

Review of Financial Systems around Low Value Purchasing

Recommendations

That the board:

- i. Note contents of report.
- ii. Approve the continued use of Purchasing Cards for low value and one-off expenditure.
- iii. Note that Purchasing Card guidelines will be updated, approved by the CE, and issued as Policy.

Executive summary

This paper examines the use of Purchasing Cards within AT. It assesses the alternatives and considers how other organisations manage low value and one off expenditure. It concludes that P Cards are an appropriate and cost effective means of making low value, one-off purchases which enable greater visibility over these types of payment than other payment methods.

Strategic context

All organisations have a need to put in place policies, processes, and systems to deal with one-off and low value expenditure. These need to be efficient, right-sized, and robust. In addition, public sector organisations need to consider public perception when setting policy around the types of expenditure that are sanctioned. It is important that there are controls around any expenditure which could be classed as sensitive and that any expenditure in this category can be easily identified and readily reported upon.

Policy also needs to be consistent with organisational values. To reinforce AT's "One Team" value it is important that there is consistency across the organisation in the types of expenditure that are sanctioned, i.e. that there is one rule for all.

Background

Purchasing Cards (P-Cards) are used at AT to handle the purchasing and payment processes for low value and one-off expenditure. AT has approximately seventy P-Card holders, around 150-200 transactions per month, and a monthly expenditure on P-Cards of approximately \$20k. Authorisation for the issue of a P-Card to an individual is controlled by the Chief Financial Officer.

P-Cards may be issued to any authorised employee who is, or is reasonably expected to be, called upon to make regular low value purchases on AT's behalf. The issue of all P-Cards is subject to the approval of the Chief Financial Officer. P-Cards are only issued to AT Permanent or Fixed Term employees. The P-Card held by the Procurement Manager is used to make a number of organisation-wide on-line purchases such as AT HOP Card top-ups and NZTA tolling payments.

A recent report by Internal Audit (Purchasing Card Expenditure Review: March 2013) concluded that the expenditure incurred through the organisation's P-Card system were found to be justifiable business expenses, however there were a number of boundaries that require clarification and issues identified that required resolution. Following this report a small cross-functional team was established to review AT's use of P-Cards. The Terms of Reference for the review required the team to:

- Examine whether the use of P-Cards for small value and one-off expenditure is an appropriate solution and represents good practice
- Establish whether AT's expenditure profile on P-Cards is consistent with that of other organisations
- Identify any changes to implementation, policy, procedure or practice required to address the detailed findings of the Report and any training required to support those changes

Issues and options

In order to understand whether P-Cards are an appropriate solution the review team assessed the solutions controls and limitations, and compared these against alternatives.

P-Cards

AT's P-Card solution is provided through BNZ. The cards are provided by Visa International and are therefore accepted at a large number of merchants worldwide. P-Cards are charge cards, not credit cards, as they are fully paid off each month. Interest only applies on cash advances, which are typically blocked for cards. While AT's current policy does allow the removal of the cash advance block for Tier 1 and 2 Managers, and to other staff (for example, when required for overseas travel) as temporarily approved by the Chief Financial Officer, the policy requires that the facility is only for use in emergency or in exceptional circumstances.

Each card has a predetermined monthly expense limit, and it is possible to set daily limits and individual transaction limits. Cards can also be blocked for non-NZ based transactions, and allow only transactions where the cardholder is present (i.e. no phone, fax, or internet transactions accepted). All cards have a PIN number and CVV security code.

AT's P-Card solution also includes a cloud-based Expense Management System. All card transactions are captured through this system, users are prompted by e-mail to code and approve each transaction, and an audit trail is automatically maintained. Users are prompted by e-mail at month end to print a card statement, attach relevant GST receipts, and forward to their managers for approval. A hard copy of the approved statement together with the GST receipts is centrally maintained by the Procurement team.

BNZ/Visa manages payment to the merchants, and at the end of the month AT makes one payment to BNZ.

Purchase Orders

It was evident that there are a number of transactions where it would be possible to raise a Purchase Order, for example courses and conference fees.

Pros

- High degree of visibility, control, and reporting ability
- The onus is on the employee to justify the expense before any commitment is made

Cons

- A 'white paper' from the Chartered Institute of Purchasing and Supply in 2010 compared the costs of raising a purchase order and paying the subsequent invoice with the costs of a P-Card transaction. The paper concluded that the average cost of a P-Card transaction was \$13.30 compared with \$65.38 for a purchase order and invoice.

Personal Reimbursement and/or 'one time vendor' payments through SAP

In the period 1 July 2012 to 30 June 2013 there were 4,913 personal expense claim lines processed by Accounts Payable. Total claims for the period were \$523k at an average transaction value of \$106. Analysis of the P-Card transactions shows that it would be possible to arrange for around 50% of the P-Card transactions through Personal Reimbursement claims or by paying on invoice via SAP's 'One Time Vendor' account (a generic account used to process payments/refunds to vendors/customers that are not set up via the master vendor process because it is unlikely they will be used after the initial payment run).

Pros

- In the case of Personal Reimbursement the onus is on the employee to justify the expense before any reimbursement is made.

Cons

- It is estimated that the additional administration time required to process an increase of between 100% - 180% in very small transactions via the Personal Expense Reimbursement Claims or the One Time Vendor account would add one full time Accounts Payable staff member, plus the associated overheads incurred for an additional permanent staff member – approximately \$73,000 per annum
- As the Personal Reimbursement process does not have the same level of system coding / tracking there would be a reduction of visibility and reporting ability
- In addition to the work of physically entering these claims and paying them manually through the Accounts Payable SAP module, AP staff often encounter delegation and general ledger coding issues that require follow up with the claiming staff member.
- One Time Vendor account and Personal Reimbursement claims require each staff member to be set up as a vendor and paid individually in the weekly payment runs; resulting in approximately 2,300 payments per year instead of 12 payments to the BNZ for the P-Card transactions for the same period

Petty Cash

For some transactions it would technically be possible to use petty cash, in particular for those examples where cash is the predominant form of payment, e.g. parking costs or taxi fees.

Pros

- Relatively simple process for the 'user'.

Cons

- Requires significant security, controls, and audit to prevent loss / fraud

Is AT's use of P-Cards consistent with other organisations?

State Services guidance

In 2010 the State Services Commissioner, Iain Rennie, released a report of Chief Executives' "credit card" expenditure under the Official Information Act. In doing so he also outlined three principles that he expected Chief Executives (and by inference their organisations) to adhere to:

- (1) No State servant should use a departmental credit card for personal benefit
- (2) Hospitality and entertainment put on departmental credit cards should only ever be moderate
- (3) All international travel [the report showed this was a big component of "credit card" expenditure for some organisations] is of demonstrable benefit to the agency, and therefore the taxpayer

At the same time the State Services Commission published its own guidance for the use of Purchasing Cards. In this guidance it states:

- *Proper use of an SSC Purchasing Card creates a flexible, secure, and well documented method of purchasing work-related goods or services with efficiency and economy*
- *The SSC Purchasing Card simplifies the procurement of certain work related goods or services that by their nature are more efficiently and economically paid for at the time of purchase*
- *Use of an SSC Purchasing Card also eliminates the need for using personal funds to procure certain work-related goods or services*

P-Cards are recognised by the State Services Commission as a legitimate tool for low value and one off expenditure. AT's P-Card guidelines are consistent with State Services guidelines, albeit that in order to ensure consistent application they would benefit from greater elaboration with respect to hospitality and entertainment.

Expenditure profile

As part of this review AT's P-Card provider, BNZ, was asked to present a list of other public sector organisations using their P-Card solution. BNZ provided a list of 42 including State Services Commission, Treasury, MBIE, Ministry of Justice, Department of Corrections, Commerce Commission, and WaterCare.

BNZ were also asked to compare AT's P-Card expenditure profile with similar sized organisations. This showed that AT is not dissimilar to the average in terms of number of cards (AT = 69; Average = 59), spend/month (AT = \$20k; Average = \$26k), and number of transactions/month (AT average = 180-200).

The information provided by BNZ shows that AT is not an outlier in terms of its use or scale of application of P-Cards.

How do other organisations manage low value and one off expenditure?

During the review a comparison of low value and one off expenditure was made with Auckland DHB. Each line of AT's P-Card expenditure was categorised, and for each category two questions were addressed:

- Is this classed as a legitimate expense within ADHB?
- If it is, what method is used to pay for it?

This showed that ADHB uses a mixture of mechanisms to pay for those expenses it classes as legitimate. These include:

- Purchase order / invoice
- Pay on manually approved invoice
- Personal reimbursement
- Petty cash

For some categories it was noted that ADHB has insourced or centrally managed functions which provide the goods or services, e.g. catering and facilities maintenance. As a consequence there was little if any need for direct expenditure by individual staff in these areas.

In addition it was noted that ADHB's discretionary expenditure policy setting was more restrictive than AT's with some expenses not being sanctioned, e.g. staff lunches while travelling on business, flowers for staff hospitalisation, Christmas decorations.

The comparison with Auckland DHB shows that the two organisations have some differing needs, policy settings, and payment solutions for managing low value and one off expenditure.

Conclusion

It is concluded that the use of P-Cards, when coupled with the appropriate policies, systems, and controls, does provide an efficient, right-sized, and robust method for managing low value and one-off expenditure within AT.

The review has also found that the existing P-Card Guidelines are largely dedicated to the authorisation process for P-Card expenses, and are less focussed on guidance around what is appropriate. It is in the area of appropriateness of expenses incurred where we should focus our effort. P-Cards provide the opportunity for better visibility over spending than that afforded by other payment types.


Having conducted a line-by-line examination of the past 12 months transactions it is clear that there has been some inconsistency in interpretation. There is a need to develop an improved policy and it is proposed that this takes the form of a simple table listing common categories of expenditure, indicating for each whether they are a legitimate expenses, what is the recommended payment channel, and whether further authorisation is required, e.g. from Business Technology.

Next Steps

On approval of this paper there are a number of actions that will be undertaken:

- AT's P-Card Guidelines will be updated to incorporate more detailed guidance on what expenses are legitimate and the most appropriate channel for payment. It will cross-reference related policies, incorporate sanctions for non-compliance, and be issued as a Policy. This will be completed within two months.
- Each P-Card holder will be trained in the application of this new Policy. This will be completed within four months.
- BNZ will undertake a review of the Expense Management System implementation – there are a number of system efficiency functions, such as storing images of GST receipts, that AT does not currently use.

Document ownership

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Glossary

Acronym	Description	Business Unit
ADHB	Auckland District Health Board	
DHB	District Health Board	
MBIE	Ministry of Business, Innovation and Employment	
P-Card	Purchasing Card	All