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State and municipal governments save money without cutting jobs or programs

Responding to rising costs, shrinking revenues and projected budget deficits, state and municipal governments are taking a closer look at ways they can save money without affecting their constituencies.

"When governmental entities are faced with cutting jobs, eliminating programs, reducing spending and raising taxes, there just are no easy decisions. Considering the benefits of a Visa® Purchase card program is an easy way to respond to economic pressures," says Darren Muise, Visa Commercial Partnerships, Public Sector.

As a purchase card program veteran, Polk County, FL, whose program began in 2000, is a proponent. "On the county government level, purchasing cards combine the efficiency of online banking and other initiatives...," wrote Buddy Storey, director of purchasing for the county, in an article for *GovPro Media*, adding "Additional benefits include increased transparency and security. Purchasing cards are transformational." The Polk County program earned $88,253 in rebates on spending in 2007.

There are plenty of lessons-learned – and benefits gained – that state and municipal governments share with each other regarding purchase card programs. "What makes sense for one local government could easily be a solution in other governments," says Muise.

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In November, when Valentino DiGregorio, Chester County, PA controller looked for ways his county government could be more efficient and reduce the burden on taxpayers, he recommended that the county commissioners initiate a purchase card program. Program rebates were the focus of his recommendation.[1]

"Using a purchase card program can earn us rebates as much as $1 million per year. Such a large rebate is not likely in the first year, but can be as much as $200,000," he said.

"Even in difficult economic times, municipal governments still have to make purchases. With a purchase card program in place that offers a rebate, governments can get an infusion of capital to help support programs and services," says Muise.

Governments that have well-established purchase card programs are looking at ways to fine-tune them to increase savings. The state of New York undertook a series of audits to identify cost saving opportunities and efficiencies. After one of the audits, New York state comptroller Thomas DiNapoli reported that the state could have saved $30 million over the last two fiscal years if state procurement cards had been used to make small-dollar purchases.[2]

"The state has to maximize every opportunity to save money and boost efficiency. Using the procurement card system instead of the paper-based purchase order and vouchering system, is a simple way state agencies can cut costs and eliminate waste," he said.

The audit indicated that during the 2005 – 2006 and 2006 – 2007 fiscal years, New York state agencies processed at least 1.1 million payments for transactions under $2,500. According to the audit report, if these purchases had been made with the procurement card, the state would have realized at least $4 million in rebates from the card issuer and saved more than $26 million in processing costs.

"Opportunities to enhance a purchase card program are often discovered to be about enhancing use," says Muise. "Look at what agencies aren't using the card program, and bring them aboard. Also, it's important to look at the typical spend amount. Adjusting the authorized purchase amount a bit higher or lower can increase card use and savings."

For more information about Visa Purchase card programs, or for other product information, contact the account manager at your financial institution or send us an email at **publicsector@visa.com.** ⬃

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[1] County of Chester, Office of the Controller, transcript of the presentation of County Controller Val DiGiorgio. November 14, 2008.

[2] *Audit Finds State Wasting Money on Small Purchases.* Press release from the Office of the New York State Comptroller. June 16, 2008.

Mandated global compliance with security standards initiated to protect customer account data

In another effort to fight credit card identity theft, Visa Inc. is mandating global compliance with the Payment Card Industry Data Security Standard (PCI DSS), helping organizations proactively protect customer account data.

The PCI DSS is a multi-faceted security standard for merchants, service providers and their agents. It governs all payment choices, including retail, mail order, phone order and e-commerce. PCI DSS includes requirements for security management, policies, procedures, network architecture and software design. Visa compliance programs have provided compelling incentive for merchants and agents to properly secure cardholder data by deadline.

"Compliance with PCI DSS is vital to ensuring the integrity of the global payments system," said Eduardo Perez, head of global data security, Visa Inc. "Aligning compliance programs across the Visa regions is the latest step in our commitment to safeguarding cardholder data."

Prohibited Data Storage Deadline for Level I & II Merchants – September 30, 2009

Visa will require confirmation from acquirers by September 30, 2009 that their Level I and II merchants do not retain sensitive payment card data such as full magnetic stripe (also known as track data), security codes or PIN data after transaction authorization. Generally, Level I merchants process over 6 million transactions and Level II merchants process between 1 million and 6 million transactions annually.

"Hackers are looking for this type of data because of its use in counterfeiting payment cards, and that is why Visa prohibits its storage," said Perez.

After the deadline, Visa will impose appropriate risk controls, up to and including acquirer fines for failure to provide an attestation form to Visa confirming that each of the acquirer's Level I and II merchants do not retain prohibited data. The September 30, 2009 deadline does not supersede any applicable earlier regional deadlines and related enforcement programs previously established. Full PCI DSS compliance will be required by September 30, 2010 after which Visa will similarly impose appropriate risk controls including fines on acquirers.

Visa understands and appreciates the need to secure all card data. We will continue to lead the effort to bring all merchants into compliance in a reasonable timeframe. ⌐

> "Aligning compliance programs across the Visa regions is the latest step in our commitment to safeguarding cardholder data," said Eduardo Perez, head of global data security, Visa Inc.

This legislation could result in a loss of

$51 million

a year in rebates to the federal government.

Section 9 3402(t) of the Tax Increase Prevention and Reconciliation Act of 2005 (Public Law 109-222)

Status: Enacted. IRS issued proposed rules for implementation.

Overview: This enacted legislation takes effect in 2011 and requires federal, state or local governments to deduct and withhold a tax of 3 percent from payments they make to any person or company that has provided goods or services.

Proposed rule for implementation: Withholding requirements will not apply to any payment that is less than the payment threshold amount, which is $10,000. The Treasury Department and IRS are proposing this payment threshold of $10,000 because the burden of withholding on smaller transactions is likely to be substantial and outweigh the benefits of increased withholding. *This threshold will apply to individual (not aggregate) amounts (i.e., individual transactions charged to purchase and or travel cards).*

Payments made under written binding contracts in effect on the later of December 31, 2010, or the date that is six months after the publication of final regulations are not subject to withholding under section 3402(t), unless such contract is materially modified.

Concern: Almost 200,000 card transactions of over $10,000 were made during 2007. Because agencies are not able to withhold on card payments, these purchases and payments would have had to be manually processed. In addition, rebates and acquisition savings would have been lost.

Using a conservative rebate of 70 basis points and an acquisition savings figure of $72.80, a threshold of $10,000 would still result in the loss of $51 million in rebates and $13,670,790 in acquisition savings – a loss of $64 million a year to the federal government.

Action: Visa will continue educational efforts with members of Congress as well as with various industry coalitions on the disastrous effect this legislation could have on card programs. We urge you to work closely with your legislative staffs to inform the Congress of the impact this law will have on all of you.

Latest action: SEC. 1541 of H.R. 1, American Recovery and Reinvestment Act of 2009 as passed by House would repeal TIPRA. ↰

Resources for state and local government card program managers

These resources are available to help you better manage or enhance your card program.

Title	Provider	Brief and Access Information
State Purchase Card AGA Research; Report No. 7	AGA Corporate Partners Advisory Group	Learn how other states use purchase and travel card programs, best practices and policies. ↗ usa.visa.com/download/government/ Visa_Research_No_7_Feb_2007.pdf
State Travel Card AGA Research; Report No. 11	AGA Corporate Partners Advisory Group	Gain insight into how state card program managers use travel card programs. ↗ usa.visa.com/download/government/ Visa_Research_No_11_June_2007.pdf
Procure-to-Pay Best Practices	Deloitte Consulting	Presents 54 Procure-to-Pay best practices recommended by successful corporations. Includes expected benefits of integrating payment card programs with Procure-to-Pay applications. ↗ usa.visa.com/download/corporate/ resources/Procure-to-Pay_Best_Practices.pdf
Payables Automation White Paper	Visa Inc.	Understand payables automation, how to make it pay, and learn about card-based payables automation solutions. ↗ usa.visa.com/download/corporate/ resources/Visa_ap_automation_white_ paper.pdf
Components of a Complete Card Program	Visa Inc.	Learn how to identify and adopt key components and characteristics of a successful payment card program for state and local government. ↗ visa.com/gov

How does card program transaction data help you better manage your program?

Glen B. Gainer III, West Virginia State Auditor; and Dwight Steinly, Bureau of Financial Management for the Commonwealth of Pennsylvania, share their insights into the value of card program transaction data, and how that data helps them better manage their programs.

VISA: *What transaction data do you find most valuable, and why?*

Mr. Gainer: We are very engaged in gathering the highest percentage of Level III data possible, and to that end we use our processor's DEF, our bank's custom reporting and Visa's Information Management System. Level III and tax ID information data allow us to do more with the data – specifically for auditing, 1099 and 1057 reporting.

Mr. Steinly: There are several pieces we consider vital. 'Vendor name' and 'date posted' are two of our main items. Where available, Level III data is of great value as well. One other piece of information available via our online card administration system is our account coding.

VISA: *How does transaction data help you better identify fraud or misuse?*

Mr. Gainer: We run queries using MCC codes to point out questionable spending. Decline data helps us see if a card has been compromised or if someone is trying to circumvent established limits. Transaction data also helps us look for 'trends' or 'spikes' in use. For example, if we see office supply spending spikes 50 percent in one month, we can investigate immediately to see why there was an increase. As our program has grown, we have been able to use the data for more in-house monitoring from a post-audit review perspective.

Mr. Steinly: Being able to view the vendor name is an excellent method to determine if something is a fraudulent charge. Our cardholders and agency coordinators are familiar with the vendors that they use and if something out-of-the ordinary appears, they can recognize it online.

Be included in this column – If you would like to be interviewed for the next *Ask the Card Program Manager* column, please contact *dmuise@visa.com.*

VISA: *How does transaction data help you identify potential areas for cost savings?*

Mr. Gainer: With good data, we can identify vendors for strategic sourcing. There is also value to run program optimization to gain spend, which in turn increases our rebate. We are also able to identify where we are still using traditional payment methods, and then convert to card payments, thereby saving money over the costs of traditional paper payment mechanisms.

Mr. Steinly: If we are utilizing a vendor consistently with a high volume of business, we can focus on the possibility of negotiating a better rate or contract with them.

How have you expanded your use of transaction data over the time you have managed your card program?

Mr. Gainer: We have expanded our use of transaction data to help comply with our own internal policies and procedures. Transaction data has also helped us in our post-audit review process.

Mr. Steinly: With the current state of the economy, we've been examining ways of how to use our purchasing cards to make more payments. By examining the transaction data, we've focused in on large suppliers, and used the information to leverage better prices on contracts. We also use transaction data for auditing purposes to ensure that all participants in our program are following the proper procurement regulations and to detect any misuse.

About the profiled card programs:

	Office of the Auditor, State of West Virginia	Bureau of Financial Management, Commonwealth of Pennsylvania
Number of Cardholders	6,300 – expected to increase to 10,000 with initiation of the Purchase Card Travel Program.	3,900
Average Monthly Spend	$26 million	$11.5 million
Program Established	1996	1992

2009 Trade shows & conferences

April

Coalition of Government Procurement
Spring Conference
April 29, Arlington, VA
thecpg.org

May

National Association of State Auditors
Treasury Management Conference
May 12 – 15, Atlanta, GA
csg.org

International City/County Management
Association Transforming Local Government
May 13 – 15, Corpus Christi, TX
icma.org

Council of State Governments
Spring Conference
May 16 – 19, Coeur D'Alene, ID
csg.org

June

GSA Expo
June 9 – 11, San Antonio, TX
expo.gsa.gov

National Redistricting Seminar
June 11 – 14, San Francisco, CA
ncsl.org

National Association of State Chief
Administrators 2009 National Conference
June 13 – 17, Orlando, FL
nasca.org

Free Webinar on Disaster Preparedness, May 6.

Governing Magazine and Visa will sponsor a free one-hour webinar on May 6. The program will feature information about how state and local governments can prepare for and respond in the event of emergencies, including natural disasters and potential terrorist attacks. For more information, go to **governing.com/webinars.htm.**