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MSU Business Process Review Business Case: Accounts Payable

Procurement Card

Executive Summary

The Accounts Payable Team is redesigning the Procurement Card process.

The front end of the procurement system will remain the same. The employee procures or charges needed supplies or services. Credit card charges are processed by US Bank; US Bank feeds these charges to MSU electronically. Accounting technicians on the four MSU campus' using Banner functionality, adjust the accounting attributes as necessary. Once these transactions are completed, they are set by the accounting techs to feed to Banner finance. From the time the employee charges an item through the posting to Banner finance can take as little as 3 days.

The problem in the P Card process is after month end. Review, routing and storage of the original reports generated from Banner, the US Bank statements received by every card holder and the original receipts is problematic due to the time and volume. The implementation of a document imaging system would expedite the routing and review process and eliminate storage issues.

Procurement card volume will continue to grow as campus' funnel small expenditures and travel expenses to the P-Card. This team in another business case is recommending that a large percentage of small purchases currently being made should use campus credit cards. This would reduce the number of BPA's and invoices, a more expensive process.

The data and subsequent results are from cost benefit analysis, customer surveys, volume analysis and best practices survey.

Our analysis recommends and has assumed implementation by July 1, 2007.

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A. Introduction

1. MSU Business Process Review

The AP Team is redesigning the P Card process. The recommendation is to incorporate a document imaging system that would allow for a high volume of credit charges and all accompanying documents to be indexed and scanned. An improved review, routing and storage will provide efficiency and better assurance of compliance with set laws, policies and procedures.

a. Summary of Processes to be Redesigned or Modified.

Process Title	June 28 th 2006 Recommendations
Purchasing Card	Redesign

The MSU System would have a common, standardized business process for review and retention of PCard history. The MSU campus' will have a higher level of efficiency and effectiveness at each month end and when needing to access the historical data.

b. Business Process Review Objectives

- Improved institutional and systems efficiencies and effectiveness;
 - Single process across 4 campuses,
 - Quality process,
 - High level of customer service, and
 - Timeliness of product or service delivery.
- Reduction of paper based transactions.
- Improved records management.
- Improved technical functionality.
- Development of Business Continuity Plan.

c. Scope of This Case

The routing, approval and storage of necessary paperwork, the backup for credit card charges. Costs to all campus' to implement document imaging will be significantly increased.

2. Business Process Review Business Case Purpose

The implementation of a document imaging system would expedite the routing and review process and eliminate storage issues. A multi-campus document imaging system is requested for this project.

Each department that uses the PCard has a need to review and route the original reports generated from Banner, the US Bank statements received by every card holder and the original receipts. Business Services reviews and stores for compliance with policy and procedure which includes specific retention criteria. Retention ranges from 5 to 10 years depending on campus and funding source of the purchase.

3. Background

In Phase I it was determined that the month end reporting and subsequent routing, approvals and storage were problematic. The review, routing and storage of the original reports generated from Banner, the US Bank statements received by every card holder and the original receipts is inefficient and a lack of technology exists. Best practices did not reveal any new ideas and most campus' are routing and storing this information in a similar manner.

The volume of charges, although projected to grow, resulting in routing, approval and storage of associated paperwork is not a problem on the Billings, Great Falls and Havre campus'.

Opportunities presented by BPR to address problems identified through the Pappas Review process include:

- Single process across 4 campuses to promote efficiency and training
- Quality process to reduce loss and misfiling
- Improved timeliness of review and retrieval of PCARD information
- Reduction of paper based transactions will reduce the costs of paper, usage and associated costs of printers, cartridges, photocopiers and cartridges.
- Development of Business Continuity Plan (BCP) based on a risk assessment of improved processes. A BCP will also link in with an IT Disaster Recovery plan.
- Implementation of Front Office/Back Office concept. This concept would have merit for the storage of PCard data.

a. Connections to other Projects/Products or Programs

The BPR project has ongoing links with:

- Business Continuity Planning
- Disaster Recovery Planning
- Pre-Disaster Mitigation Planning

b. Other, Alternative Actions

Continue with current review, routing and storage process.

c. Current Problems or Limitations

Current problems or limitations include:

- Financial constraints on:
 - Implementation projects
 - Every department that uses the PCard **may** need to use the document imaging
 - shredding of paper documents

- Purchase of IT enhancements – document imaging systems are \$100,000, per campus, upfront and \$50,000 on going annually per department
- Human resource availability
- Different cultures across the 4 campus
MSU Bozeman has the most acute need due to their volume, MSU Billings, MSU Northern and MSU GF current process could be sustained for several more years without imaging
- Change management issues such as:
 - Overcome managers need to see and sign a piece of paper
 - Electronic original documents
 - Auditors
- Technophobia,
- Performance anxiety

B. Methods and Assumptions

During Phase I of the review, data was collected at a high level of review that populated the flowcharts, thus providing documentation and visuals of the paper flow. Additional costs/data were captured in the work distribution charts, detailing salary amounts and percentages of effort to complete the specific tasks for each campus. The Phase I recommendation was to investigate the delegation of approval authority within the departments to eliminate some approval steps, explore the Banner Approval Queue functionality, and to research the feasibility of purchasing and implementing an imaging system on the Bozeman campus.

In Phase II a higher level of detail was required and collected via Data Collection Templates, updated Work Distribution Data and highly detailed flowcharts utilizing the Process Model. Work Distribution information was further analyzed to capture value added tasks versus non-value added. In addition to the formal collection of data, the team met in person on the Bozeman and Billings campus and held weekly conference calls.

1. Financial Metrics

The Accounts Payable P-Card business case proposal provides a comparison of the current to recommended costs. The cost benefit analysis was used to analyze scenario 1 to scenario 2. Several of the processing steps were streamlined including employee and processing costs. A savings of staff time on the Bozeman campus reduced the cost per transaction and provided greater efficiencies.

2. Business Case Scope and Boundaries

a. The Analysis Period

The analysis period starts July 1, 2007 and continues for a 5 year period.

b. Geography or Location

The Accounts Payable team feels it would be inefficient to recommend the same process for the Bozeman campus and other three campuses. While the continuity of front office/back office will still be somewhat maintained, meaning the front office will be consistent across all four campuses, while the back office approach will compliment each individual campus's level of transactions.

c. Organizations

The organizations covered by this business case include the administrative and finance processes across the following:

Montana State University

- Billings campus
- Bozeman campus
- Great Falls campus
- Northern campus

d. Functions and Positions

The recommendations made in this case apply to the Admin and Finance processes only. The Bozeman invoice payment is decentralized and highly fragmented. The smaller campuses are centralized and have less volume.

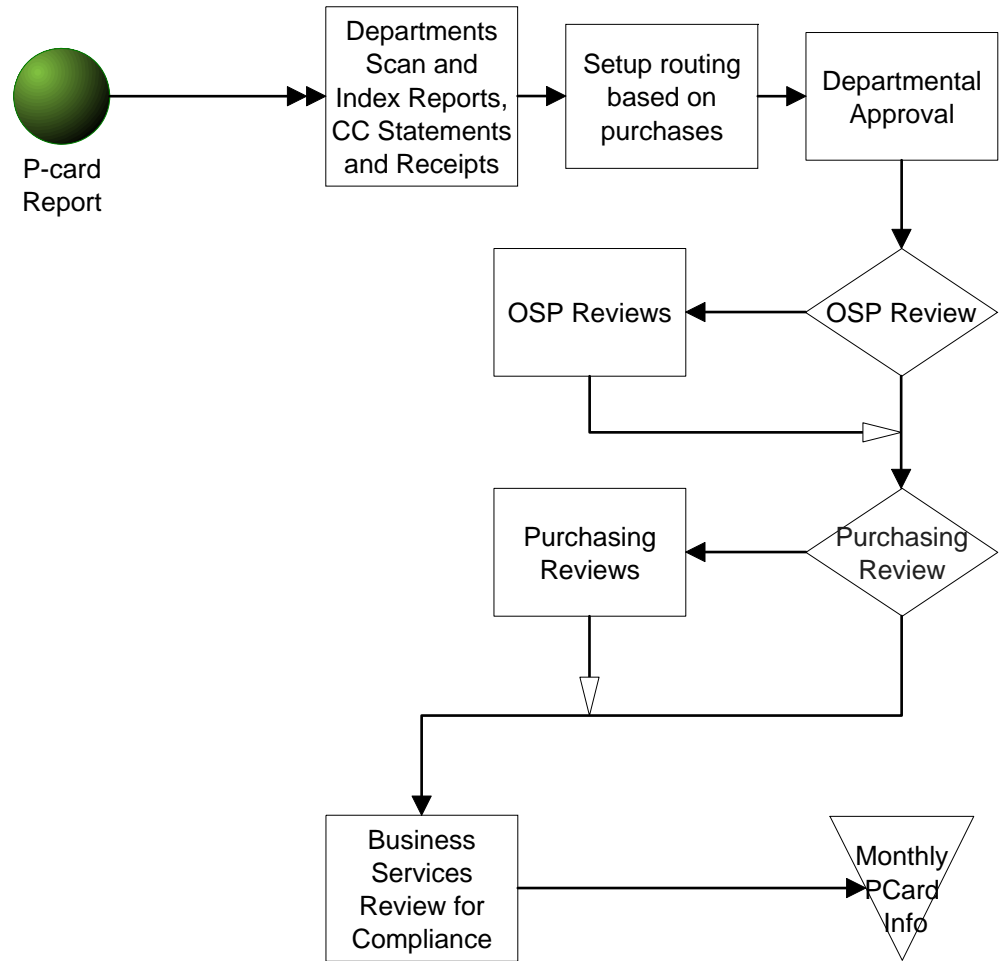
e. Technology

Technology enhancements for this redesign would include document imaging and scanners. The assumption is to setup document imaging on each campus.

3. Scenario Design

Two scenarios exist for this case study, the first is the new technology-enhanced process and the second is the business as usual process. Each campus is committed to improving their process *if financially feasible*.

Scenario 1 – Department personnel would continue to be required to collect all credit card statements from the bank and associated charge receipts. Part of month end processing would be for department personnel to scan, in a central location, their reports and receipts, and establish routing for their monthly charges. Each recipient would review and approve then send to next routing recipient. Business Services would be the final recipient on all routings, where review for compliance would be performed.



Scenario 2 – Continuation of business as currently being performed on each campus.

4. The Cost Model

The routing of credit card information is inefficient and the storage of credit card information, particularly in Bozeman, is labor intensive with other associated costs. Retrieval of this information at a later date has similar implications.

5. The Benefits Rationale

The benefits of a document imaging for the PCARD process:

- Financial/Business Performance Objectives
 - To more efficiently review transactions
 - To more quickly address compliance issues
 - To alleviate storage expense
 - To retrieve data more efficiently

6. Data Sources and Methods

Volume analysis, work distribution charts and cost of quality were all used in the collection of data. This data was used in the cost/benefit analysis where the two scenarios were compared.

7. Analysis of Results

OPERATING EXPENSE SAVINGS

Procurement Card		Scenario 1: Document Imaging						
\$ in 1000s		SCENARIO 1 FULL VALUE CASH FLOW STATEMENT						
<i>For the year ending</i>		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
		Jul 2007	Jul 2008	Jul 2009	Jul 2010	Jul 2011	Jul 2012	
BENEFITS / GAINS								
Benefit item 1		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Benefit item 2		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Benefit item 3		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Benefit item 4		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Benefits/Gains		0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPERATING EXPENSE ITEMS								
Cash inflows (outflows)								
Expense group A								
		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item A1		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item A2		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense group B								
Dept Labor Processing Costs		(442.1)	(457.6)	(473.6)	(490.2)	(507.4)	(525.1)	(2,896.0)
Expense item B2		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item B3		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense group C								
Expense item C1		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item C2		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item C3		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Impact: Op Exp Items		(442.1)	(457.6)	(473.6)	(490.2)	(507.4)	(525.1)	(2,896.0)

Procurement Card

Scenario 2: Business as Usual

\$ in 1000s

SCENARIO 2 FULL VALUE CASH FLOW STATEMENT

<i>For the year ending</i>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	
	Jul	Jul	Jul	Jul	Jul	Jul	TOTAL
	2007	2008	2009	2010	2011	2012	
BENEFITS / GAINS							
Reduced Copying	12.4	12.7	13.1	13.5	13.9	14.3	80.0
Reduced Storage	1.7	1.8	1.8	1.9	2.0	2.0	11.3
Benefit item 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Benefit item 4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Benefits/Gains	14.1	14.5	15.0	15.4	15.9	16.3	91.2
OPERATING EXPENSE ITEMS							
Cash inflows (outflows)							
Expense group A							
Implementation Central Processing	(177.6)	0.0	0.0	0.0	0.0	0.0	(177.6)
Ongoing Central Processing	0.0	(45.7)	(47.1)	(48.5)	(50.0)	51.5	(139.9)
Expense item A3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense group B							
Dept Labor Processing Costs	(342.9)	(354.9)	(367.3)	(380.2)	(393.5)	(407.2)	(2,245.9)
Training	(1.7)	(1.7)	(1.8)	(1.8)	(1.9)	(2.0)	(10.8)
Expense item B3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense group C							
Expense item C1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item C2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense item C3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Impact: Op Exp Items	(522.1)	(402.3)	(416.2)	(430.5)	(445.3)	(357.7)	(2,574.2)

On going operating expenses are reduced with the document imaging scenario:

- Scenario1 \$2.9 million – Scenario 2 \$2.57 million = Savings of \$330,000 over 6 Years

CAPITAL OUTLAY

ASSETS PURCHASED

Cash inflows (outflows)

GROUP 1 Assets

Document Imaging	(400.0)	(206.0)	(212.2)	(218.5)	(225.1)	(231.9)	(1,493.7)
Scanners	(16.0)	0.0	0.0	(17.5)	0.0	0.0	(33.5)
Group 1 Total assets:	(416.0)	(206.0)	(212.2)	(236.0)	(225.1)	(231.9)	(1,527.2)

GROUP 2 Assets

Assets G2 item 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets G2 item 2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group 2 Total assets:	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Total asset costs:	(416.0)	(206.0)	(212.2)	(236.0)	(225.1)	(231.9)	(1,527.2)
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Capital expenditures for the document imaging scenario:

- Scenario 1 \$0 – scenario 2 \$1.53 million = Add'l expense \$1.53 Million
- \$416,000 in 1st year.

C. Conclusions and Recommendations

1. Conclusions

Through quantitative analysis operating expenses would be reduced with the implementation of document imaging. This savings would be realized after a significant increase of 400% was factored into scenario to accommodate the new invoicing process/strategy.

	PCARD DATA				
	Billings	Bozeman	Great Falls	Havre	Total
Annual Transactions (Current)	2588	41000	1692	1264	46,544
Add 75% of BPA < \$500	11820	27291	2109	2466	
Total Transactions Post PI	14408	68291	3801	3730	190,230

The capital outlay when looking at it from a single process appears prohibitive. If the capital expense was spread over several projects a justification could be made for such a purchase.

2. Recommendations

The Accounts Payable Team recommends scenario one for the P Card redesign under a couple conditions:

- Document imaging implemented for multiple processes
- Rollout for of imaging PCard be delayed in Billings, Great Falls, Havre

Both conditions would make a more favorable argument for a reduced capital outlay of \$1.5 million. Bozeman stands to realize the biggest savings by having

document imaging immediately. At a conservative two-thirds per transaction reduction and the highest volume of transactions, Bozeman's expense would be approximately \$100,000 less in the first year. For the other campus', rollout expenses for document imaging would be realized over several years and correspond with Billings', Great Falls', and Havre's need for document imaging.

The AP Team sees the P Card process as an integral part of the University and supports the need to handle the credit card material in an efficient and effective manner.