White Paper

Streamline Your Purchasing with P-Cards

Introduction

As enterprises search for innovative ways to reduce overheads and streamline during an economic recession, Management looks to its procurement leaders to find innovative ways to reduce costs. Overlooked by procurement at times, Purchasing Cards (P-Cards) can be an expert's tool to streamline purchasing processes for low-cost items.

The most common purchase methods include purchase orders (POs), checks, recurring payments and petty cash to pay suppliers. These methods offer legal terms and conditions to cover any liability and may provide robust records for payment, delivery and execution of services. However, these methods are also expensive and may not be appropriate for certain purchases.

P-Cards are not a new concept, but can reduce costs for enterprises looking to streamline low-dollar and/or high volume transactions. Based on a 2010 study[1], the average, monthly P-Card spend per organization surveyed was $1.8 million, with an average transaction value of $315. Between the years of 2007 and 2009, North America's P-Card spend grew from $137 billion to $161 billion. Annual purchasing card spending is expected to increase to $213 billion by 2012, and $255 billion by 2014, considering a growth rate of 12 per cent for the next five years after 2010.

P-Card Program

In order to take advantage of P-Cards, a company must first enter into a P-Card program with a provider of such cards. This program must work in tandem with the company's pre-existing processes. It will require a dedicated leadership team that embraces this change and facilitates its implementation throughout the firm. A P-Card program is only successful as long as those using it are following policy guidelines and providing all the necessary information to the P-Card management team.

> A clear understanding and communication of the P-Card processes and policies will ensure full compliance across the business and help maximize the benefits of the program.

Types of Cards

There are several cards available to companies that can assist in tracking and ensuring cardholders follow the policies set forth by the business.
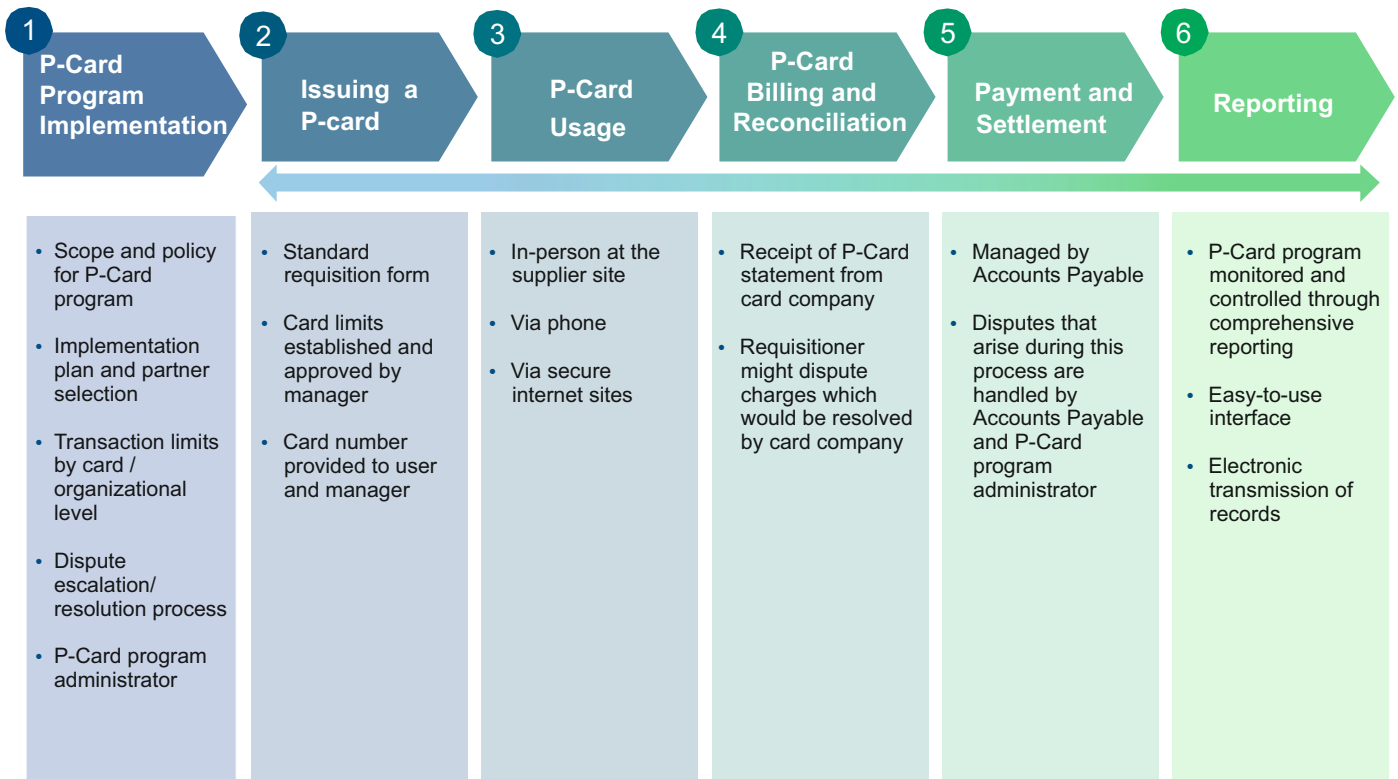
Figure 1: Types of Cards

Cards	Description	Transaction Examples
P-Card	Typically used for low dollar value high volume purchases that do not require POs or other legacy procurement methods.	Minor purchases, office supplies, site services
Corporate Card	Used for travel and entertainment purposes. Sometimes called a T&E Card.	Hotels, airfare, meeting supplies
Fleet Card	Used by organizations to pay for company vehicle-related expenses.	Fuel, vehicle maintenance
Supplier Card	These cards are company property issued to an employee or department to be used only with a specified supplier for high-volume, low-dollar purchases.	Specific to supplier (e.g. FedEx)
Ghost Card	Charge numbers are given to an individual to make purchases. No tangible card is issued.	On-going support services, recurring charges

P-Card Process

P-Card processes begin with a cardholder. Cardholders are issued cards from the program office to pay for goods or services. While making a transaction, the merchant accepts the P-Card and processes the transaction. Once the transactions for a particular month are completed, a monthly statement is issued to the cardholder or the company headquarters by the P-Card-issuing bank.

The card-issuer will traditionally provide a single bill to the company, to be paid on a monthly basis. Companies do not usually carry a balance on these cards, but pay the card-issuer once per month for the total amount owed. The liability for paying the card-issuer resides with the company, not the cardholder. The cardholder's responsibility is to follow company policies and procedures regarding card usage. Proper documentation should be obtained for the purchases in the billing summary and filed with the P-Card department.

Figure 2: P-Card Process

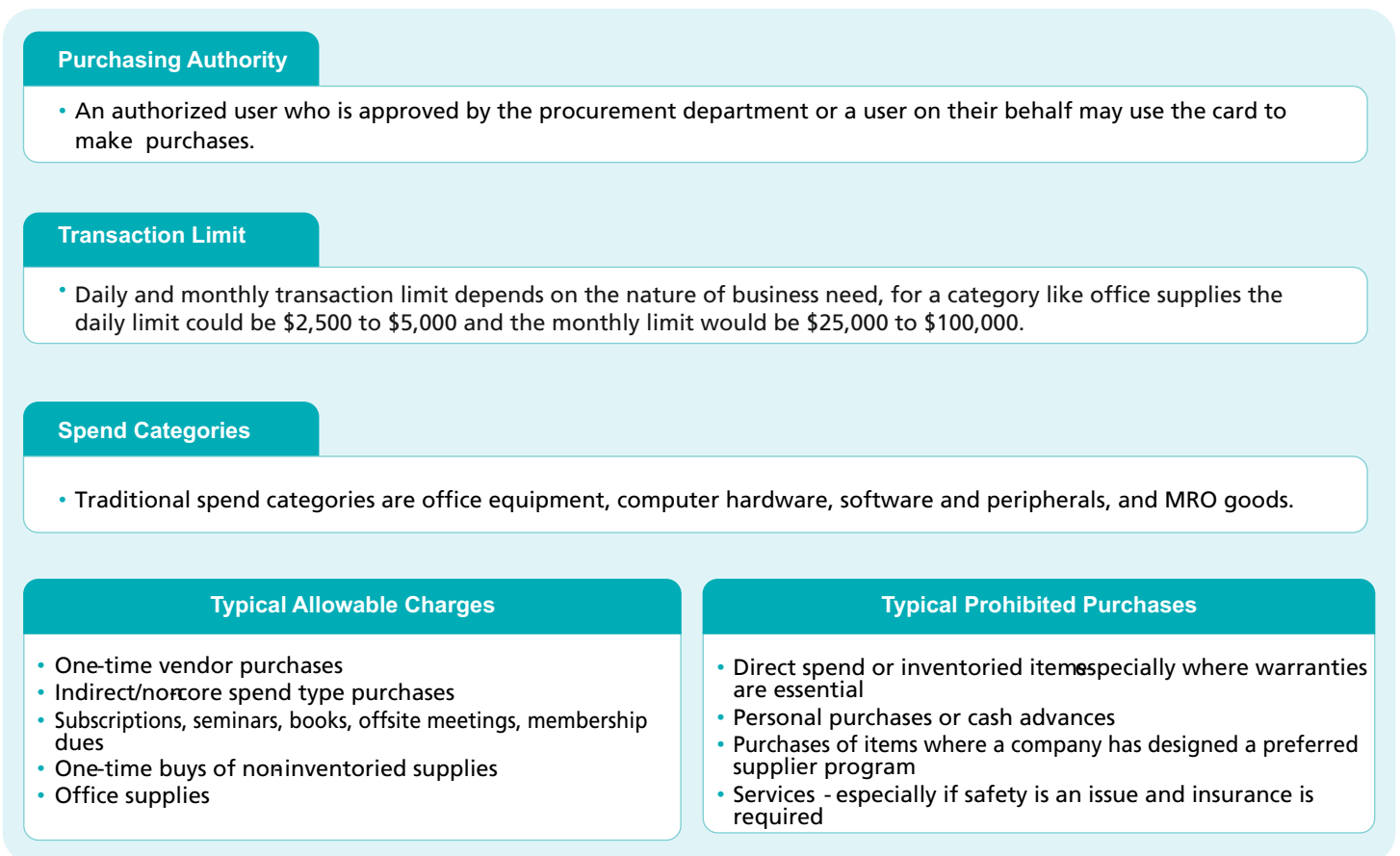| 1 P-Card Program Implementation	2 Issuing a P-card	3 P-Card Usage	4 P-Card Billing and Reconciliation	5 Payment and Settlement	6 Reporting
• Scope and policy for P-Card program • Implementation plan and partner selection • Transaction limits by card / organizational level • Dispute escalation/ resolution process • P-Card program administrator	• Standard requisition form • Card limits established and approved by manager • Card number provided to user and manager	• In-person at the supplier site • Via phone • Via secure internet sites	• Receipt of P-Card statement from card company • Requisitioner might dispute charges which would be resolved by card company	• Managed by Accounts Payable • Disputes that arise during this process are handled by Accounts Payable and P-Card program administrator	• P-Card program monitored and controlled through comprehensive reporting • Easy-to-use interface • Electronic transmission of records

P-Card Program Policies

P-Card program policies are developed by the company's accounts payable and procurement departments and enforced by the P-Card Program Office (set up at the start of the P-Card program). Policies are necessary to prevent fraud and misuse and provide a platform for governance. The P-Card team is required to train P-Card holders regarding the policies, and the consequences of not following them appropriately. The diagram below shows policies that many companies adopt, as well as the typical allowable and prohibited charges associated with a P-Card program.

Figure-3: P-Card Program Policies

Purchasing Authority

- An authorized user who is approved by the procurement department or a user on their behalf may use the card to make purchases.

Transaction Limit

- Daily and monthly transaction limit depends on the nature of business need, for a category like office supplies the daily limit could be $2,500 to $5,000 and the monthly limit would be $25,000 to $100,000.

Spend Categories

- Traditional spend categories are office equipment, computer hardware, software and peripherals, and MRO goods.

Typical Allowable Charges	Typical Prohibited Purchases
• One-time vendor purchases • Indirect/non-core spend type purchases • Subscriptions, seminars, books, offsite meetings, membership dues • One-time buys of non-inventoried supplies • Office supplies	• Direct spend or inventoried items especially where warranties are essential • Personal purchases or cash advances • Purchases of items where a company has designed a preferred supplier program • Services - especially if safety is an issue and insurance is required

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P-Card Benefits & Risks

Benefits

- Estimated savings of $71 per transaction (compared to the use of purchase orders)[1]
- Simplified purchasing and payment process
- Improved compliance (e.g. use of supplier cards or restriction by industry codes)
- Improved visibility, accuracy and completeness of spend data (Level III data)
- Small business acceptance
- Ability to track liability to individual buyer
- Reduced paperwork
- Expedited payment to suppliers
- Pre-Authorized/Pre-Approved empowered buying

Risks

- Cardholders not reviewing and signing the monthly statement
- Receipts not matched to the statement
- Adequate receipts are not provided (original itemized description, vendor name, date and total)
- Disallowed transactions (personal use, travel, gift cards, etc.)
- Lack of PO level terms and conditions
- Lack of insurance for services provided

Auditing

Taking the appropriate auditing steps will also help mitigate some of the risks inherent in P-Card programs. Audits are typically performed on a monthly basis by an internal auditor, who is part of the P-Card program team. It is also advisable to have a third-party company conduct random audits to safeguard against any external audits that can occur at any point in time.

These auditors should be looking for three main requirements:

▸ Proper validation through signatures, both from cardholder and their manager

▸ Submission of appropriate support documentation

▸ Policy compliance, leaving no room for prohibited transactions

Independent checks ensure fair utility and application, the lack of which may expose the firm to federal audits and possible Sarbanes-Oxley violations.

Technologies

Many companies use paper-based transaction summaries and receipts. Depending on the size of a P-Card program, this could be an added cost in terms of materials and time. There are technologies that can help reduce this cost and can work in tandem with legacy systems. Some of these technologies include e-faxing for those businesses that are spread-out across the country, or globe. E-faxing solves the paper-based auditing problem by having all faxed information digitized and sent to a centralized email box. This can then be reviewed by the internal auditing team.

Card issuers also provide software solutions for tracking P-Card spend that can assist with billing reconciliation, which can then be exported and merged with a company's payables system and spend analysis tools. These improvements help streamline a P-Card process, providing flexibility to either keep the auditing and archiving process on-shore, or transferring it off-shore for further potential savings. By utilizing a company that specializes in P-Card management, a company can drastically cut down on overhead costs related to the program.

P-Card Program Responsibilities

There are several factors to consider during resource planning for a P-Card program. Firms need to ensure they allocate enough resources to cover critical components of the program. Responsibilities that are considered important are listed below:

▶ Administration of P-Cards (including setup and cancellation)

▶ Help desk to answer cardholder questions

▶ Month-end reconciliation reviews

▶ Maintaining and updating P-Card Training

▶ P-Card systems and archive management

▶ Policy maintenance and enhancements

▶ Interface with P-Card providers (e.g., Visa) and issuing banks (e.g., Citibank)

▶ Team and process management

▶ Governance

An estimate indicates that one full-time equivalent (FTE) is needed within a P-Card program for every 500 cardholders.

The Big Question – In-source or Outsource?

In-sourcing or outsourcing a P-Card program is a critical question. A company may want to maintain greater control over the program and keep it in-house. Most P-Card programs start in this manner. However, some organizations do not view the P-Card program as a critical function that should tie up valuable internal resources.

There are many full-service procurement outsourcing firms that specialize in these types of services. Some of the benefits of outsourcing P-Card programs to such providers include reduced personnel costs, fewer implementation pains and better use of technology solutions. Using an experienced firm helps mitigate the issues many firms face when working to implement such programs.

GEP Solution

Outsourcing the administration and management of this program is a low-cost viable option for all businesses. Using electronic summaries and receipt imaging enables an efficient solution that can be implemented in any location, allowing an organization to outsource (and even off-shore) the analytical and, possibly, the managerial portions of the work, while still keeping oversight and auditing of the process.

GEP has experience developing and managing P-Card programs. Our experience with these programs makes us one of the firms that can offer a streamlined solution for P-Card programs, ensure audit compliance and help the program grow with fewer implementation pains. We can also use our robust spend reporting tools to easily generate reports that are comprehensive and interactive. By merging your P-Card spend with the GEP Spend tool, your organization will have up-to-date, on-demand reporting that can be utilized by leadership to make informed decisions regarding its specific purchase category.

P-card Program Options Available to Companies

Activity	Maintain In-House	Frequently Outsourced	GEP's Expertise
Issuance of Cards	√	√	√
Card Limits	√	X	√
Card Maintenance	√	√	√
Cost Allocation	√	X	√
Training Class	√	√	√
Charge Responsibilities	√	X	√
Transaction Log and Receipts (electronic Archiving)	√	√	√
Reconciling P Card Monthly Statement	√	√	√
Disputes Resolution	√	√	√
Auditing	√	√	√
Approval	√	X	√
Payment	√	X	√
Reporting	√	√	√

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With 14 offices and operations centers in Europe, Asia and the Americas, Clark, New Jersey-based GEP helps enterprises worldwide realize their strategic, operational and financial objectives.

Recently named Best Supplier at the EPIC Procurement Excellence Awards, GEP is frequently honored as an innovator and leading provider of source-to-pay procurement software by top industry and technology analysts, such as Forrester, Gartner, Spend Matters, Paystream and Ardent Partners. GEP also earns top honors in consulting and managed services from the industry's leading research firms, professional associations and journals, including Everest Group on its PEAK Matrices of Procurement Services Providers and Supply Chain Services Providers; NelsonHall on its NEAT Matrix of Global Procurement BPO Service Providers; HfS in its Blueprint Report on Procurement-as-a-Service; and ALM Intelligence in its Vanguard Reports on both Procurement Consulting and Supply Chain Consulting.

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