



# Executive Summary\*

## BEST PRACTICES OVERVIEW

The focus of this study is to identify Procure-To-Pay best practices suggested for and/or adopted by state and local agencies. The best practices also leverage knowledge obtained through the completion of the 2002 Large and Middle Market Procure-To-Pay Best Practices and the 2002 Procure-To-Pay Best Practices for the Federal Government. **For the purposes of this study, best practices are described as proven activities that, upon successful implementation, provide significant value to an agency.** All best practices may not be applicable for all agencies, as each agency may have different strategic, organizational, and technological goals and constraints.

As this document is reviewed, it is important for readers to think realistically about how best practices may be applied to their individual programs. We have attempted to highlight how the Purchasing Card program may benefit from a given Procure-To-Pay best practice as well as how agencies may realize resulting benefits. It is also important to understand that although these findings are considered “best practices,” the suggestions will not be feasible for all agencies to pursue. At the very least, the stated best practices may provide guidance and thought for agencies to improve their programs.

## SCOPE

This study encompasses the entire Procure-To-Pay function, which includes the Procure-To-Pay Foundation and the Procure-To-Pay Process and highlights, where applicable, the integration points and associated benefits of the Purchasing Card and related products.

The Procure-To-Pay Foundation describes the strategic, organizational, and technological underpinning of the Procure-To-Pay Process. The Procure-To-Pay Process describes procurement operations related to sourcing, order placement, payment and settlement, control and auditing, and reporting. The Purchasing Card program is highlighted as an enabler for phases of the Procure-To-Pay Process and is also included in the study.

## STUDY APPROACH

The approach used for completing the study consisted of the following steps:

1. Identify and confirm participation of targeted agencies
2. Contact appropriate Procurement resources within agencies to establish necessary support
3. Develop Agency Onsite Preparation Guide (request for data including program statistics, policy and procedure manuals, etc.) and administer to participating agencies
4. Conduct tailored on-site discussions with appropriate Procurement, Finance, and Purchasing Card resources
5. Follow up as necessary with participants to fill gaps in data
6. Compile best practices from participant findings, past commercial and federal studies, and internal Deloitte, Visa research, and industry knowledge
7. Validate findings with subject matter experts, issuer banks, and agencies

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8. Develop agency-specific presentations assessing opportunities to implement best practices
9. Create a Performance Gauge tool utilizing best practice findings
10. Create a Benefits Calculator to measure savings agencies may obtain by leveraging the Purchasing Card to streamline the procurement process

## STUDY PARTICIPANTS

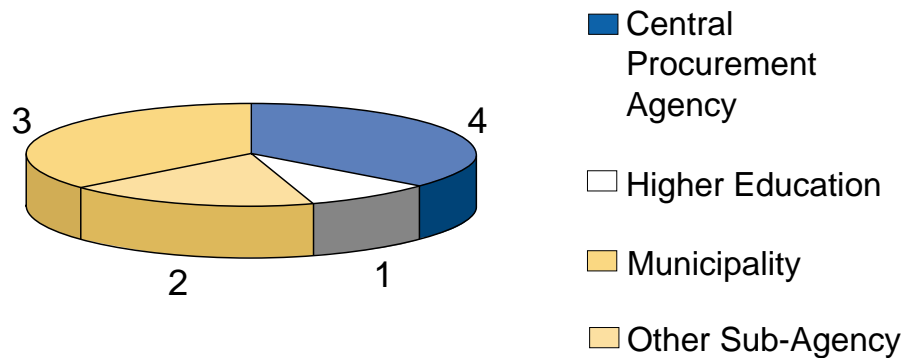
Although the names of participating agencies and sub-agencies will remain anonymous for this documentation, it is important to understand the characteristics of the participants that contributed information to this study. Visa USA and Deloitte worked collaboratively in selecting six states for inclusion in the study. The six states were identified as states with Purchasing Card programs with leading Procure-To-Pay practices. Basic statistics<sup>1</sup> regarding the study participants may be found below:

Number of Cardholders	5,000 to over 40,000
Average Transaction Size	\$196 to over \$225
Annual Purchasing Card Transaction Volume	425,000 to over 1,300,000
Annual Purchasing Card Spend	\$80 million to over \$300 million

Within four of the six states, the project team analyzed program information and conducted onsite discussions with the state's central procurement agency as well as additional sub-agencies, including higher education facilities, local municipalities, and small state agencies. The remaining two states worked with the Deloitte and Visa team in validating the relevancy of the 26 best practices.

A graphical illustration of the participant breakdown is provided below:

## 2003 Visa State & Local Study Participants



<sup>1</sup>Statistics are for Fiscal Year 2002

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## COMPARISON OF THE FEDERAL AND STATE AND LOCAL GOVERNMENT STUDIES

In completing best practices studies for the federal and state and local government sectors, key similarities have been identified between the entities relating to Procure-To-Pay strategy, controls, cost savings, and knowledge sharing.

Topic Area	Federal and State and Local Government Similarities
Strategy	Strategy typically focuses on agencies serving their constituents or other government entities, versus serving shareholders or a Board of Directors, as seen in the private sector. As a result, Procure-To-Pay best practices focus more on constituents versus financial success.
Controls	In recent years, the Purchasing Card programs have been subjected to a high degree of scrutiny and oversight regarding the incidence of card mismanagement. As a result, federal and state and local governments have established strong control practices for monitoring and tracking Purchasing Card transactions.
Cost Savings	Federal and state and local government agencies are able to take advantage of economies of scale (e.g., favorable financial incentives, volume discounts, etc.) by collaborating with additional agencies and sub-agencies when establishing issuer bank contracts.
Knowledge Sharing	Agencies participate in numerous knowledge-sharing forums to identify methods for improving their Procure-To-Pay functions. As a result, participating agencies may become well-versed in industry best practices, new Purchasing Card strategies and technologies, and changing legislation.

## BEST PRACTICES THEMES

The 26 state and local government Procure-To-Pay and Purchasing Card best practices detailed on the following pages provide practical and innovative techniques for agencies to help enhance their Procure-To-Pay functions. In establishing these best practices, five themes emerged which apply across all best practices. These themes are fundamental to successful Procure-To-Pay functions and have the potential to produce tangible and significant benefits for most agencies.

### **1. Obtain continuous and focused senior management support for Procure-To-Pay initiatives**

Leading agencies with successful Procure-To-Pay functions have obtained senior management support for Procure-To-Pay initiatives. This support may be provided by a Director, Deputy Director, CFO, or other management position. Senior management typically serves as advocates for new and existing Procure-To-Pay initiatives and provides valued support and guidance for successful operations. It is critical that support from senior management is achieved to increase the likelihood of receiving endorsements and resources for existing initiatives, encouraging compliance to policies, and increasing visibility and buy-in.

### **2. Collaborate with Purchasing Card Issuer Bank**

Leading agencies recognize the intrinsic value of the Purchasing Card within their greater Procure-To-Pay strategy. Purchasing Cards add value to each of the Procure-To-Pay Processes and are key components of the Procure-To-Pay Foundation. Accordingly, the Purchasing Card issuer bank is both an important vendor and partner in achieving Procure-To-Pay best practices.

### **3. Develop a Procure-To-Pay Communications Strategy**

Leading agencies develop and implement a communications plan which provides for recurring, proactive messages about the Purchasing Card program progress against benchmarks (financial and regulatory), new policies and procedures, cost savings, and other successes. Channels for message delivery may include newsletter, website, or in-person sessions.

### **4. Seek out innovative applications of Purchasing Cards**

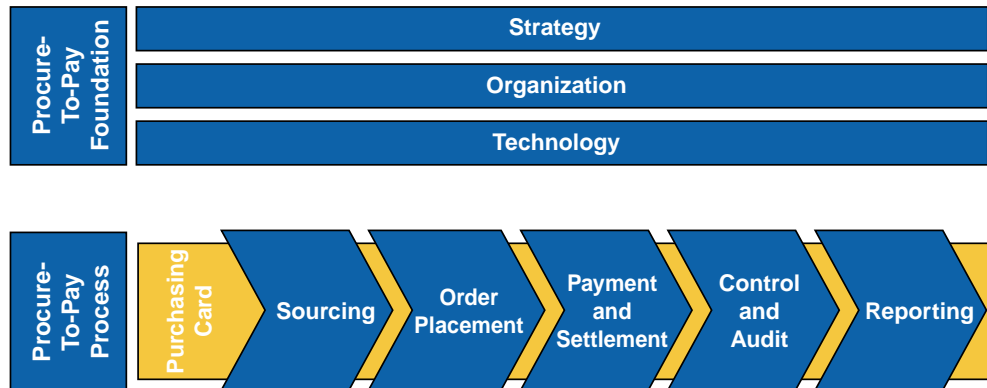
Leading agencies actively seek out innovative ways to use the Purchasing Card platform to improve Procure-To-Pay Processes and reduce costs. Using Purchasing Cards brings financial returns, greater controls, and improved vendor management to various types of procurement, so it follows that the greater number of places the card is used, the greater the returns to the agency.

### **5. Continuously improve comprehensive and proactive controls that minimize occurrences of card mismanagement**

Agencies are increasingly adopting strategies for improving controls over their Procure-To-Pay functions. Continual scrutiny and legislative mandates have further encouraged agencies to reevaluate and, in some cases, modify existing control policies. Leading agencies look at controls from a process perspective and ensure that every phase of the Procure-To-Pay Process has appropriate controls in place. In addition, leading agencies are publicizing their controls to discourage unacceptable practices before the fact.

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## BEST PRACTICES CATEGORIZATION



The best practices herein are organized according to the illustration above. All of the best practices are categorized within the Procure-To-Pay Foundation, Procure-To-Pay Process, and Purchasing Card program areas:

- Procure-To-Pay Foundation: The Procure-To-Pay Foundation incorporates the agency's overarching strategic, organizational, and technological frameworks. The Procure-To-Pay Foundation should be considered the base from which the Procure-To-Pay Process is established.
- Procure-To-Pay Process: The Purchasing Card best practice processes touch all phases of the Procure-To-Pay Process. Steps in the process include Sourcing, Order Placement, Payment and Settlement, Control and Audit, and Reporting. Incorporating Purchasing Card technology and best practices will act as an enabler for many processes, such as the use of e-Procurement for Order Placement and the linkage of card usage data with general ledger systems for Payment and Settlement, Control and Audit, and Reporting.