

# White Paper: Purchase Card vs. Purchase Orders

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State of Oklahoma

Department of Central Services' Audit Unit

January 20, 2011

**Cost benefits:** Savings by using the purchase card rather than other purchasing methods can be estimated at \*\$71.00 per transaction as noted in the \*2010 RPMG Research, P-Card Benchmark Survey Results. Using the benchmark survey, we estimate \$41.2 million in administrative savings to state agencies over last six years. Preliminary results of a survey conducted by the Department of Central Service (DCS) Audit Unit with 13 state agencies indicated the actual time employees spend during the lifecycle of completing a transaction is reduced by 24.2 work hours when the standard purchase card is used. The greatest saving reported came from not having to set up a purchase order for each transaction.

**Merchant Relationships:** Merchant relationships with the state are greatly enhanced because the merchant receives payments through the purchase card rather than the traditional purchase order process. The merchants usually get paid within two or three days with the purchase card and the state pays their card balances at the end of each billing cycle. As a result, the state has seen explosive growth of its vendor base, leading to more competition for government purchases. Increased vendor base enhances competition and promotes decreased prices paid and enhances the quality of the goods and services purchased. Many merchants do not want to learn or be a part of the states purchase order process due to the additional cost, additional time required of the vendor and the collection efforts after the sale. With the introduction of the purchase card, merchants are more acceptable to doing business with state government.

**Timing benefits:** The purchase card enhances the ability of state agencies to respond to spontaneous events. Even in traditional procurement, the purchase card reduces the time it takes to acquire and employ goods and services in the time of need.

**Local government spillover:** Local governments and political sub-divisions are taking advantage of the benefits associated with purchase cards by joining the state purchase card contract. With the additional participation, the state can negotiate a better purchase card statewide contract with increased rebates to the users.

**Enhanced Internal Control Features:** The purchase card program has enhanced control features. These features include the approving official has to be one level above the cardholder in the organization. External continuous monitoring is provided from the bank and the DCS Audit Unit to spot any questionable transactions or suspicious activity. Also real time monitoring of transactions and purchasing limits can be performed by supervisors.

**State Agency History of Purchase Card Fraud:** Since the beginning of the purchase card program in 2001 for the State of Oklahoma, there has been 7 instances of employee fraud totaling \$38,425.84. Three of these cases occurred prior to or at the time of creating a formalized DCS Audit Unit in 2005 to audit and monitor purchase card transactions. These three cases totaled \$38,374.86. In all these cases the state was reimbursed and/or the employee was terminated. When the employee is terminated the State can receive reimbursement through the fraud insurance. Also there is no known non-employee fraud that was not reimbursed by the purchase card provider. Since formalizing the DCS Audit Unit in 2005, employee fraud has been reduced by 99.9%.

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## Summary Comparison

### **Purchase Card**

100% Transparent to the Public via Web  
Real Time View of Transactions  
Blocked Vendors From Use  
Instant Changes to Caps on Transaction Values  
Caps can be Raised for Individual Purchases  
Limits on Types of Purchases Made  
Rebate  
\*\$22.00 Cost Per Transaction  
1 Voucher Per Billing Cycle  
Vendor Fraud Coverage  
Small Town & Remote Business Acceptance  
100% External Continuous Monitoring  
Individual Purchaser is Personally Liable  
Tracked Fraud and Misuse Data  
Required Training to All Participants  
Required Refresher Training

### **Purchase Order**

Only Through Open Records Requests  
Only Viewable after Invoice is Processed  
No Vendors Blocked From Use  
No Instant Changes to Caps on Values  
Untimely Process to Raise or Lower Caps  
No Limits on Type of Purchases Made  
No Rebate  
\*\$93.00 Cost Per Transaction  
1 Voucher per Transaction  
No Vendor Fraud Coverage  
Limited Acceptance  
Limited External Monitoring  
Limited Personal Liability  
No Tracking of Fraud and Misuse Data  
Limited Training to Limited Participants  
No Refresher Training