations of use
  - Violation of Policy
  - Discipline for violations
Establish controls through policy and procedures

- Important to utilize stakeholders and subject matter experts in this phase

- Purpose
  - What is the purpose and goal of the program?

- Definitions
  - Utilize definitions in the policy to identify specific terms and intent
    - Authorities
    - Roles
    - Controls
Establish controls through policy and procedures

- Establish Authorization Criteria
  - Authorization Limits for transaction validation
    - Single Purchase Limit
    - Monthly Spending Limit
    - Merchant Category Codes
    - Number of transactions per day
    - Number of transactions per month
  - Software system utilized to control and process
    - Merchant and/or Agency Financial Software
  - Advise policy established minimum controls and Departments may direct increased controls.
Establish controls through policy and procedures

- Single Purchase Limit
  - Methodology for determination
    - Non-contract purchases
    - Contract purchases
  - Non-contract purchases – Consideration of asset purchases
  - Contract purchases – Establish to allow contract purchases over non-contract purchase limit
    - By individual, position and past history of responsibility
Establish controls through policy and procedures

- Monthly Spending Limit
  - Define monthly spend limits
  - These limits may be straight across the board or a matrix based on level of authority, responsibleness and contracts assigned to an employee
    - The City uses the later
    - Higher spending amounts are assigned to supervisors and managers. The amount is determined by the contract assigned.
Establish controls through policy and procedures

- Merchant Category Codes (MCC)
  - These codes are crucial to controlling your program
  - Agency should carefully consider what MCC will be allowed or prohibited
  - City elected to prohibited codes
  - In most merchant systems it is relatively easy to temporarily approve a MCC for use with justification or change MCC to approved code.
Establish controls through policy and procedures

- Number of transactions per day
- Number of transactions per month
Establish controls through policy and procedures

- Limitations on use of Pcard
  - Establish how specific limitation parameters will be established.
  - Define who establishes limitations.
  - State the obvious.......
Establish controls through policy and procedures

- Violations
  - Advise all violations are subject to disciplinary actions, which include reprimand, written warning, termination and retribution to the City.
- Determine the violation types
- Determine the number of strikes before they are out (dependent upon violation type)
Establish controls through policy and procedures

- Determine the violation types
  - Department Unauthorized Purchases
    - Grant Purchases
    - Services requiring insurance and signed indemnification/hold harmless agreements
    - Restricted materials and services
    - Internet transactions on an unsecured site
    - Purchases requiring faxed credit card numbers
    - Purchases via phone not initiated by the Agency
    - Gift Cards/Certificates
    - Circumvention of single transaction limits
    - Restrictions on vendor types
    - Purchases exceeding policy limitations
Establish controls through policy and procedures

- Purchasing Agents Unauthorized Purchases
  - All the above
- Fraudulent Purchases
  - Personal use
  - Abuse
  - Allowing others to use cardholder Pcard
- Administrative Violations
  - Failure to obtain/maintain transaction documentation
  - Failure to properly sign, code, or verify transaction
  - Lack of timely and proper reconciliation
  - Authorization of transactions that are in violation with City’s policies and laws
  - Late submission of documentation
Establish controls through policy and procedures

- How many opportunities will be provided to the cardholder before they lose this benefit?
  - Minor
  - Automatic your OUT!

- Will you handle minor infractions differently than major infractions?
  - Number of infraction types for minor
  - Fraudulent purchases
Establish controls through policy and procedures

- How will infractions to the policy be handled?
  - Written notice to cardholder with copy to Supervisor/Manager and Department Director.
  - Justification of the cardholder’s action
  - Disciplinary
    - Who can submit request for disciplinary action?
Establish controls through policy and procedures

- Limiting the risk of accidental use

My personal credit card looks like my Pcard!!
Considerations

◦ Low or high spend
  • If low spend and a goal is rebate revenue..... Does your agency have the buying volume to achieve an acceptable rebate factor?
  • If no, piggybacking a linking agreement may help reach your goal.

◦ Bank software utilized to manage program, authorization of transaction and

◦ Program customized to your needs
To solicit or not solicit???

Reasons to prepare a solicitation in-house

- Agency has a very high expectation of spend on the program
- Agency has specific needs
- Agency is conducting the process as a lead agency for a consortium with a potential of additional revenue
Reasons to piggy-back or join a consortium

- Agency spend will not generate the highest rebate factor and possibly not qualify for a rebate on their own.
- Agency may not generate the volume of spend as an lead agency to receive the benefit of a consortium rebate factor.
Types of piggyback/consortium agreements
  ◦ Non-linking Agreement – The Agency receives a rebate based on their INDIVIDUAL spend
  ◦ Linking Agreement – The Agency’s rebate is based on the ENTIRE CONSORTIUM spend

Minimum spends – Most agreements will require a minimum Agency spend. However, once the minimum is reached:
  ◦ Rebate is calculated on the subsequent Agency spend; or
  ◦ Rebate is calculated by the entire spend of the Agency for the period.
Software Requirements

What are your plans for processing, approving and controlling the transactions?

Bank software will have the ability to

- Issue and maintain cards
- Produce reports
- Administer the card program
- Process transactions
  - Coding, tracking funds and approval
  - Downloading to financial management software
Software Requirements

- Agency financial software
  - May choose to utilize in-house program for processing and transaction approval
  - Bank will prepare data in format required for download
  - Considerations
    - System will not encumber funds in most instances
    - Does your Purchasing and Inventory system fully integrate with the Pcard module?
Program Administrators

Who will be responsible for

- Program administration
- Department reconciliation
- Auditing transactions for policy and contract compliance
- Agency statement reconciliation
Process Mapping & Identify Deficiencies

- GIVEN - The process will change!!
- Prepare a flow chart of the current process.
  - Identify “Non-Value Added” and bottlenecks in the process
Process Mapping - Example

Start

Department Requisition Approval

- Req assigned to Purchasing Agent
- PA Reviews Requisition

Error
- Yes/No

- Yes
  - PA Processes Req to Purchase Order
  - Average Process Time 8.45 minutes
  - PO is Printed
  - PO is Scanned
  - PO is delivered to Vendor
  - Goods are received

  By Warehouse or Dept?
  - Yes
  - Verify Order
  - Order Correct? Yes/No
  - No

- No
  - Employee corrects
  - Average Process Time 0.27 minutes
  - Manually add a note to req - why rejected
  - Email or Call staff to notify why req was rejected

- Yes
  - Attach Receiving Report to Packing Slip/Invoice

End

Legend:
- RED – NON-VALUE
- YELLOW – BOTTLE NECKS

Warehouse manually signs and
dates packing slip/invoice

Warehouse receives order in
system

Procurement receives order in
system

Print Receiving Report

Attach Receiving Report to
Packing Slip/Invoice

Send paperwork via In-Off Mail to
Finance

Recipient verifies order

Recipient manually signs and
dates packing slip

Upon arrival of Invoice, Sign
Invoice

Attach packing slip(s) to invoice

Sent to Procurement via In-Off

Average Process Time for
Receiving 11.51 minutes
Transporting paperwork to
Finance 20 minutes

Total Average Process Time
Per Transaction 40.8 MINUTES

Average Process Time
.27 minutes

PA Contacts Vendor to correct

Vendor ships correct items

PA Contacts to advise errors

Average Process Time
8.45 minutes

TOTAL AVERAGE PROCESS TIME PER TRANSACTION
40.8 MINUTES
Process Mapping & Identify Deficiencies

- Several tools are available to identify deficiencies or root causes to process problems.
- Since the process will be changed utilize this opportunity to analyze other potential deficiencies in the process.
Identify Deficiencies – 5 Whys Example

1. Time to process Payment
   - Waiting on Dept docs ✓
2. Errors in Receipt or Invoice
3. Lack of Signature
4. Time to transport docs ✓
5. Discrepancies in PO vs ship/ invoice ✓

Errors in Receipt or Invoice
- Improper verification of slip ✓
- Company Billing Errors
- Error in goods/services received
- Other party signs but did not actually receive ✓
- Receiving but not let anyone know
- Letting shipment sit
- Not notifying Dept Receiving

Invoice ➔ Accountability/SOP ➔ Out of our control

Proper verification + notification ➔ Proper verification + notification

→ Accpt+SOP ➔ Internal SOP!
Identify Deficiencies – Fishbone Example – Level 1

Nature/Environment
- Waiting on Authorization
- Waiting on Documentation
- Too many chiefs to provide info
- Incorrect Acct #/Project #
- Approving reqs without funds transfer
- Not being advised when funds are transferred
- Insufficient req dollars for purchase

Software not globally avail to all
- System slowdown in pm
- System is not conducive to Procurement’s Approval Process
- System not user friendly

Machine Resources to Perform

Incorrect Info & Backup
- Piece mealng info

Incorrect Info & Backup
- Piece mealng info

Printing of POs
- Dist of Pos

Materials Documentation

Methods/Process

ROOT CAUSE: FUNDING ISSUES

Bottlenecks in the Purchase Order Process
Identify Deficiencies – Fishbone Example – Level 2

- **Nature/Environment**: Staff will not transport documents in rain

- **Departmental Issues**: Manpower
  - Employee Error
    - Hedging their funds
    - Carelessness in providing accurate information
  - Passing the Buck to Procurement to validate finance information
  - Req Approvers not sufficiently reviewing requisition information, accounts, and dollars "F9 it" without review

- **Lack of single source for City Policies**

- **Failure to expeditiously process a funds transfer**

- **Lack of knowledge of Budget Transfer Process**
  - Not complying with Finance & Procurement Policies

- **Machine Resources to Perform**

- **Materials Documentation**

- **Methods/Process**

**ROOT CAUSE: DEPARTMENT ACCOUNTABILITY**

- **Funding Issues**: Incorrect Accts, Project #, Insufficient Funds, and Reqs w/inadequate funds assigned
After analyzing the program and processes all procedural/directives need to be updated.

Revisions for consideration

- Eliminating “Non-Value Added” tasks
- Adding efficiencies to the program
- Transaction processing with or without PO
- How documentation will be distributed, transmitted and processed
- Retention of documentation
Training of Cardholders, Reconcilers, and Approvers

- Establish a MANDATORY training program to include training on:
  - Policy and Procedures
  - Program
  - Process

- Require forms for cardholders to acknowledge receipt of policies and their certification to comply

- Take the opportunity to train attendees on the Ethics statute.
If this is a new program it is HIGHLY recommended to pilot the program in small groups.

- Introduce new departments throughout the process

This is important because of Murphy’s Law!!........ Some procedure or process will need to be tweaked.
Planning Phase – Additional Considerations

- ePayables and Push Payments
- Vendor acceptance of program
  - No additional fees charged for Pcard payments
  - Non-mandatory acceptance
  - Mandatory acceptance
  - Subjective solicitations – Points for acceptance
  - Discuss with vendor business manager – They should know the value.
Implementing the Pcard Program

- It is not recommended to roll out a new program to the entire organization at the same time.
- Pilot Program allows the agency to roll out to small groups, tweak procedures and closely monitor activity to establish a Best Practice for the agency.
  - Assumption may be your agency has established an early Best Practice but there will be a need to revise the program for improved efficiencies and effectiveness.
Implementing the Pcard Program

- Who will you identify as Cardholders?
  - Supervisors and Managers
  - Crew Chiefs
  - Administrative Staff
  - Field Staff

- The majority of Best Practices do not assign Pcards to Department Directors, top administrator, or the governing body.

- Establish a backup person for Pcard purchases and reconciling of transactions.
Will you allow Department Cards or “Ghost” Cards assigned to vendors?
Department Card is normally assigned to the Supervisor/Manager.
- Non department staff uses the card for local purchases
- Normally, there should be very few instances of use on this card.
- If usage is high for a single employee it is recommended to assign them an individual card as it places full responsibility on that employee
Implementing the Pcard Program

- Ghost Cards are assigned to the vendor
  - Assists will capturing contract spend data
  - Allows departments to purchase contract items over their standard purchasing limits
  - Agency may provide the vendor the card information if it is maintained in a secured manner
Implementing the Pcard Program

Pilot Program Recommendations

- Level 1 - Activate for at least 1 statement process
  - Procurement
  - Finance

- Level 2 – Determine a few departments to participate – Activate for at least 2 statement processes before additional assignment
  - Your most responsible departments
  - Identify the supervisory backup cardholder
  - Identify the reconciler and backup
Implementing the Pcard Program

Documentation
- What will you required in the transaction package?
- Several Pcard transaction receipts will be a confirmation via email to the card holder.
- Will you require the Supervisor/Manager to sign all transactions for approval?
- Will you require the Department Director to approve all transactions?
- Will you require all documentation in hardcopy or establish an electronic process?
Implementing the Pcard Program

- Review of transactions
  - Will you require a review and audit of transactions?
  - Who will conduct this review?
  - What will they review and validate?
    - Correct documentation
    - Contract compliance and validation
    - Signatures

- Gentle reminders at statement end!
  - Who will send out the reminders to users to process their transactions to allow reconciliation of the statement?
The only successful program is one with on-going controls and monitoring.

All transactions must be reviewed by either Procurement or Finance.

Situations will arise that will require Policy and Procedural revisions.

What will you do when the first infraction is found?
This does not pertain to employee fraud but those transactions processed or attempted to be processed by an outside party.

The bank has notified the City on a few occasion on suspicious transactions, which proved to be fraudulent. These transactions were removed immediately by the bank, new card issued with no additional paperwork required.
Occasional Monthly Limit Increases

- In some instances a cardholder will need their monthly limit increased to process a transaction.
  - Increase may be temporary; or
  - With appropriate approvals permanently increases after review of previous month’s expenditures.
Contact

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