Purchasing Card Best Practices

Presented by: Travis Mulanax
     Assistant Director of Operations
     SAO Purchasing Card Division

John B. McCuskey
State Auditor

Agenda

- **Why P-Card?**
  - **What is it?**
  - **Traditional Procure-to-Pay vs. P-Card**
  - **P-Card Program Benefits**

- **The Purchasing Card process, participants and their roles.**

- **Internal Controls/Operating Procedures**

- **Reconciliation and Approval Processes**

- **Training and Communication**

- **Program Evaluations**

- **Program Optimization**
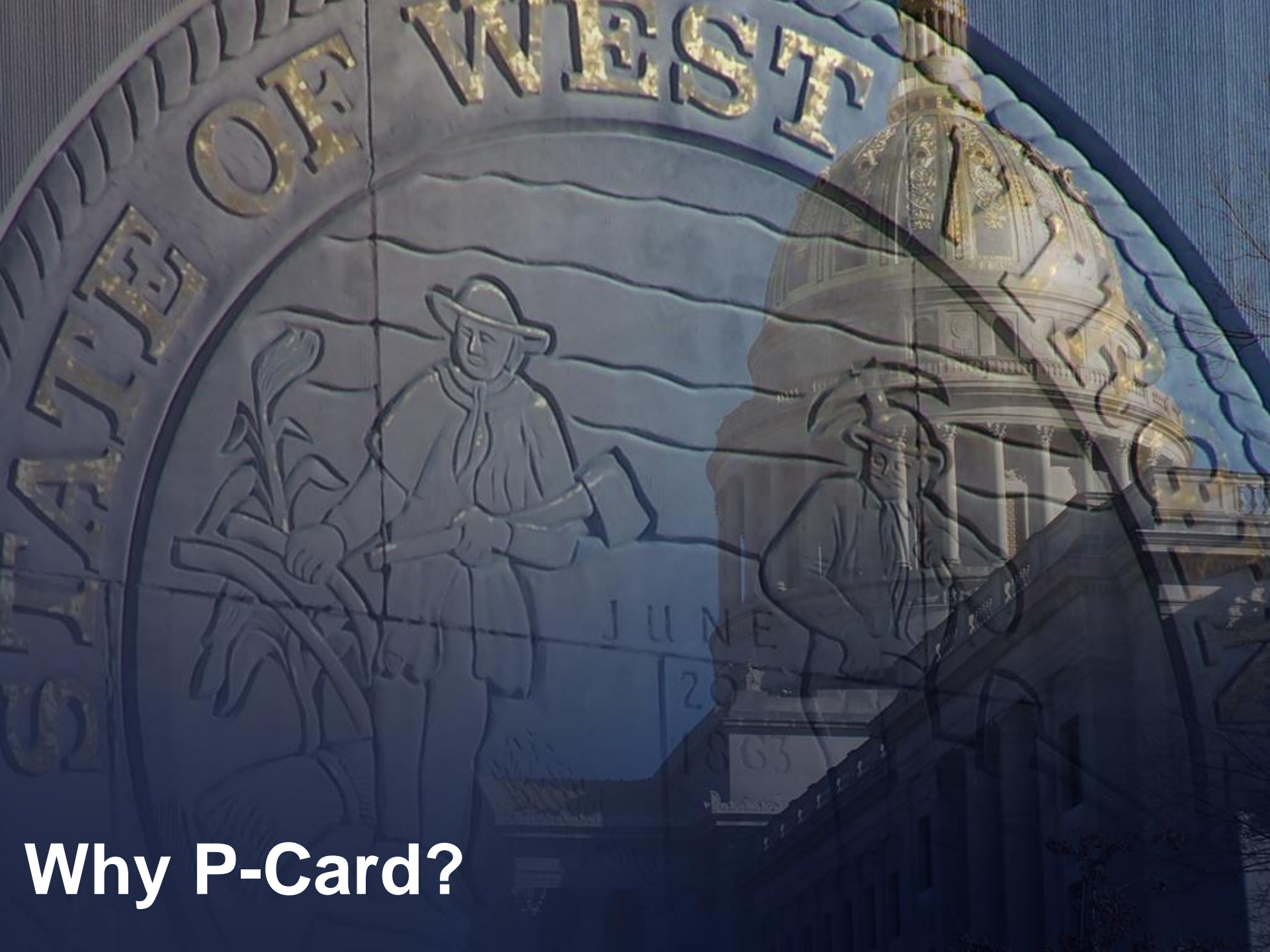
Why P-Card?

What is a P-Card?

➢ **A Purchasing Card (P-Card) is a type of Commercial Card that allows organizations to take advantage of the existing credit card infrastructure to make electronic payments for various business expenses (e.g., goods and services).**

➢ **In the simplest terms, a P-Card is a charge card, similar to a consumer credit card. However, the card-using organization must pay the card issuer in full each month, at a minimum.**

Why use P-Cards?

➤ **Reduce the transactional or processing cost of purchases.**

   ➤ **The traditional procure-to-pay process often involving a requisition, purchase order, invoice, and check payment; costs the same regardless of the dollar amount of the purchase.**

   ➤ **When the payment method is switched from the traditional process to a purchasing card process, efficiency savings range from 55% to 80% of the traditional process cost.**

Why use P-Cards?

➢ **P-Cards provide a means for streamlining the procure-to-pay process.**

➢ **NAPCP evaluation states typical savings of $63 per transaction by utilizing a P-Card for payment.**

   ➢ *Reduces paperwork and time associated with the procurement and payment processing function*
   ➢ *Reduces costs associated with paper checks*
   ➢ *Quicker purchase time for applicable goods and services*
   ➢ *Reduces or eliminates petty cash*
   ➢ *Take advantage of supplier discounts*
   ➢ *May allow an entity to redirect purchasing and/or accounts payable staff*
      ➢ *Focus on larger dollar transactions*

Why use P-Cards?

➢ **1,000 transaction = $63,000 cost avoidance savings.**

➢ **8,000 transaction = $504,000 cost avoidance savings.**

➢ **15,000 transaction = $945,000 cost avoidance savings.**

➢ **50,000 transaction = $3,150,000 cost avoidance savings.**

Are we doing our part to ensure that we are being good stewards of taxpayers' money?

Card Types

- ➤ **One Card**
  - ■ All types of purchases
- ➤ **Department/Ghost**
  - ■ Accounts Payable
  - ■ Travel
- ➤ **Fleet**
  - ■ Driver
  - ■ Vehicle

- ➤ **Declining Balance**

- ➤ **E-payables**
  - ■ Virtual
  - ■ Mobile

P-Card Program Benefits

- **Provides greater transparency**
- **Enhanced fraud monitoring provided by:**
    - MasterCard/Visa
    - Issuing Bank
    - Auditor's Office
- **Fraud protection:**
    - Protection against intentional employee misuse and fraud
    - Receive credits for unauthorized 3rd party transactions
    - Can dispute transactions 60 days from the statement date

P-Card Program Benefits

- **Online access to:**
  - Monitor card activity
  - Card management
    - *Create accounts*
    - *Card Maintenance*
    - *Activate, suspend and close accounts*
    - *View credit limit availability and transaction status in real-time*
  - Upload receipts
  - Review and approve transactions
 - Download statements
  - Program reporting

P-Card Program Benefits

➢ **Fuel Tax Reclamation Service - free tracking and filing**

➢ **E-Pay option available**
  ➢ **Issuing Bank utilizing PIF to pay suppliers**
  ➢ **Mobile pay**

➢ **Reduce the number of 1099s**
  ➢ **Using the P-Card results in the vendor's acquiring bank to fulfill 1099 reporting requirements.**
  ➢ **If no P-Card, then Entity is responsible.**

➢ **Earn Rebates = Revenue!!**

➢ **Transparency and Reporting**

➢ **Cash flow**

➢ **Zero cost to the entity**

P-Card Program Benefits

- **Benefits to your vendors/suppliers**

  - Cost reductions such as eliminating invoice creation, handling, mailing, depositing payments, and collection activities

  - Electronically deposited funds

  - Faster receipt of payments and improved cash flow

  - Increased sales because many organizations solicit only suppliers that accept P-Cards as payment

  - Potential staff reductions within accounts receivable and the ability to redirect staff to more value-added activities
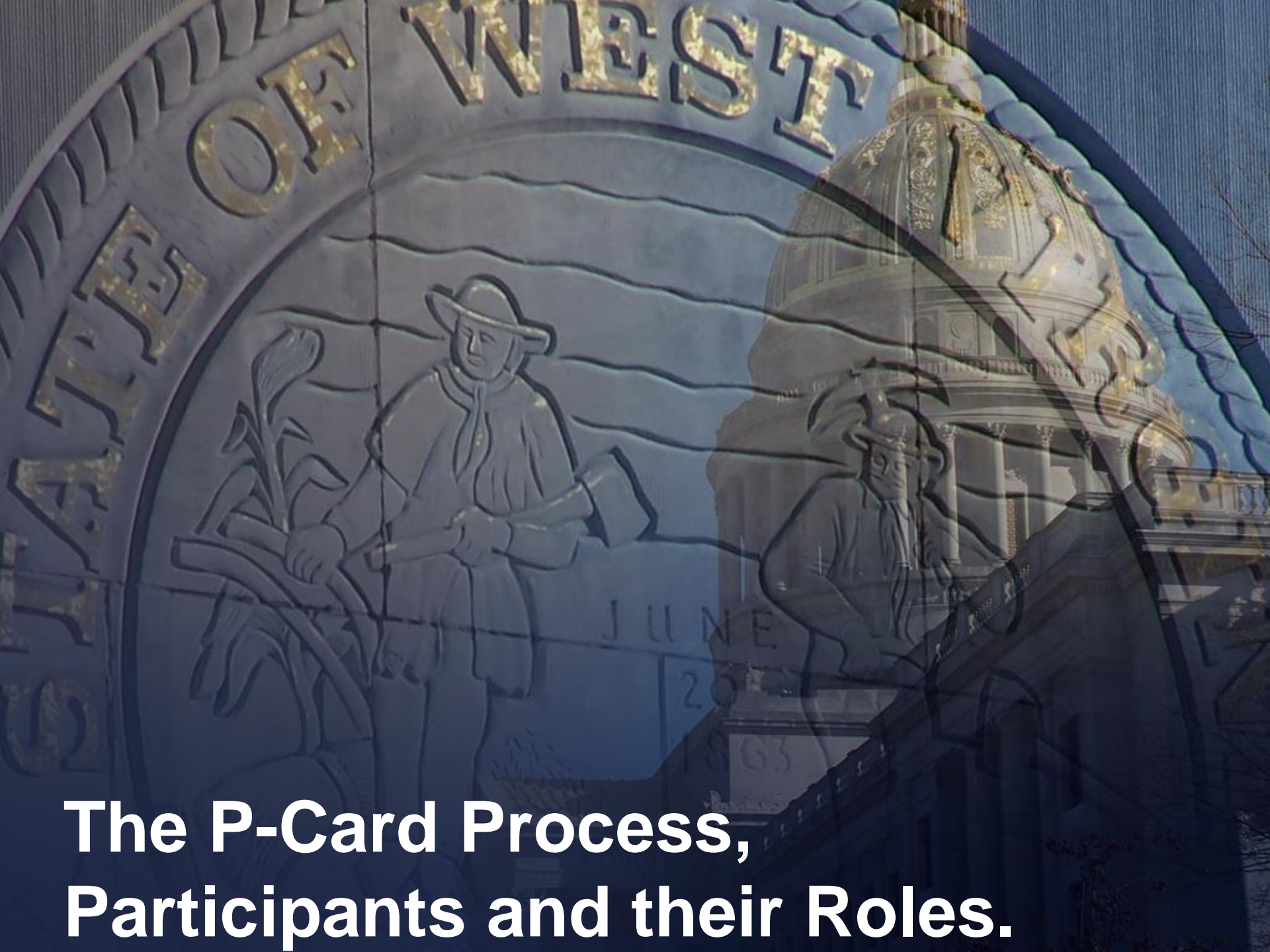
The P-Card Process, Participants and their Roles.

P-Card Process, Participants and their Roles

➢ A P-Card program is designed to provide a more efficient and cost-effective method of making purchases and payments by reducing paperwork and streamlining the purchasing process.

➢ The program is designed as an alternative to the traditional purchasing process for supplies and materials, allowing for more control and responsibility at the department level.

➢ The program is not intended to circumvent the bid process or other purchasing policies.

P-Card Process, Participants and their Roles

➢ **Senior Executives and Directors**

➢ **Approving Manager (AM)**

➢ **Program Manager (PM)**

➢ **Program Administrator (PA)**

➢ **Department Authorizer**

➢ **Coordinator**

➢ **Cardholder/Proxy**

Internal Controls/Operating Procedures

Internal Controls/Operating Procedures

➢ **A comprehensive policy and procedures manual is the best way to outline policy requirements and procedures for the organization.**

➢ **Develop and document appropriate internal control procedures to ensure proper program oversight, compliance with p-card policies and procedures and that p-card usage is consistent with the manual.**

➢ **Internal controls help prevent errors as well as deter fraudulent use of the card.**

Internal Controls/Operating Procedures

- ➢ **Examples of topics**

  - ➢ **Coordinator duties and responsibilities**
  - ➢ **Training requirements**
  - ➢ **P-Card issuance and maintenance procedures**
  - ➢ **P-Card usage**
    - ➢ **Allowable, restricted and prohibited purchases**
    - ➢ **Following procurement procedures**
    - ➢ **Card limits**
  - ➢ **Transaction documentation and reconciliation**
  - ➢ **Segregation of duties and oversight**
  - ➢ **Fraud, misuse, and abuse and the consequences**
  - ➢ **Program monitoring**

Internal Controls/Operating Procedures

➢ **It is the governing body of the entity, it's coordinators, and cardholders responsibility to be knowledgeable of and to follow all p-card policies and procedures, as well as all applicable purchasing laws and guidelines.**

➢ **Other members of Entity staff with reviewing and approving responsibilities (entity officials, chief financial officers, department heads, directors, managers, supervisors, etc.) should also be knowledgeable of program requirements.**

Internal Controls/Operating Procedures

- ➢ **Each P-Card Coordinator should hold a position of knowledge and experience of the responsibilities delegated to them.**

- ➢ **Additionally, Entity Officials (or a representative) should designate an individual to act as a backup P-Card Coordinator in the event the primary Coordinator is unavailable to perform his or her duties.**

- ➢ **No cardholder should be their own coordinator.**

Reconciliation and the Approval Process

Reconciliation and the Approval Process

➢ **Transactions are permitted on the p-card as long as the entity can provide documentation of its authority for purchases, and all applicable laws, rules and regulations, purchasing policies, and other governing instruments are followed.**

➢ **Cardholder should review all transactions to ensure that they are legitimate, for official business, and that all required documentation is included.**

Reconciliation and the Approval Process

➢ **Cardholder or proxy is responsible for reconciling their individual transactions each month by the scheduled payment date.**

➢ **Proper workflow established to ensure segregation of duties during the reconciliation process.**

➢ **Reconciliation should be completed promptly and not wait until the last minute.**

Reconciliation and the Approval Process

Supporting Documentation

➤ **All supporting documentation is documentation required by applicable laws, rules and regulations, p-card policies and procedures, and other governing instruments, such as grant requirements.**

➤ **All supporting documentation should be attached to every transaction, whether manually or within the reconciliation software.**

➤ **Entities should adopt a "zero tolerance policy" for missing or inadequate documentation.**

P-Card Delegation should be PROHIBITED!

# Training and Communication

Training and Communication

➢ **Training should be required for all cardholders and program coordinators.**

➢ **All coordinators should receive training within 30 days of assuming the duties of the position.**

➢ **All training sessions, initial and refresher, should have a process for testing the trainee's retention of the information.**

➢ **Training topics should include Ethics, Policies, Procedures, Procurement, and Reconciliation Processes, at a minimum.**

Training and Communication

> ➢ **Communication with all stakeholders is vital and should be consistent.**

> ➢ **Any policy or procedural changes should be distributed throughout the Entity.**

> ➢ **Entities should review all policies and procedures, and internal control processes on a regular basis (i.e. quarterly, annually).**

Training and Communication

- ➤ **Communication examples**

  - ➤ **Monthly emails from Procurement or A/P**

  - ➤ **Webinars**

  - ➤ **Newsletters**

  - ➤ **Surveys**

  - ➤ **Annual conferences/trainings**
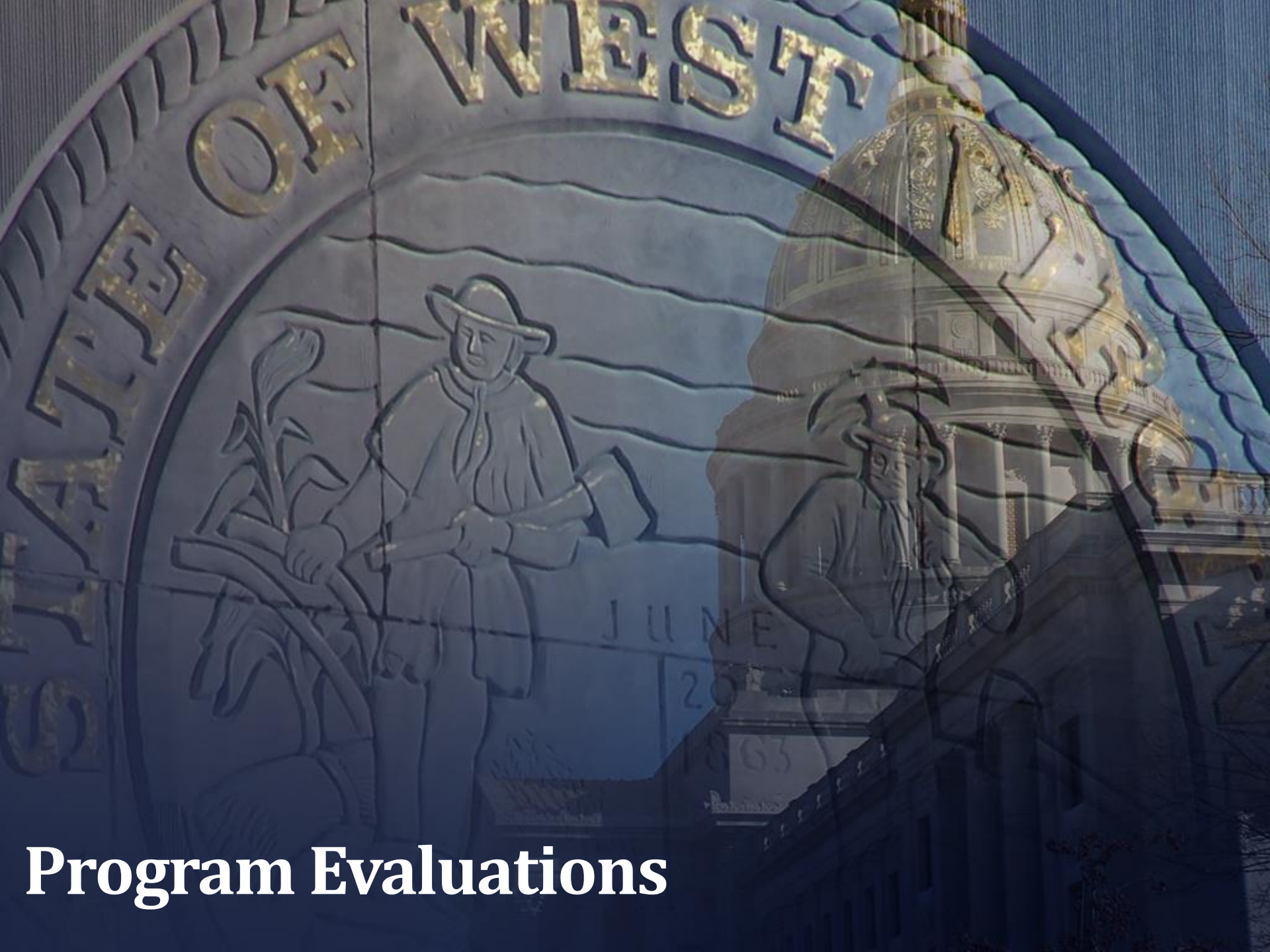
Program Evaluations

Program Evaluations

➤ **Auditing, internal or external, is an effective way to monitor policy compliance.**

    ➤ **Transactional audits**

    ➤ **Process audits**

    ➤ **Audit reports**

➤ **Peer review**

➤ **Any member of an Entity finding an instance of unlawful use, possible fraud, misappropriation, or mismanagement with the p-card must report such discovery to the Entity's Program Management group within 24 hours of their discovery.**

Program Optimization

Program Optimization

➢ **Card Products**
  ➢ Card types

➢ **Automation Opportunities**
  ➢ Efficiencies of card software
  ➢ Virtual
  ➢ Elimination of paper (i.e. checks, workflow)
  ➢ Pay efficiently using software and reconciliation tools

➢ **Electronic Statements**
  ➢ Available 1-3 days after cycle end date

➢ **Utilization metrics**
  ➢ Effort to maximize spend
    ➢ Rebate
  ➢ Mitigating risk

Resources

Resources

- ➤ **NAPCP Government/K-12 Best Practices Guide, revised September 2019.**

- ➤ **State of West Virginia State P-Card Policies and Procedures, revised August 2019**

- ➤ **State of West Virginia Local Government PCPP, revised September 2020**

Questions?

WVSAO.GOV