

# GFOA's 2009 Awards for Excellence in Government Finance

## *Awards for Excellence in Government Finance*

Title of Entry: *Revitalized Purchasing Card Program Leads to Phenomenal Growth*

**Category (Select only one): Subcategory (Select only one):**

- Accounting, Auditing, and Financial Reporting  Policies and Procedures
- Budgeting and Financial Planning  Management and Policy Studies
- Cash Management and Investing  Communications and Reporting
- Capital Financing and Debt Administration  Training and Technical Guides
- Economic Development  Other
- E-Government and Technology
- Management and Service Delivery
- Pensions and Benefits

Name of government submitting entry: *Johnson County, Kansas*

Population served: *500,000*

Number of employees: *4,000*

Name of person submitting entry: *Kevin Hiskey*

Title of person submitting entry: *Deputy Finance Director*

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If the person submitting the entry is not an active member of GFOA, an active member must sponsor the entry.

If applicable, provide sponsor information below.

Name of sponsor: \_\_\_\_\_

Title: \_\_\_\_\_

Government: \_\_\_\_\_ Telephone: \_\_\_\_\_

Mailing address: \_\_\_\_\_

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Please provide simple and direct answers to each of the questions below. If necessary, use additional pages.

### A. Local Significance and Value (Background)

1. Please give a brief general description of the project or program being submitted.
  - i. In 2003, Johnson County, Kansas, a suburban county of more than 500,000 citizens and a 2003 budget of over 600 million, decided its purchasing card program, while good, was vastly underutilized. Only 14% of all purchasing transactions were made with purchasing cards. A decision was made to undertake a total overhaul of the program with the goal to convert the majority of the purchases and related payments to purchasing cards while also enhancing security and accountability and obtaining the other advantages of a “Best Practice” program. With upper management support, the purchasing card was declared the county-wide preferred tool for small dollar purchases. The Office of Financial Management (OFM) began a concerted effort to transition small dollar purchases from the traditional requisition/purchase order process to the purchasing card. A multi-step plan was formulated that included gaining Board of County Commissioner approval to increase small dollar spending limits from \$2,000 to \$10,000, educating and training users, implementing new reconciliation software, using the intranet and meetings with user groups to publicize program enhancements, holding regular meetings with the sponsor bank to develop the best practices, and many other steps all aimed at transitioning the bulk of small dollar purchases away from the requisition/purchase order/check process to the purchasing card. Since the inception of this effort in 2003 through the end of 2008, the annual volume of purchasing card transactions has gone from 5,625 to 45,410. By the end of 2008, the percentage of purchasing transactions made with purchasing cards had increased to 72%. Annual purchasing card dollars more than tripled during these years by going from \$3.5 million in 2003 to \$11.4 million in 2008.
2. Describe the local events and/or problems that led to the undertaking of the project/program.
  - i. Over the last two decades, Johnson County has experienced tremendous growth. Average annual growth is approximately 10,000 new residents each year. County government has also grown at a similar pace. The volume of transactions, especially purchasing and accounts payable transactions, had increased to the extent that existing staff was having a difficult time keeping up. As is common in government, the increase in the size of government did not necessarily translate into increased budgets and FTE’s for central services departments. By 2003, the volume of purchase orders had grown to over 33,000 per year and accounts payable was processing over 10,000 invoices per month. Both the Purchasing and Accounts Payable divisions of OFM had begun to utilize the services of temporary labor to keep up with the demand. Unfortunately, due to the tight budgets that many governments had to deal with in the aftermath of 9/11 and the slower economy, OFM was told that the temps would have to go and we would have to figure out how to handle the work load with existing staff.
  - ii. OFM needed to accomplish several tasks quickly. A primary need was to greatly reduce the volume of purchase orders and checks being prepared for small purchases. We also needed to provide department users with a more efficient and effective method to make small dollar purchases, while still maintaining strong internal controls. Another evident fact was that we had to look seriously at dollar thresholds for purchasing authority which had been in place for more than fifteen years. We brainstormed all the options for dealing with the increasing volume of transactions and decided that the best and most economical way to deal with it was to greatly expand the purchasing card program.

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The county had implemented a purchasing card program in 1997, but users had been slow to adopt it for widespread use as evidenced by the 14% usage mentioned above.

- iii. One of the biggest hurdles was to change the perception of the purchasing card. Many employees, managers, and directors looked on purchasing cards with a degree of skepticism. They also tended to view it only as a tool for making very small purchases like buying bolts at the hardware store. The departments would need to be re-educated in the value of the purchasing card as a truly effective procurement tool. The existing program was paper intensive and required far too much manual processing (e.g. paper logs, manual reconciliations, etc.). It was evident that we would have to automate the process and make it compatible with an Oracle ERP system that was implemented in 2002. By expanding the use of the purchasing card, we could reduce purchase order and check volumes, expedite the purchasing process for users and suppliers alike, greatly reduce administrative costs, enhance security and reporting, and substantially increase the County's rebate from the bank.
3. Describe the role the finance office/finance officers played in this project/program.
    - i. The Office of Financial Management (OFM) put together a team to brainstorm how to best address the problems mentioned above. The team consisted of employees from the OFM Accounts Payable and Purchasing Divisions as well as the Assistant Finance Director and the Deputy Finance Director with executive sponsorship from the Finance Director. After deciding on a plan, this same team transitioned into an implementation team that would coordinate and grow the program.
  4. How much time did each participant devote to this program/project? Were outside consultants engaged?
    - i. We did not track the amount of time involved for each participant. No outside consultants were engaged. The program is ongoing and still growing so it would be hard to measure the time devoted over the five year span covered in this document. Each of the team members was already involved in the existing purchasing card program, but the amount of each person's time to it increased as we implemented the steps mentioned below, while time spent on the old requisition/purchase order/check process decreased. The growth of the program occurred over the period of several years. We keep referring to the "flywheel" concept put forth in the Jim Collins book, Good to Great to describe how our program grew to its current level. Initially you push hard on the giant flywheel and it is difficult to move and moves very slowly. Then as you keep pushing, it becomes easier to push and picks up speed and momentum. As it does, it requires less and less effort to keep the flywheel moving. As the program built momentum, it reduced the amount of traditional purchase orders and accounts payable invoices, which enabled the staff to focus more on the purchasing card program. Plus, the County continued to grow during this time and so did the volume of transactions that OFM had to process. Probably the biggest time commitment came from the implementation of the new purchasing card reconciliation software and training users on how to use it. One staff person devoted several months to this process.

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### B. Technical Significance

1. What financial concepts, standards, or techniques are displayed or advanced by this entry? Why is this important to the public finance profession?
  - i. Purchasing card programs provide a very good way for finance departments to enhance internal controls. Controls can be put on the cards to dictate the amount of spend per transaction, per day, per month, etc. Controls can also be put on the card to limit the types of businesses the cardholder can do business with. The cards provide an excellent way to know exactly who performed a transaction and when. Cards can quickly be shut down when employees leave the County or when disciplinary action is necessary. Card providers like Visa provide purchasing protection in instances where the supplier attempts to misuse the card or when the card is lost. Card programs greatly reduce the need for petty cash accounts and the accompanying risks associated with them. They also virtually eliminate the need for store charge accounts whereby an employee (or even an ex-employee) can walk into a store and simply sign for items they have purchased. Our experience with in-store charge accounts revealed that they had potential for abuse. It was also often difficult or impossible to determine which employee had signed for the items and thus which department to charge when the invoice came in.
  - ii. Purchasing card programs are well known for improving efficiency. According to statistics provided by the National Institute of Governmental Purchasers (NIGP) and others, the estimated savings to be realized from a purchasing card transaction versus the traditional requisition/purchase order/check process is \$69 per transaction. It reduces the volume of purchase orders and checks issued. For more on the financial savings, see the Cost/Benefit section below.
  - iii. Purchasing card programs aid in a government's sustainability efforts. Instead of issuing paper purchase orders, checks and envelopes and the ink and electricity to print them, a purchasing card entails a simple paper invoice or receipt to file as documentation. Only one electronic payment (wire or ACH) is then necessary to pay the sponsoring bank for the entire month's purchasing card transactions. It also reduces the amount of mail that must be delivered by the postal service, thus reducing emissions.
  - iv. The County decided to reconcile purchasing card transactions on a weekly basis. By doing so, we were able to post the transactions to the general ledger within a week of when they occurred. This provided more timely budgetary control. It also enabled a better process for year-end cutoff of payables transactions. With the transaction date information provided by the sponsoring bank, it was very easy to determine which fiscal year to charge an expense to and to electronically send those transactions to the proper year.
  - v. Public finance professionals should desire to improve internal controls, efficiency, sustainability, and budgetary control. While purchasing card programs are not new to governments, very few have implemented them to the degree that Johnson County has done. By improving the percentage of purchasing card transactions as the County has done, governments will vastly improve in all of these areas.

### C. Transferability

1. How can this project/program be adapted for use by other organizations? Who else might benefit by its adoption? Would significant modifications be required for implementation?
  - i. The beauty of purchasing cards is that they can be utilized by large or small governments with very little implementation cost and an almost immediate return on investment. Sponsoring banks are more

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than willing to provide free advice, training, materials, and even automated tools to manage the program. For that reason, we believe any government can benefit by adopting the program and by making similar efforts to grow the program without much modification from what Johnson County has done.

### D. Documentation

1. What documentation describes the entry (e.g. reports, forms, memoranda, software, audio-visual materials, etc.)? All materials must be provided, preferably in electronic format.
2. The following documents are attached:
  - i. Purchasing Card Administrative Guidelines.
  - ii. Purchasing Card Application.
  - iii. Purchasing Card Qualifying Test Questions.
  - iv. PowerPoint to introduce purchasing card test.
  - v. Instructions to run a report to see who needs to take the purchasing card test.
  - vi. Instructions on how to enroll in the purchasing card test.
  - vii. Instructions on how to take the purchasing card test.
  - viii. Form-Lost purchasing card.
  - ix. Form-Affidavit for lost receipt.
  - x. Form-Purchasing card questioned items.
  - xi. Form-Purchasing card emergency approval.

### E. Cost/Benefit

1. Quantify the total resources (money and time) devoted to this project/program and identify the value added (tangible and/or intangible) as a result of its undertaking?
  - i. No additional staffing was necessary to implement the program. It was all done by existing staff while still performing their other duties. The primary out of pocket cost for the expansion of the purchasing card program was the capital cost of the automatic reconciliation and reporting software. The cost of the Purchasing Card Web Solution software from ExpensePath Software was approximately \$100,000, which included the user licenses, implementation costs, and first year maintenance fees. It is our understanding that many sponsoring banks can provide similar software services for free. The County opted to purchase in-house software so that we could build interfaces to our Oracle ERP system and to be able to make modifications if needed. Operationally, the cost of maintaining the expanded program, training users, conducting periodic departmental audits, preparing reports and other associated activities are more than offset by the administrative cost and time savings gained from transitioning procurement transactions from the traditional requisition/purchase order/check process to the purchasing card. In 2003, purchasing card transactions represented only 14% of total transactions procurement transactions. As a result of the initiatives undertaken to grow the program, usage has increased to 72% in 2008. As mentioned elsewhere, the NIGP estimates savings to be realized from a purchasing card transaction versus the traditional requisition/purchase order/check transaction is \$69 each. Based on this, the County went from saving \$388,125 in 2003 to \$3,133,290 in 2008 on processing costs. The County also experienced a large increase in rebates from the sponsoring bank during that time. The 2008 rebate is 22 times larger than the one in 2003. Added to these savings are the increased accountability, internal control, security and reporting inherent in the purchasing card.

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The success of the program to transition users from the traditional requisition/purchase order/check process to the purchasing card on small purchases has been dramatic as shown in the following table:

Year	# Purchase order transactions	# Purchasing card transactions	Purchasing card \$	Projected Savings In Processing Costs
2003	33,434	5,625	\$3,577,876	\$388,125
2004	28,845	28,926	\$4,861,412	\$1,995,894
2005	22,271	34,211	\$6,296,777	\$2,360,559
2006	20,008	37,601	\$7,801,352	\$2,594,469
2007	19,314	40,101	\$9,576,296	\$2,766,969
2008	17,913	45,410	\$11,395,392	\$3,133,290

### F. Complexity

1. Describe the complexity of the project/program. How much training and technical skill is required for employees to make use of this solution?
  - i. To answer this question, we felt it would be good for the committee to have some background on the program and how we grew it to its current level. We are of the opinion that most governments would have the technical skill necessary to grow their program as Johnson County has.
  - ii. The objective of the County's revised and reemphasized purchasing card program was to increase the use and effectiveness of the purchasing card by shifting many purchases previously made using the traditional requisition/purchase order/check process to the purchasing card. The benefits would be many. The County would see nearly a one for one reduction in purchase orders for every purchase previously accomplished with a requisition/purchase order/check that transitioned to the purchasing card. Utilizing nationally recognized survey numbers, County purchasing staff estimated a savings of \$69 per transaction for every traditional requisition/purchase order/check transaction transitioned to a purchasing card.
  - iii. In addition to normal administrative costs to be saved, staff was able to eliminate temporary positions that were necessitated by large purchase order volumes. The goal was not only to reduce purchase order volume but to expedite transaction processing time for small purchases by placing them on purchasing cards. Department users could transact small dollar purchases directly with suppliers, bypassing not only the requisition phase, but also the delay created while Purchasing processed a purchase order from the requisition. The County also sought to reduce the processing time in accounts payable and reduce the volume of individual checks being prepared in response to individual purchase orders. The County also realized additional value through the increase in rebate dollars from the sponsor bank. Finally, suppliers would be well served through the prompt payment afforded by the purchasing card process. This also would have an effect on the number of phone calls and related work when suppliers contacted the County to find out about the status of a payment.
  - iv. While County staff had always been aware of the potential benefits of the purchasing card, it had not actively taken the steps necessary to fully utilize those benefits through a strong purchasing card program. Cards had traditionally been thought of as a means to purchase small and inexpensive items when it was not convenient to issue a purchase order. Staff set about to reverse that thinking and make

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the purchasing card the tool that users thought of first when making those small purchases. The purchasing card would become the preferred method of purchase and payment rather than a backup.

- v. In 2003, it became very clear to us that something needed to be done to reduce purchase order and check volumes. The purchasing card could fill that bill, but it would take a lot of support, training and re-education of users to make the transition happen. The very first task necessary was to gain the County Manager's buy-in to the plan. With County Management support, we purchased a third-party purchasing card management software system (P-Card Web Solutions) from ExpensePath Software and redesigned the County's purchasing card program around the automated benefits of the new system. During the days of the paper-based reconciliation process, OFM had no control of making sure all statements were processed on a timely basis. From the inception of the program in 1997, OFM routinely did not receive statements from departments on a timely basis. This often resulted in delayed payments to the card-issuer bank. By going to an automated process, the purchasing card transactions from the bank were uploaded into the purchasing card Web Solutions system. Once that was done, OFM could exercise more control over getting the cardholders to reconcile their electronic statements on a timely basis. Instead of continuing to reconcile on a monthly basis as we had in the past, we chose to reconcile and post the transactions to the general ledger on a weekly basis. If users failed to reconcile on time, OFM notified the users and their supervisors that if they did not reconcile that we would "force reconcile" and charge their expenses to a pre-assigned general ledger account. If the account coding was wrong, users would have to prepare journal entries to correct the coding. If we force reconciled a cardholder's statement too often, it could result in the loss of the card or disciplinary action. During this time, the Director of Financial Management approached the County Manager with a study prepared by staff that showed how the County could literally save millions in processing and administrative costs while enjoying an increased measure of internal control and accountability inherent with purchasing cards. Once the County Manager was convinced of the need to revamp and re-emphasize the purchasing card, he directed department and agency heads to utilize the purchasing card as their primary purchasing and payment tool. With this support, OFM Purchasing and Accounts Payable staff worked in partnership to start putting in place the steps necessary to make the transition a complete success. These steps included the following:

2. Purchasing and Payables staff began attending regular meetings of various user groups in the County to explain the needs and the benefits of increasing the use of purchasing cards in their department purchasing.
3. Purchasing and Payables staff also began scheduling regular quarterly meetings with the sponsor bank. It was through these meetings that the OFM staff became familiar with the "best practices" available for purchasing card programs and ways to integrate them into our program. We also were able to take advantage of many free services that the bank could offer to assist us in achieving these goals. The bank was very willing to assist us in growing the program as they receive benefits as well.
4. In mid-2004, the Purchasing Division began a series of focus group meetings comprised of purchasing staff and users from major departments. The goal was to review, revise and update existing purchasing policy and procedures. This group realized that there had not been a thorough study or revision of purchasing procedures in over fifteen years. One of the major areas of concern was the threshold for small purchases (i.e. those not needing Purchasing Division involvement). It had been set at \$2,000 for many years. The group decided that a more appropriate threshold for a County our size would be \$10,000. While this

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threshold change was just one facet of the revision to the purchasing policy and procedures, it was the one that could readily be transferred to the purchasing card program. If the County could raise purchasing card spending limits to \$10,000, it would open the door to many more potential transactions that could be placed on purchasing cards. The Board of County Commissioners approved the new revised purchasing policy which included the increased threshold for delegated authority to the departments to \$10,000.

5. In mid-2004, the Purchasing and Payables Divisions began a series of focus group meetings comprised of Purchasing and Payables staff and selected users from the major departments to help revise the purchasing card administrative guidelines. The goal was to provide a stronger and clearer set of guidelines to users. If the County was to emphasize the use of the purchasing card as a major tool for procurement, it would be necessary to have a strong, clear and comprehensive set of user guidelines. The increase to purchasing thresholds for small purchases was incorporated into the purchasing card guidelines. The new guidelines allowed departments to purchase commodities and services on purchasing cards up to \$10,000 without the need for Purchasing Division intervention. A concentrated effort to communicate these revised guidelines was initiated. The new guidelines gave more freedom to departmental users, but also put in clear cut responsibilities and checks and balances. Previously, all paper statements and attachments (e.g. invoices, receipts, etc.) were sent to OFM to audit after departments had reconciled and approved their purchasing card statements. Departments often wanted copies of those documents. Some departments kept copies of all their receipts and invoices and others relied on OFM to provide them with copies when needed. We determined that this process provided very little value and a lot of time was consumed. With the implementation of the new software, we decided to allow the departments to keep the original paper receipts and invoices in the departments and no paper was forwarded to OFM. The new method used an online workflow approval process within the purchasing card software application. Approving officials within the department were to review the transactions and related supporting documents before approving the transactions.
6. Since the receipts and invoices were to remain in the departments, OFM determined that we needed to create a formal audit process in which all 38 departments are audited annually. In late 2004, the Payables Division began regular on-site audits of departmental purchasing card programs to assure adherence to purchasing card guidelines and purchasing procedures. The Purchasing Division assisted in this effort by providing information regarding such issues as potential split purchases and denied card access. Each audit included a wrap-up session where suggestions were given both orally and in writing as to how the department could improve its own purchasing card procedures.
7. To assist us in performing these audits, OFM purchased an audit software package to plan and pull random samples for departmental audits. An audit sample plan is prepared for each audit. The sample size is determined by taking into consideration the confidence level (to control Beta Risk) desired, and the number of transactions for the audit period as well as the deviation rate expected as well as tolerated. From this information a critical number of deviations in the sample are determined. Departments that have a random sample that contain more than the planned critical number of deviations are audited more frequently.
8. For purposes of a purchasing card audit, we identified necessary controls and then classified those controls into nine basic control activity categories.
  - a. Access to and accountability for resources.
  - b. Direct activity management.
  - c. Segregation of duties.

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- d. Physical controls.
  - e. Execution of transactions and events.
  - f. Recording of transactions and events.
  - g. Information processing.
  - h. Documentation.
  - i. Risk assessment.
9. In early 2004, new automated software was implemented for the purpose of allowing reconciling and reporting on-line. The use of data feeds from the sponsor bank was put in place in conjunction with the reconciliation software. Departments could now maintain their receipts and reconciliation could be accomplished on a weekly instead of monthly basis which enhanced security and posted the transactions quicker to the general ledger. This also allowed for timelier budget monitoring.
  10. In 2005, a “train the trainer” approach was initiated that allowed OFM staff to train department coordinators and they in turn to train their cardholders. New guidelines and best practice information could be more readily imparted using this approach.
  11. In 2005, through a joint effort of Purchasing and Payables Divisions, a “procure to pay” matrix was established to advise users what payment options were available to them for various purchases and also what options were preferred for each. This matrix was distributed to all users by email and posted on the OFM website as well. This matrix helped bring consistency to the users when they had questions regarding payment methods. The purchasing card was listed on the matrix as the preferred method in most situations.
  12. OFM began using the intranet site to host policies, procedures, guidelines, forms, frequently asked questions, announcements and other items pertinent to the purchasing card and procure to pay process. The concept of “temporary increases” to purchasing card thresholds on a real time basis was implemented in early 2006. A department, either by phone call or e-mail to Purchasing, could request a temporary increase to a cardholder’s spending limits for specific purchases with specific suppliers. This process takes only a few minutes and allows the department to expand purchasing card use even further. This concept was very successful during the Hurricane Katrina aftermath. County personnel that went to the Gulf Coast to assist in the clean-up were given temporary increases and the charges were easily tracked for reimbursement from FEMA.
  13. In early 2006, the Purchasing Division began publishing a monthly statistics report that indicated to departments how they were doing in their use of the purchasing card. The report is updated monthly and placed on-line each month and allows departments to see how many purchasing card versus purchase order transactions they had and also allows them to compare themselves to other departments. This report is published on the intranet site and contains data for the previous twelve months.
  14. The Office of Financial Management regularly monitors card limits through various custom reports and through annual audits which allows staff to recommend spending limit increases and on occasion decreases depending on actual card use.
  15. To assure that every precaution has been taken to eliminate potential fraud and to maintain card security, staff works with the sponsor bank on a regular basis to assure fraud detection measures have been taken and that all available security features have been implemented.
  16. To help assure that users did not confuse their County purchasing card with their personal cards, as a few had in the past, the County has replaced all previous County purchasing cards with a unique, bright yellow card.

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17. Finally, on an on-going and regular basis, Purchasing and Payables staff take every opportunity to constantly remind users and user groups to use their purchasing cards whenever possible and to inquire of new and existing vendors as to whether they take purchasing card or not.

### G. Originality, Creativity, and Innovation

1. To your knowledge, is this the first time this type of project/program has been implemented by a government entity? If not, identify previous work in this area and explain the uniqueness of your approach.

i. Purchasing cards are widely used by municipal governments. However, as we discuss the success we have had with growing our program, we have not encountered other governments that have placed this level of emphasis on their program nor have we encountered other governments that have achieved the same level of success.

### H. Other Distinguishing Features (Optional)

1. Highlight any other noteworthy features about your project/program.

i. Due to the success of the program, we decided to dedicate a full time Purchasing Card Coordinator to the program in 2008. The salary and benefits for this position are more than covered by the annual rebates from the sponsoring bank. Our hope is that having a staff position totally dedicated to the program will continue to increase its success and savings to the County.

ii. After much success with small dollar purchases, the County implemented a sub-program aimed at higher dollar purchases. These Business Purchase Accounts (BPA's) are used when we have high dollar and high volume with a vendor. These accounts are very similar to the normal purchasing cards, except a) they are limited to only one vendor b) they have much higher dollar thresholds and c) they are with vendors that have already won the County's business through the competitive procurement process. The vendors like the program as it reduces their billing and receivables costs and enables them to obtain payment much sooner and more often than checks. This sub program is still in its infancy, but did over \$500,000 worth of transactions in the most recent year.

iii. In 2008, the County implemented qualification testing for cardholders. Prospective and renewing cardholders must complete and pass an open book, on-line test about the purchasing card guidelines. These tests were done to ensure that employees had read the guidelines and were familiar enough with them to pass the test. The test is administered through the learning module of the County's Oracle ERP system. Thus, it has a self-service aspect to it and we can easily track the scores and who has completed the test successfully. The test is administered prior to an employee getting a new card and a similar test is given every two years when the card is renewed. Testing cardholders is a best practice and enables OFM to document that employees have received adequate training on the use of the card.

iv. This program won a National Association of Counties (NACO) Achievement Award in 2007.

v. The Office of Financial Management has been asked to share the success of this program at many local and regional venues (e.g. local and state GFOA chapters, local and state NIGP chapters, local and regional purchasing card forums, etc.). Audience members are always very interested in how we achieved the level of participation with the program and ask many questions.