

## **PRINCIPLES AND PRACTICES OF MANAGING A GLOBAL PURCHASE CARD PROGRAM<sup>1</sup>**

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**ABSTRACT.** This article highlights three key principles that form the basis of operations for the U.S. Department of State's Purchase Card program. These principles include standardization, centralization and collaboration. The author also provides some practical advice on managing a Purchase Card program in a global environment that could be applied to other card programs.

### **INTRODUCTION**

The Purchase Card program has become an increasingly important tool used by many government agencies to streamline their procurement process and to meet their specific agency's mission. This is equally true for the U.S. Department of State, which maintains global operations and responsibilities in more than 260 posts worldwide in some 170 countries. Three basic principles, which include standardization, centralization and collaboration and a handful of best-in-class practices, are at the core of Department's successful program.

### **BASIC PRINCIPLES**

#### **Principle 1: Standardization**

Standardization has been one of the driving factors in shaping the architecture of the Department of State's Purchase Card program. For example, in 1997 the Department of State consolidated its separate domestic and overseas card programs into one worldwide operation. By combining the two programs, the Department of State was able to centralize management and eliminate the need for two sets of policies

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and operational procedures. The integration also allowed the Department of State to gain better oversight of purchase card usage and standardize policies, guidelines, management controls and processes that led to increased efficiency and program growth.

Shortly after consolidation, the Department of State launched an “on-line” training and testing program for users worldwide. The goal of the new training was to provide a comprehensive training package and testing methodology for Department of State program participants at the most economical cost to the government. Without this tool, users would have to rely on more formal classroom training, which would be cost prohibitive for Department participants overseas. The “on-line” training program eliminated training backlogs while it increased awareness and supported management and staff buy-in for the program. The outcome was increased consistency worldwide and reduced administrative costs.

Areas of workflow frustration were also evaluated to come up with additional opportunities for standardizing and streamlining internal workflow processes. For example, in January 2002, a standardized checklist or template called the “Tool Kit” was introduced to facilitate processing special requests submitted to program and operation managers for review and approval. Special requests include requests for threshold increases, convenience checks, changes in Merchant Category Codes (“MCCs” identify the categories of vendor types that a cardholder is authorized to purchase from) or one-time deviation (forced authorization) requests from a cardholder’s established card profile parameters. Due to the success of the participant tool kits, separate management tool kits were also made available for internal program administrators to use in the review and approval of special requests. The tool kits have significantly reduced special request processing time, lowered error rates and raised awareness of policies and procedures.

## **Principle 2: Centralization**

Centralization goes hand-in-hand with standardization and has become one of the cornerstones in managing the Department of State’s global card program. Until two years ago, the operational management of the Purchase Card program was decentralized among three overseas regional centers making overall program management more complex. In 2001, the operational management of the Department’s program was consolidated and reestablished in Washington. Centralizing day-to-day operational management of the program was no small task and reflects

the high degree of senior management support for Department of State's program. Without this support, this author believes that this far-reaching change would not have been feasible. Today the management of the program is centralized and continues to be based on a strong partnership among program management, operations and financial management.

### **Principle 3: Collaboration**

The third principle underlying the Department of State's Purchase Card program is the importance of collaboration, not only among team members, but also with other agencies, participating banks and the credit card associations. The need for collaboration and working in partnership, including sharing of best practices and learning winning strategies from other agencies cannot be overstated. Collaboration is critical to the long-term development and success of a card program.

As one of the eleven primary agencies that participated in the "Procure-to-Pay Best Practices Study" for the Federal Government conducted by Deloitte for Visa, the Department of State actively shares its best practices with other agencies. For example, this author has been a frequent speaker at the annual General Services Administration (GSA) SmartPay! government-wide credit card conference. The annual conference attracts credit card participants ranging from cardholders to billing officials, the participating banks, associations and other interested parties and is held throughout the U.S. These forums were used to highlight aspects of Department's Purchase Card program including program oversight, automation of internal workflow processes, and methodologies to standardize processes in order to reduce the administrative burden, improve reconciliation procedures, and decrease costs and processing times. The Department of State uses forums such as the SmartPay conference as an opportunity to also learn about new enhancements, alternative strategies and program changes from experts in the field.

Additional examples of collaborative partnership and resulting benefits can be found in other areas of the Department of State's Purchase Card program. For example, as one of the best practices identified in the Visa study, a collaborative relationship with the Department's financial bureau led to shared objectives and performance measures. The net result of collaboration has been increased compliance with policies and a reduced overall cost structure by eliminating redundancies. This team approach also reduces any polarization.

However, a collaborative team approach must extend beyond the immediate card participants and reach out to other groups within an organization that may have a vested interest in the management and operation of a program. For example, the Purchase Card program team works closely with its OIG on policy development for management controls. As part of this collaborative partnership, the OIG has suggested program improvements to the annual review process to ensure that program participants are complying with established procurement management practices, operating procedures and purchase card controls. This partnership has led to program improvements, enhanced management oversight and decreased vulnerability for cardholder waste and misuse.

Of equal importance to the Department of State is staying connected with its cardholders and other program participants worldwide. To achieve this it uses a host of tools to communicate program details surrounding management procedures and the penalties associated with card misuse including an active outreach program, the Department's web site, electronic newsletters and e-notices as well as worldwide cables. Due to the extent of its worldwide operations, a mix of outreach efforts has proven more effective than one single methodology.

## **BEST PRACTICES AND CHALLENGES**

### **Best-in-Class Practices**

Within these three underlying principles, a few best in class practices have surfaced that can help an agency meet the challenges of managing complex card programs. These practices, similar to the three principles noted above, are simple in nature but powerful in their impact on a card program. These practices consist of:

- Standardizing wherever possible including cardholder buying logs, procedures, guidance and practices;
- Establishing a close working relationship between the buying and finance office that pays the invoice;
- Establishing written internal operating procedures at the local level to supplement agency-wide guidance;
- Keeping program profile and hierarchy information current when individuals depart or updates are needed to accounts;

- Accessing invoices and cardholder statements on-line rather than waiting for the paper to arrive;
- Centralizing overall management of a program, but decentralize field operations;
- Establishing local “Quality Control Reviewers” to whom all applications and related information must flow;
- Ensuring payments are always made off the official invoice and never off the individual cardholder statement. The latter is used strictly for reconciliation purposes; and
- Filing and tracking disputes in a timely fashion.

### **Challenges**

With participants scattered around the world and with increased program growth, purchase card programs face the challenge of ensuring proper card usage and oversight. The Department of State, like other Government agencies involved in Purchase Card programs, has initiated steps to meet this challenge and to ensure that strong internal controls are in place. To standardize oversight processes, in January 2001, the Department of State launched a worldwide approach to performing an annual review of Purchase Card operations at each overseas Post or domestic Bureau. The new review eliminated the need for each Program Coordinator to reinvent a separate review process and provided a streamlined tool for evaluating local Purchase Card programs. The new process has also raised awareness for the importance of field management oversight and compliance.

Additional internal controls implemented by the Department of State include establishing individual card dollar limits, using Merchant Category Code restrictions, enforcing basic and refresher training, clearly identifying individual responsibilities and oversight and reporting requirements, and enforcing annual program performance reviews.

### **CONCLUSION**

Simple principles coupled with a few best-in-class practices and a willingness to learn winning strategies from other agencies can yield positive and far-reaching results. By relying on the principles of standardization, centralization and collaboration and a few key practices,

agencies can be better equipped to face the challenges of managing a growing Purchase Card program in a global environment.

**NOTES**

1. The views expressed are strictly those of the author and do not necessarily represent those of the U.S. Government or the U.S. Department of State.