

Specialists in universities

SUMS
Consulting



Briefing Paper
Purchasing Card Use within Universities

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1. Introduction

A purchasing card (pcard) allows goods and services to be procured without using a traditional purchasing process.

Purchasing cards are usually issued to employees who are expected to follow their organisation's policies and procedures, including reviewing and approving transactions according to a set schedule. The organisation can implement a variety of controls for each card; for example, a single-purchase limit, a monthly limit, merchant category code (MCC) restrictions, and so on. In addition, a cardholder's activity should be reviewed periodically by someone independent of the cardholder. Regular reviews should also be part of an organisation's policy management. A variety of factors can contribute to its success or, conversely, its stagnation.

Organisations typically use pcards to target low-value goods and services, as it offers a mechanism to do these transactions at a significantly lower cost than traditional methods. These purchases include off-contract, non-traditional, non-purchase order, ad hoc, and incidental purchasing. Best practice pcard programs expand the purchasing card to the accounts payable department.

Accounts payable are using purchasing cards as a strategic form of payment, replacing cheques, and automating the payment to the supplier. This is one of the fastest growing uses of pcards.

Electronic statements are provided by card companies in place of traditional purchase invoices that can be uploaded to some financial systems, eliminating effort and risk of error.

2. Common Purchasing Card Issues

SUMS' research has identified the following purchasing card issues:

Volumes and limits

The number of pcards issued and the range of limits associated with these vary considerably across institutions. For example, a basic card that may only be issued to permanent staff can have a transaction limit of £500; however, this can be considerably lower depending on the institution.

The volume of cards in issue grows when insufficient controls are applied e.g. when there is no control to ensure that cards which are not utilised are cancelled.

Card misuse

Pcard use is being extended to transactions for which they are not intended e.g. for travel when a travel card should be used.

Process and systems

Regular review and oversight is essential, but this can be time intensive and reactive. Many institutions may not have robust contracts for card holders and fail to apply sanctions against those who fail to follow guidelines.

Card administration

There are considerable overheads associated with administering a high volume of pcards. The sophistication of approval processes can significantly impact the efficiency and effectiveness of card use and administration. Inevitably, there can also be a degree of human error when administering pcards, and attempted frauds which require investigation.

VAT miscoding and charging

Correct VAT coding can be hard to achieve without transactional level detail, which isn't always provided for in processes and systems. Out of date and regularly changing codes, combined with a large number of casual pcard holders, can lead to incorrect coding that requires considerable time and effort to rectify.

3. Examples of Good Practice

SUMS has recently undertaken research to establish good practice across the sector. The following outlines good practice in relation to various elements of pcard use.

Aim and policy

There is a clear statement of aims and a policy covering purpose, controls and limits.

Position within the system

Purchasing cards are part of an overall procurement system and it is clear where they sit in relation to other methods of procurement: e-procurement and expenses. They are not used where another method is more appropriate.

Issued cards

Cards are issued where there is a real need and to administrators rather than managers. (It is not an effective use of managers' time to make purchases and they are often unavailable.) It is general practice to have one card issued to one person per department with back-ups in central procurement.

Card controls

Cards can be restricted to certain Merchant Category Codes (MCC). Unless issued for a very specific purpose this is found to be ineffective. MCCs are not that reliable and much time can be spent sorting card declines for little extra benefit/control.

Card monitoring

Card purchases are typically relatively low value. Application of spot checks and checks on high value or unusual items are deemed sufficient. It is recognised that large numbers of cards that are seldom used represent a risk of loss and fraud, albeit a small one.

Procurement department

Procurement hold cards for rapid response, one-offs and overseas purchases.

Transaction limits

The transaction limits applied by universities were researched.

There are two main approaches:

- Give a limit of around £500
- Determine limit for the individual.

4. Key Recommendations for Universities to Improve Purchasing Card Use

SUMS research has derived a number of key recommendations for universities looking to improve their purchasing card processes:

Implement a clear policy for use

Policy for pcards should sit within a wider procurement policy.

Position within the system

Universities should position pcards as part of the approach to low-value transactions. For example, where there is a marketplace in use, the approach should be to use P2P process for suppliers with catalogues. Integral to this policy should be making use of available consortia frameworks or establishing local agreements to secure best value.

Universities should set corporate and departmental targets for use to show benefit. For example, a correlation between the increase in spend going through pcards and the reduction in number of suppliers on the purchase ledger.

Issue cards

Issue separate Travel and Expense cards. Issue individual cards rather than departmental cards as the individual needs to take responsibility for the card; however, institutions should base the limits for use on the department needs.

The card should be placed with the individual creating the need to purchase; this means it may sit with different roles in different departments.

Cardholders should sign an agreement which stipulates they would treat the card as if it was their own credit card.

Restrict use of cards to frequent, as opposed to casual users, and implement a regular systemised review of use to mitigate fraud.

The pcard programme should be actively managed to ensure it still meets needs; unused cards should be systematically withdrawn.

Card controls

To help ensure spend is directed according to need, use MCCs in a targeted manner where they can be effectively implemented; for specific cases, for example, where an individual's spending patterns are clear.

Transaction limits

Pcards should have monthly and transaction limits applied according to need.

VAT miscoding and charging

Provide for transactional level detail to help ensure correct codes are applied.