

# Getting credit

by Catherine Morrison

## Acquisition cards benefit government purchasing

Kristine Racicot

**A**QUISITION CARDS have been around the federal scene since 1991. In the beginning, there were only about 2,000 cards in use and the dollar volume of purchases was around \$2 million a year. Today there are more than 35,000 cards in use and the dollar volume of purchases in 2002 was \$560 million. In the five years that Bob Berniquez has been responsible for acquisition card use in the federal government, he has seen the volume of card purchases more than double. Berniquez is director of Treasury Board Secretariat's Financial Management Policy Division.

As of May 2003, there were 126 federal departments using acquisition cards. Of these, 100 were using the Bank of Montreal's (BMO) MasterCard and 26 were using the CIBC Visa card. The 10 largest departmental users have annual volumes ranging from \$521,425 or .09 percent of total expenses (Department of Foreign Affairs and International Trade) to \$102.7 million, or 19.5 percent of expenses (Fisheries and Oceans). (see Figure 1)

Wendy Allen-Hall, in her capacity as director of Public Sector Relations for BMO's ePurchasing Solutions and point person for the BMO, is determined to help the federal government achieve cost

savings and earn higher rebates by growing the acquisition card program.

Fisheries and Oceans, as the largest federal credit card user, had some 5,300 BMO MasterCards in use by 10,000 employees in 2002, according to a BMO case study published in 2003. The study describes the challenge Fisheries and Oceans faced in adopting a card program to streamline the procurement process within a decentralized departmental culture – a culture that empowers “managers by providing them with the tools to do their work” in an environment “bound by many regulations, which are intended to ensure openness, fairness and competition in their procurement processes.” Fisheries and Oceans has more than quadrupled its volume of card transactions from \$25 million in 1995.

With such spectacular growth throughout the federal government there have come a number of benefits, challenges and opportunities.

Cost saving, needless to say, is the most compelling of these benefits. Treasury Board officials have been heard to use the figure \$70 for the cost of each purchase made using conventional methods involving purchase orders and payment by cheque. Allen-Hall says that American

studies she has seen put the figure as high as US\$125 (C\$165). Without giving a per transaction savings figure on credit card purchases, she estimates that a large federal department, one with a budget in the \$500 million range, can expect to save \$3-\$6 million a year. Another BMO case study, this time on Agriculture and Agri-food Canada, recounts how a 1997 internal audit suggested “missed opportunities for saving – by *not* using the card – of \$1.9 million.”

In the US, the Federal Supply Service (FSS) estimates that GSA SmartPay®, the US federal purchase card program, saves between US\$53-117 per transaction, according to latest audits and studies. John Ziu, of the FSS, says that, “Use of the purchase card is estimated to have saved the US government over \$1.4 billion during fiscal year 2002.”

Treasury Board's Berniquez says that in addition to direct cost savings, there are increased efficiencies in both the procurement process and in the financial process. For example, an administrative assistant can stop on the way back from lunch and pick up those office supplies he or she just remembered the department is out of, which wouldn't happen without a departmental purchasing card in hand. They'd

### Figure 1. Purchases with acquisition cards

Total expenses from 2002 Public Accounts of Canada includes expenses from: Information (s.o. 3), Professional and special services (s.o. 4), Rentals (s.o. 5), Purchased repair and maintenance (s.o. 6), Utilities, materials and supplies (s.o. 7) and Acquisition of machinery and equipment (s.o. 9).

Departments	FY 2002 expenses*	FY 2002 acquisition card purchase	% of expenses paid with acquisition cards
Fisheries and Oceans	\$ 527,179,000	\$ 102,651,139	19.47%
Environment Canada	\$ 259,414,000	\$ 18,363,420	7.08%
Health Canada	\$ 880,208,000	\$ 61,445,757	6.98%
Agriculture Canada	\$ 315,754,000	\$ 16,933,631	5.36%
Transport Canada	\$ 300,899,000	\$ 12,588,388	4.18%
RCMP	\$ 602,583,000	\$ 20,245,620	3.63%
National Defence	\$ 5,709,501,000	\$ 110,123,756	1.93%
HRDC	\$ 806,334,000	\$ 11,477,776	1.42%
Industry Canada	\$ 952,718,000	\$ 7,229,866	0.76%
PWGSC	\$ 2,623,646,000	\$ 14,425,519	0.55%
DFAIT	\$ 593,918,000	\$ 521,425	0.09%

**Acronym key:** RCMP (Royal Canadian Mounted Police), HRDC (Human Resources Development Canada), PWGSC (Public Works and Government Services Canada), DFAIT (Department of Foreign Affairs and International Trade).

**Source:** *Current Trends in the Use of Acquisition Cards*, presentation by Bob Berniquez at the Materiel Management National Workshop, May 2003.

have to go back to the office for petty cash, or a purchase order to be signed in triplicate.

Efficiencies in the financial process are perhaps most noticed by government vendors, who may see payment show up in their bank accounts as soon as 24 hours after the purchase!

Then there are rebates. Rebates are available to government departments based on both the volume of purchasing and the speed with which the bank's bill for credit card purchases is paid. Fisheries and Oceans, for example, which pays for almost 20 percent of its purchases with the BMO MasterCard, received \$500,000 in rebates in 2002. Agriculture Canada, which pays for just over five percent of its purchases, received almost \$102,000 in rebates. The established rebate rate is a confidential element in the contract between both the banks that run the card program and the federal client.

In the US in recent years, rebates to the federal government have been in the \$65 million range – no small amount of coin, and certainly an incentive for departments to migrate to a credit card purchasing system.

In Canada, departments have been making the switch more rapidly as time goes on and the benefits become increasingly apparent. But with increased use comes increased potential for risk.

The federal management guide for the card program puts it bluntly: "The increasing use of acquisition cards has had an impact on the traditional paper-based con-

trol framework. As a result, there are concerns about increased risk of error or abuse that might go undetected.

"In 1997, the Office of the Auditor General conducted a government-wide review of acquisition card usage. Although it concluded that no serious losses could be found at this time, the report stressed the need for better controls and better monitoring by departments," the guide says.

Berniquez says that since he's been involved with the card program, there have been only two or three cases of misuse of cards, and one was an honest mistake on

the part of someone who took the wrong card out of their wallet at a point of purchase. It was immediately reported and rectified.

However, Canadians tend to recall the high-profile cases, like the time a federal Cabinet minister mistakenly purchased a fur coat on her card. "But that was caught," Berniquez points out. And it was caught, he says, because of the controls in place for the federal government's card program. To begin with, departmental managers have to review all credit card statements on a monthly basis.

Which does not seem to have been the practice at the City of Ottawa. The city had abuses of its card program discussed in front page stories of the *Ottawa Citizen*. According to the *Citizen*, a report by the city's auditor detailed a number of misuses – including exceeding the purchase limit of \$10,000 – and continued transaction splitting. The most common "offence" seems to have been the failure to provide adequate documentation of card purchases.

In February 2003, Ottawa mayor, Bob Chiarelli, cancelled about 1,500 corporate credit cards. Again in October, reported the *Citizen*, 25 percent of purchasing cards had to be suspended.

In the US, the highest estimate for abuse of government credit cards is \$5 mil-



Bob Berniquez, director of Financial Management Policy at Treasury Board Secretariat, displays the acquisition cards used by authorized federal personnel.

**Figure 2. Program automation**

Bank	Total # Departments	Payment in 10 days or less		Consolidated Billing		Electronic Payment		G/L Automation	
		# Dpts	%	# Dpts	%	# Dpts	%	# Dpts	%
CIBC	26	8	31%	15	58%	7	27%	8	31%
BMO	100	27	27%	51	51%	22	22%	17	17%

**Source:** *Current Trends in the Use of Acquisition Cards*, presentation by Bob Berniquez, Treasury Board Secretariat at the Materiel Management National Workshop, May 2003.

lion annually, which is about .03 percent of the federal government's credit card spending at over \$15 billion a year. And, as John Ziu pointed out in a presentation to his Canadian counterparts at Treasury Board Secretariat, "fraud long-preceded the use of the purchase card."

"The Americans," says Kathy Kirton, marketing manager for CIBC's commercial cards, "are five years ahead of us in Canada," in terms of all aspects of public sector credit card use. By Ziu's account, 87 percent of total US federal government acquisition volume is done on credit cards. In Canada, by Berniquez's account, 2.86 percent of federal expenses were paid with acquisition cards as of May 2003. He would like to see that figure at 20 percent.

So what's it going to take to get us there? Kirton says it's a combination of education and systems implementation "...about 50/50 of each." She says, "CIBC believes in meeting or exceeding every ministry's needs and desires to grow their [acquisition] card program," and to help them do it "...provides hands-on, consultative personnel" to work closely with Visa clients.

Currently, both BMO and CIBC offer electronic systems for payment, consolidated billing and uploading purchasing and payment data to General Ledger (G/L)

systems. But usage of these options is still quite limited. (See Figure 2.)

In addition, both banks offer a menu of automated controls, reporting and data-mining tools. In the area of controls, for example, cards can be embedded with spending limits and vendor blocks, so that if a department wants to make sure that employees can't buy personal items such as liquor or videos on their cards, liquor outlets and video stores can be blocked.

Similarly, what is called "level three data" is becoming increasingly available on billing statements. What this means is that, where once, only the total charge for a hotel stay might appear on the monthly statement (in the case of a travel card), now departmental managers are able to see exactly what their employees are charging to their cards. A bit big-brotherish to be sure, but not an issue, presumably, as long as employees comply with usage rules and regulations.

Level-three data can also be used to facilitate budgeting and other financial processes. Transactions can be coded so that they can be immediately uploaded to the appropriate budget line in the G/L. And, in addition to a suite of over 1,000 customized reports offered by one supplier, there are now tools available that allow

departments to do their own data mining on transaction databases.

The card vendors are encouraged to provide the education and training that will push up card volumes and usage rates. BMO, for example, recently hosted a vendor fair that brought together government officials and big ticket suppliers – and we're talking computer mainframe vendors here, not office supply merchants, who are already well-ensconced participants in the card program. The objective? To get both vendors and procurement officials talking about how to move conventional payment methodologies for big ticket items to the "plastic" realm.

In the US, big-ticket items (over \$25K) account for about 90 percent of total government buying.

BMO's Allen-Hall cites a hypothetical example of how a card could be set up so that a federal department in need of a new building, say in Tokyo, could do the whole transaction (millions of dollars) on plastic. There would be a dollar limit on the card and perhaps the vendor would be specified. If the purchaser wanted to take the agent out for dinner, however, it probably would not happen on this card – unless, of course, somebody thought to designate a restaurant in the card setup specs.

The potential for credit card growth in the federal public sector alone, if the American experience is any indication, is huge. Not to mention the potential in other public sector jurisdictions, where card use is a comparatively newer phenomenon. Even Canadian taxpayers should be excited. Bob Berniquez is. "I'm a taxpayer as well as a credit card booster. Every dollar we save the Canadian taxpayer with our credit card programs is money in my pocket too."

*Catherine Morrison, a writer based in Chelsea, Quebec, has been published in the Ottawa Citizen and the Globe and Mail's print and online editions, as well as in Canadian Consumer, Asia Pacific Magazine, the Edmonton Journal and C.A.R.P. Magazine. She was a full-time writer/broadcaster for CBC Network Television and CBC TV and Radio, Winnipeg and a contributing editor and columnist for Winnipeg Magazine.*

Acquisition Card Programs in the provinces and territories		
Province/Territory	Card	Annual \$ Value of Card Purchases*
Newfoundland-Labrador	No card program in place at present <sup>1</sup>	
Prince Edward Island	No card program in place at present <sup>2</sup>	
Nova Scotia	CIBC Visa	\$3.8 million
New Brunswick	BMO MasterCard: Currently in the process of implementing program	
Quebec	Not available	Not available
Ontario	BMO MasterCard	\$112 million
Manitoba	National Bank MasterCard	\$10.5 million
Saskatchewan	Scotia Bank Visa	\$6 million
Alberta	BMO MasterCard	\$36 million
British Columbia	CIBC Visa	\$53.3 million
Yukon	CIBC Visa	10% of purchases <sup>3</sup>
North West Territories	U.S. Bank Canada Purchasing Card <sup>4</sup>	\$9.0 million
Nunavut	No cards used for goods and services	

<sup>1</sup> Will decide in the spring if a program will be introduced. It will be with Amex, which has Newfoundland-Labrador's travel card program and this will be part of the contract with them, if implemented.  
<sup>2</sup> Planning to implement one soon.  
<sup>3</sup> Not available as a dollar figure.  
<sup>4</sup> Associated with Royal Bank of Canada.  
 \*excludes travel

**Source:** Compiled by Catherine Morrison.