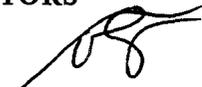




Metro

December 22, 2006

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER 

FROM: LONNIE MITCHELL
CHIEF OF ADMINISTRATIVE SERVICES 

SUBJECT: METRO PURCHASE CARD PROGRAM

ISSUE

This report provides a status of the Metro Purchase Card Program and advises the Board of recent changes in the statewide contract under which Metro participates.

BACKGROUND

In 1992, the State of California, Department of General Services (DGS) conducted a purchasing card pilot program under Governor Wilson's Executive Order W-73-94, "Procurement 2000, a reform of the way the State does business." This pilot program showed that use of the purchasing card improved access to supplies and materials needed by the State employees and sped up payment. The program was soon expanded statewide and has continued to grow since that time. Exhibit A shows recent statewide program statistics.

In 1998, Metro became a "participating subdivision" under the agreement between the State of California and International Merchant Purchasing Authorization Card (I.M.P.A.C) Government Services, a division of U.S. Bank Nation Association allowing us the full benefits of the statewide contract. Utilization of state contracts by local agencies is authorized under Public Contract Code Sec. 10298 (a).

In 1999, Metro began its own pilot program and by 2001 it had become so successful that it was expanded agency wide. The program has continued to grow such that in FY07 the program is expected to process over 27,000 transactions valued at over \$8.5 million. Exhibit B shows recent Metro program statistics.

Recently, the State of California conducted a re-competition of its entire program and awarded a new contract for card services. Metro staff provided input into the solicitation

and participated in the source selection process in order to ensure its needs and those of other local agencies were fully considered. There is no cost to Metro under the contract and in fact, participation will generate rebates in excess of \$60,000 per year for use of purchase cards for Metro purchases.

DISCUSSION

The Purchase Card Program is a more efficient, cost-effective method of purchasing and paying for small dollar transactions. Cardholders are able to obtain goods in a quick and convenient way. Paperwork and processing in the cardholder's department, Procurement and Material Management Department, and Accounting Department have been reduced as a result of the program.

Estimates of the transactional cost of the purchase order and payment process range from \$50 to \$250. Purchase Card efficiencies result in savings ranging from 55% to 90% of this transactional cost. (Data provided by the National Association of Purchasing Card Professionals.)

The program is not intended to avoid or bypass appropriate purchasing procedures. Metro's Purchase Card Program uses internal management controls as well as reports from the bank provider to manage and audit the process to ensure that procedures are followed.

The Procurement and Material Management Department, in coordination with the Accounting Department, is responsible for overseeing the program. Participation by the cardholder and his/her department in this program is predicated upon following established Purchase Card Program controls and maintaining expenditures within approved operating budget limits.

Authority for approving Purchase Card purchases, however, rests with the using department and each department is responsible for ensuring its cardholders comply with the program rules. Cardholders are those employees that physically purchase the goods. Department management staff serve as Approving Officials, responsible for reviewing and approving all transactions.

To ensure a clear understanding of the rules that govern this program, the Procurement and Material Management Department conducts initial and refresher training classes for all approved card applicants, Approving Officials and other participants. Training is mandatory prior to participation and every two years thereafter.

To further assist in compliance, the Procurement and Material Department maintains an internal website that makes available program rules and restrictions, and provides guidance on program procedures. The Department also conducts various reviews of program transactions and provides enforcement action when program deviations are discovered.

NEXT STEPS

Metro will enter into a participation agreement under the newly awarded state contract. Even though the incumbent contractor received the award, the program will migrate to a much improved software platform. The transition will have minor impact on continuing operations but will provide much better transaction processing and improved compliance monitoring.

**EXHIBIT A
CAL-CARD STATISTICAL REPORT**

ANNUAL (CALENDAR)

YEAR	NUMBER OF PURCHASES	NUMBER OF CARDHOLDERS	TOTAL DOLLARS
1994	82,363	1,705	\$7,720,233
1995	118,338	3,037	\$15,240,846
1996	243,351	8,095	\$37,704,285
1997	451,697	13,464	\$79,753,551
1998	687,195	19,045	\$131,271,447
1999	957,395	26,216	\$199,991,239
2000	1,176,283	32,799	\$245,840,671
2001	1,377,101	41,243	\$306,948,340
2002	1,485,945	45,197	\$343,652,229
2003	1,470,332	47,451	\$337,156,425
2004	1,617,911	47,897	\$377,343,728
2005	1,873,108	47,898	\$449,656,131

**EXHIBIT B
METRO STATISTICAL REPORT**

	FY04	FY05	FY06	FY07 YTD
Cards	188	204	284	299
Value/Month	\$293K	\$409K	\$578K	\$726K
Transactions/Month	1,249	1,676	2,076	2,258
% of Micro Purchases	83.4%	91.0%	97.0%	97.14%
% of Small Purchases	18.8%	41.5%	49.3%	45.94%

Note: Micro purchases are those less than \$2,500. Small purchases are those less than \$40,000 for supplies, equipment and materials, and less than \$100,000 for services.