Procurement Choices: An eBusiness Solution

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Abstract

The e-Business application developed by the University of Arkansas has replaced the cumbersome paper process associated with requesting and approving a procurement card or other authorizations for purchasing from particular vendors; we refer to as e-Business partners, with an easy one-time electronic request and approval facility. Pertinent employee information required to setup an account within a particular e-Business partner's software is then electronically submitted to the vendor for downloading into their system. This has alleviated dual entry of information along with complete validation within our system to remove the possibility of error. Our electronic approval process tracks the user who approved the request.

Charges from an e-Business partner are also electronically submitted and downloaded to our system utilizing specific functions we have developed. Depending on the e-Business partner, these charges are downloaded daily to monthly.

What makes this entire process unique is that our campus community only had to learn one process for requesting authorization and approving/redistributing charges, regardless of the e-Business partner, instead of learning several different 3rd party software applications. Since all approval and redistribution of charges takes place in our system, we have also alleviated the continual maintenance associated with correcting entries to our General Ledger from 3rd party systems where an account has become invalid.

Organization

Founded in 1871, the University of Arkansas, located in Fayetteville, is the original, flagship campus of the University of Arkansas System. It is a public land and space grant institution. The University is a Carnegie Research Extensive institution and is also Arkansas' only doctoral research university.

Problem/Initiative

In February of 2002, the State of Arkansas awarded a contract for all state agencies and educational institutions to begin using a procurement card, with an estimated implementation date of November 2002. Also in February of 2002, there was a big push from upper management to look at new business relationships with vendors using an eBusiness approach where goods could be ordered via a web setting and charges would be electronically downloaded for payment. As part of that initiative, the University awarded a contract for office supplies to Staples. Both of these agreements also stipulate that payment is to be made regardless of whether or not receiving has been performed. However, this is in complete conflict with how our administrative system is designed to process invoice and payment activity. The dilemmas we faced were numerous.

First, our campus community had been bombarded with many new and enhanced ways of doing business over the past few years. Just the thought of their having to learn one more process for doing business was a very large concern. We were concerned about the added frustration involved with not only learning how to use a procurement card, but also using the vendor's third party software for reconciliation purposes. Second, our new contract for office supplies, while allowing departments to make purchases online, was also going to require a manual paper process for setting up new accounts. It also limited our departmental users to only one cost center to which to distribute their charges that would be downloaded to our general ledger on a monthly basis. Although this is the approach being used by many of the other educational entities, we felt that this approach was a step backward for us. Third, management wanted the Staples electronic invoicing process done within two months.

We thought there must be a way we could get our ‘feet wet’ in this new push for eCommerce by developing a process that would work not only for Staples, but also for the procurement card and any other eBusiness partner we chose in the future. This would enable us to take advantage of our system’s many capabilities and also provide a mechanism that would basically follow the same processes while using the same tools to which our campus users had grown accustomed.

Although the State of Arkansas did not make an award for a P-card provider until February of 2002, we knew that it was inevitable. We had also been reading and hearing about various eBusiness processes being done by other universities, and when the office supply contract was awarded we were ready with a plan. For approximately six months prior to the award of the contracts, we researched how other universities had implemented their procurement card programs. We had one staff member who was heavily involved with the analysis including researching documentation on websites, talking to P-card administrators at other universities, and making site visits to other universities. The following is a list of processes that either all or most of universities contacted are using:

- A paper form is used to fill out employee information. (Since we already have the employee information in our system, why not use it?)
- An authorized signature of a department head or someone at that level is required on the form. (Our system has the capability for electronic routing and approving of transactions.)
- A default cost center is provided on this paper document. The process used by most institutions also requires the P-card administrator to take these paper documents and manually enter the information in the vendor's software system. (This creates another opportunity for typographical errors and requires maintenance of data in an external system.)
- When the cost center and charge are fed to the general ledger, there are many instances where the default cost center is no longer valid or possibly incorrect; thus, the expense suspends in the general ledger and requires additional clean up. (This is another maintenance issue.)
- If a departmental user wants to redistribute a charge to a different account, he has to process an expense transfer via another application. (We wanted the capability of redistributing at the time of approval.)
- Since most of the institutions we contacted were tax exempt, they did not have to deal with use tax issues. (We were not so fortunate. We needed a way to capture sales tax information on a charge or a way to calculate use tax if a charge was on an out-of-state vendor and no sales tax was included on the charge.)

- Receipts are kept at the department level in many instances for up to seven years. (We wanted to take advantage of our current imaging process for invoices and other documentation.)

Design

Our campus is fortunate enough to have a ten-member team comprised of six programmers from our Computing Service department and four functional personnel, two from Financial Affairs, one from Business Affairs, and one from Human Resources who work on the development and maintenance of our integrated Business, Financial, and Human Resource systems.

After extensive research, our team decided to keep everything in our system and alleviate the additional maintenance of data in external systems. While researching what other universities had developed for eBusiness, we found that the processes were basically the same for P-card purchases. We decided to take advantage of existing functionality and develop a process in which we could maintain the same structure for our campus users in regard to request and approval of procurement authorizations and reconciliation, re-distribution, and payment of charges. Since we have an electronic approval process for all other business applications, we did not want to take a step backward and start the process with a piece of paper. We wanted to provide an electronic request for authorization for all our eBusiness partners, including our P-card. The electronic request utilizes our employee file to pull the employee's name, budgetary unit, telephone number, and, if required, social security number. Depending on data maintained for each eBusiness partner, the request provides default dollar amounts for various types of limits, which can be lowered if desired, and a default cost center is entered for use when expensing the charges. The request is then electronically routed for approval. We provide another function that allows the user to enter additional cost centers to which expenses may be distributed when approving his charges. We tie the charges to the authorization for all eBusiness partners. This approach also alleviated our concern over our campus users having to learn various other systems and processes. This approach allows us to establish many eBusiness partners and continues to take advantage of having all the data and audit trails in our system. The following is an outline of the design that we proposed to upper management:

- Develop a table containing records for each eBusiness partner where associated information is stored. This record includes such things as maximum limits on monthly charges and transaction limits along with invoice dates and cutoff dates for approval.
- Provide an electronic request for a specific eBusiness partner and employee combination. Once the employee ID is entered, our system accesses the employee file to pull information required by the eBusiness partner to set up an account.
- Provide a default cost center for posting charges in case the user fails to approve charges prior to cutoff date.
- Utilize our existing electronic process to approve the request.
- Develop an online list facility that is used by the P-card administrator to see what employees have been approved to purchase from a particular eBusiness partner as well as to see what electronic requests have not been approved.
- Develop a process where the P-card administrator electronically sends the required information to set up an account to the eBusiness partner, enabling the

information to be electronically downloaded into their system. In our case, we are only sending employee information to set up an account, not our accounting information.

- Provide an email notification that is sent to the employee once his account is established. The email notification is specific to the eBusiness partner and outlines the use of the account and any limitations.
- Provide a facility where pre-approved cost centers for an employee can be used when distributing his charges. For example, a professor may have several grants for which he makes purchases. Once these additional cost centers are electronically approved, they are available for use when the user is approving and redistributing charges.
- Develop a process where charges are downloaded into our system on a daily basis for a departmental user to approve.
- Develop various online list functions to list charges for a particular eBusiness partner. For example, one list includes a listing of all employees for a budgetary unit who have charges and another list includes all charges for a specific eBusiness partner and employee combination.
- Develop an online function for our campus users to approve their charges. If the vendor provides level 3 reporting (detailed descriptions of what was purchased), this information is also available. From this function, a user can also redistribute his charges by percentage or dollar distribution using any of his pre-approved cost centers. As cost centers are no longer active (in the instance of grants), they are automatically disabled.

- Develop a process, depending upon the level of information the vendor provides, where we can utilize our tax table and calculate the use tax amount by ship to address for out-of-state purchases. If the vendor is an Arkansas vendor or if the out-of-state vendor provides level 2 detail (sales tax amount identified on the data fed), then our system does not calculate use tax. If the vendor is an out-of-state vendor who does not provide level 2 data and the user does not designate that the sales tax is included on the receipt or that the purchase is tax exempt, then the system calculates use tax based upon the ship to address. Our distribution function allows our departmental users to specify whether sales tax was included on the receipt or if the purchase was tax exempt.
- Develop a system assigned receipt number for P-card purchases. This number is manually written on all receipts and either sent to Accounts Payable for scanning or scanned by the departmental user in his office. The document image is stored in our electronic imaging system.
- Develop a report facility where a departmental user can print a statement for each procurement cardholder in his department.

Upper management overwhelmingly supported our design. We immediately contacted Staples to begin discussions with their technical group.

Implementation

When we contacted Staples, they were skeptical about our process. All of their other customers use the Staples' software to transmit their accounting information with their charges. Our approach was to use our employee's user ID instead of accounting information, thus, feeding the user ID and charges to our system and allowing our users the ability of distributing their charges accordingly.

Within two months, we had designed, programmed, and tested our new functions and had tested the Staples download of charge data. We partnered with Staples in the training of our campus community. During the training sessions, we trained on the processes of initiating a request and approving charges, while Staples personnel trained on the use of their website for ordering their supplies.

Within Staples, the employee's user ID is used to set up the account. This user ID is used as the link in our system to define the list of charges for a specific employee. We also use this same approach with our P-card provider. The employee information is electronically submitted to the P-card provider. When the P-card administrator receives the P-cards, the provider-issued card number is entered in our system (not displayed outside of Business Affairs staff). This card number is used as the link to match charges to a particular employee.

We are now in the initial stages of implementing a Corporate Travel Card. We are using this same concept for this eBusiness partner as well.

Benefits

We have no maintenance issues with regard to accounting or setup of users. All of our processes work the same for each eBusiness partner. Our process has not only been embraced by our campus users, but also by our eBusiness partners. It has relieved our campus users and administrators of maintaining multiple data sets. In addition, our eBusiness partners do not have to store accounting information for us.

We are scanning all of the P-card receipts; therefore, our departmental users are not burdened with the responsibility of maintaining their receipts for seven years. Our audit staff uses the same process in auditing P-card receipts and other eBusiness partner receipts as they do with regular accounts payable invoices.

All of our Staples office supplies are sent directly to our bookstore for delivery to the campus. A manifest accompanies each order, which displays the department, building, and person who ordered it. By performing this service, the bookstore receives a percentage of the monetary rebate. This process is working so well that our campus is buying the majority of its office supplies via this contract.

The campus has only one application to access for requesting and approving procurement authorizations and receiving and distributing charges regardless of the eBusiness partner.

Retrospect

Since the contract we signed with Staples was an institutional contract, we are in control. However, the procurement card contract was issued by the state; therefore, we are not receiving any of the monetary rebate incentives of this contract nor do we have any control over it. We would encourage an institution contemplating a procurement card contract to negotiate its own contract. We are committed to a vendor who cannot currently provide any level 3 reporting. The state did not take into consideration the needs of higher education, which are completely different in many instances from other small agencies within our state.

Our P-card provider misled us on the vendors who could provide us with a minimum of level 2 data. We have found that even though a vendor's point-of-sale system is capable of level 2 reporting, they may not provide it.