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COMMENTS
OF
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TO THE
SENATE COMMITTEE
ON
WAYS AND MEANS

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10:00 AM

INFORMATIONAL BRIEFING on the purchasing card program

Chair Kim, Vice Chair Tsutsui, and committee members, thank you for this opportunity to provide information on the State's purchasing card program.

GENERAL OVERVIEW

The purchasing card (pCard) program is similar to a credit card, designed to streamline the state and county government's small purchase payment process. It replaces the laborious and costly purchase order system by allowing employees to charge small purchases from vendors using the pCard without having to prepare a purchase order and thereafter process an invoice for payment for issuance of a check to the vendor. pCards are the property of the government, issued to responsible employees to make official purchases. The pCard program improves management controls, provides expenditure data, increases purchasing efficiency, and includes payment to vendors by the card issuer generally within a few days of the purchase.

pCARD PROGRAM OBJECTIVES

- Reduce administrative costs associated with purchase orders.
- Maintain and improve controls on purchasing activities.
- Capture detailed expenditure data on every transaction.
- Free up employees to perform more meaningful and productive program tasks.
- Enhance relationships with businesses.

pCARD BENEFITS TO THE STATE

- Eliminates purchase orders and processing of individual invoices.
- Eliminates individual checks to vendors – one monthly check to the pCard provider, financial institution.
- Increases efficiency for the state, counties & business community.
- Available default codes (division/section, object and job numbers, accounting codes, merchant category codes, etc.) pre-assigned to the pCard; and may be adjusted for each transaction.
- Reduces expenses, a purchase order costs between \$100-\$150 to process and the savings between the cost of processing a purchase order and pCard transaction is estimated at \$68.
- Improves efficiency, 90% of the checks volume represents 10% of expenditures.
- Significantly reduces late payment fees.
- Increases available time for core activities.
- Efficient purchasing by empowering employees to obtain required or needed goods and services.

pCARD BENEFITS TO BUSINESSES

- Expedient payment within 3 days versus within 30 days.
- Less costs due to eliminating invoicing, accounts receivables, and deposits.
- No credit risk to businesses.
- Enhances customer relations and generates more business.
- Improves businesses cash flow because payment is received within a few days.
- Increases efficiency for the business community.

BACKGROUND ON THE PCARD PROGRAM

The SPO purchasing card (pCard) initiative began in 2001 and launched the pCard program after awarding the contract to First Hawaiian Bank (FHB) in 2002, and began a pilot program with various state and county agencies. Subsequently, the issuance of Procurement Circular 2003-06, encouraged other departments to participate. In 2004 there were approximately 1200 accounts with expenditures of \$7 million. In April 2005 the pCard program gain momentum through the issuance of Comptroller Memoranda CM 2004-36 to executive branch departments for the mandatory use of the pCard for purchases under \$2,500. This figure was based on a review that reflected 91% of purchase orders were issued for amounts less than \$2,500. Pursuant to CM 2005-08, exceptions to the mandatory usage are: petty cash, utility invoices, other government entities, partial or progress payments, companies that charge a fee to use the pCard, and when payment is required before the goods or services have been rendered. Departments were reminded of the benefits of the pCard to streamline processes for the agency as well as for the vendors. Many vendors no longer accept purchase orders.

Today, the pCard is used by 19 executive departments/agencies and 14 other jurisdictions. The total expenditures as provided in the Attachment.

PROGRAM EFFICIENCY

Purchase Orders vs pCard Transactions

In 2005 the statistics reflected substantial increased use of the pCard with an estimated 3100 cards doing an annual expenditure of \$44 million. Departments and other jurisdictions were realizing the benefits of the pCard, particularly in the decreased numbers of purchase orders processed. The program continued to expand as departments and vendors became familiar with the process and are comfortable and confident with the safeguards in place.

The number of purchase orders processed has decreased dramatically since 2005. A federal report shows a savings of approximately \$68.00 for pCard used versus purchase orders which calculates to an estimate savings of approximately \$5 million since 2005. This figure does not include the efficiency savings gained by businesses.

Executive Branch Departments/Agencies	Estimated No. of Purchase Orders (for major object codes)	Estimated No. of pCard Transactions
2004	86,534	11,870
2005	70,267	90,387
2006	31,152	155,917
2007	21,132	171,000
2008	20,845	188,339
2009	15,975	170,504

Departments are still able to issue purchase orders to those vendors who do not accept pCards, impose a fee for the use of the card, to replenish petty cash, or any of the exceptions provided in Comptroller Memorandum CM 2005-08.

SUMMARY OF PURCHASE ORDERS FOR FY 2009 (BY \$\$ AMOUNT)					
<\$1,000	<\$2,500	<\$5,000	<\$25,000	<\$50,000	>\$50,000
9,680	2,091	1,689	1,977	289	249

Vendor - Payments

The pCard provides increased efficiency for the business community. Vendors are paid expeditiously normally within 3 days versus the traditional 30 day payment period. Additional benefits include lower cost of accounts receivable and reduced requirement for check deposits.

SECURITY FEATURES

The pCard program has velocity controls which are used to prevent abuse and misuse. Cards can be programmed to limit the number of transactions per day (or month) and maximum dollar amount per transactions that impact the cardholders ability to use the card. Statewide blocked merchant category codes are also used to prevent certain types of purchases. Pursuant to Procurement Circular 2003-06, Amend 1 & 7, cardholders are blocked from using the card for specific types of purchases (i.e. personal services & cash withdrawals) to safeguard employees using the pCard for restricted purchases, without the prior approval from SPO and the department head. Cardholders are reminded through department and SPO training of restricted and blocked purchases. Departments may impose additional blocks they deem necessary for the prevention of unauthorized use.

Another security measure is the mandatory photo imprints on all cards which was instituted in 2008 (SPO 8/28/08 memo). The picture ID was implemented as an added feature to the pCard program to prevent identity fraud.

The Emergency pCard, (Procurement Circular 2003-06, Amend 8) implement in December 2006, to be used in conjunction with an emergency declaration by the Governor, has special procedures which alerts the SPO and the department within hours, that a transaction was made. The department is responsible to verify that an emergency declaration has been made and that the purchase was for official State business and to be vigilant for all other transactions on the Emergency pCard for inappropriate use of this special card.

TRAINING

The SPO provides support to the departments in the form of periodic pCard workshops for both cardholders and administrators. Workshops provides cardholders with an overview of the pCard program and procedures, including cardholder responsibilities, restricted purchases and blocked merchant category codes, dispute procedures, emergency pCard program, and security measures. SPO also provides program updates, future enhancements, and required procurement training classes. The departments are responsible for the required training on pCard program policies & procedures as each department may impose their own departmental requirements and the workshops are intended as supplements. Workshop for pCard administrators provides a briefing on the status of the pCard program, security measures, transition to an upgraded online management system, and the Emergency pCard program advantages and benefits.

Ad hoc meetings are conducted as the need arises. For example a webinar was held to promote the Enhanced Merchant Reporting (EMR) system that is available to all participating jurisdictions. EMR is a web-based solution providing pCard customers secured access to the expenditure data.

REBATES

In addition to the streamline process on making payment to vendors, the State realizes savings through the rebate program provided in the pCard contract with the pCard provider. Cash rebates are paid quarterly based on the total expenditure volume for all participating jurisdictions using the tiered rate schedule.

Quarterly Incremental Net Purchase Volume (in millions) (in millions)	Rebate (effective 3/1/02)	Rebate (effective 1/15/08)
\$0. To \$1.5	0	.50%
\$1.5 to \$3.0	.25%	.50%
\$3.0 to \$4.5	.28%	.50%
\$4.5 to \$6.0	.31%	.50%
\$6.0 to \$9.0	.34%	.50%
\$9.0 to \$12.0	.37%	.50%
\$12.0 to \$15.0	.40%	.54%
\$15.0 to \$20.0	.43%	.57%
\$20.0 - \$25.0	.43%	.60%
\$25.0 to \$30.0	.43%	.63%
\$30.0 to \$35.0	.43%	.66%
\$35.0 to \$40.0	.43%	.68%
\$40.0 and higher	.43%	.70%

In 2004, rebates to all jurisdictions were less than \$5,000. With the mandatory usage requirement, the 2005 rebates jumped to more than \$100,000 and the numbers continued to escalate in subsequent years. In FY 2009, the rebate reached \$643,000.

In the last two fiscal years (FY 2008 & 2009) the average rebate was calculated at .58%. The total cash rebate for participating jurisdictions is provided in the attachment. The cash rebates are paid at the department/agency level. Pursuant to Procurement Circular 2003-06, Amend 4, rebates are considered revenue and general funded programs are required to deposit the checks into the general fund. Non-general funded programs should comply with its applicable statutory requirement. The rebates are calculated by First Hawaiian Bank on quarterly basis and a check is sent to each qualifying department/agency. Agencies in turn deposit the check into the general fund or special fund.

FUTURE GROWTH

The State of Hawaii has 3800 cardholders making 300,000 transactions annually with an average expenditure of \$100 million dollars. The potential for growth is encouraging as more employees use of the pCard. Although the pCard was designed primarily for small purchases, the pCard may potentially be used for large ticket items, thereby increase rebate amounts. Departments are limited only by the credit limit established with the pCard provider and the ability of the vendor to accept the pCard for large purchases.

SPO continues to look for ways to improve the State's credit card program.

- In 2006 the Emergency pCard was introduced as an effective and convenient tool to support the agency in emergency situations (Reference Procurement Circular 2003-06, Amend 8 & 9). The pCard has very few blocks imposed allowing cardholder the ability to respond to emergency situations without going through the normal channels. The Emergency pCard program has special procedures to alert department and SPO of any transactions that may occur. Currently only five departments have emergency pCards (Transportation, Agriculture, Human Services, Health, and Public Safety).
- Within the past 12 months most departments and jurisdictions have transitioned from PVS Net to CenterSuite, which is an online management system, with a reporting capability for management review. This allows departments to track purchases online and reconcile the information as necessary.
- In 2007 the Declining Balance card is also an option available to agencies. Similar to a debit card with a fixed allotment would allow cardholder to use the card on an as need basis and may be programmed to restrict purchases. This feature was offered by SPO to the Department of Education for use by teachers.

REQUEST FOR PROPOSAL (RFP) FOR NEXT CONTRACT

The current contract would have expired in February 2012 if all options to extend had been exercised. Although SPO was very satisfied with the results of the pCard program and the performance of its contractor, chose to re-solicit for the pCard program to take advantage of any new technological advancements and rebate incentives in the commercial card industry in the years since the State first implemented the program.

The current request for proposal (RFP), for the State's pCard program reached out to credit card providers nation-wide for maximum exposure and response. Note: The RFP is currently under evaluation, and information on the offerors and their offers are not available at this time, however, will be made available after award. The RFP evaluation committee is currently reviewing best & final offers submitted by Offerors on March 10, 2010.

The solicitation goes beyond the traditional straight rebate based on volume expenditure. Offerors were encouraged to be creative in rebates and incentives offerings, with the goal of obtaining the best program, and rebates/incentives for the State. Offerors may include, but not limited to quarterly rebates, based on quarterly or annual expenditure, average ticket price, early payment and performance incentives, and signing bonuses. The solicitation provides opportunity for Offerors to promote their commercial card products with the latest in technology and benefits to the State of Hawaii.

The evaluation criteria are based on a numerical point system, with the award to the Offeror with the highest number of points.

- Cost/Incentive/Rebate 200 points
- Purchase Card Program 400 points
- Implementation, Training, Support Services 225 points
- Experience, Staffing, References 100 points
- Payment & Late Fees 75 points

Comptroller Memorandums and Procurement Circulars referred to in this document are available at <http://hawaii.gov/dags> and the SPO website at <http://hawaii.gov/spo>.

STATE OF HAWAII PCARD PROGRAM
FY 2008 - 2010

STATE OF HAWAII PCARD	# of Cards as of 2/28/2010	FY2008			FY 2009			FY 2010 (qtr1&2)		
		Spend Volume	Trans #	Rebate	Spend Volume	Trans #	Rebate	Spend Volume	Trans #	Rebate
		Dept of Acctg & Gen Svcs	165	\$4,176,590.39	14,121	\$21,932.99	\$ 3,651,299.46	13,142	\$22,725.00	\$1,528,704.57
Dept of Agriculture	34	\$1,441,544.60	5,515	\$7,824.01	\$1,329,919.83	5,315	\$8,271.54	\$385,860.24	1,882	\$2,303.87
Dept of Attorney General	36	\$858,334.47	3,293	\$4,498.84	\$628,961.87	2,672	\$3,922.34	\$290,503.63	1,212	\$1,323.41
Budget & Finance	23	\$1,305,690.63	2,405	\$6,851.09	\$ 1,231,999.53	2,475	\$7,691.62	\$511,574.42	1,062	\$3,062.99
Dept of Business Economic Dev & Tourism	101	\$1,645,528.61	10,985	\$8,615.17	\$1,174,411.75	647	\$6,563.58	\$455,030.59	2,032	\$2,718.01
Dept of Com and Con Affairs	49	\$851,883.47	3,265	\$4,493.16	\$869,584.38	3,197	\$5,420.70	\$363,853.64	1,339	\$2,175.09
Dept of Defense	41	\$2,452,247.69	5,920	\$13,223.04	\$2,135,289.59	5,650	\$13,303.35	\$1,020,015.82	2,577	\$6,104.64
Dept of Hawaiian Home Lands	33	\$548,649.34	3,001	\$2,875.91	\$585,313.53	2,817	\$3,650.82	\$276,870.71	1,411	\$1,652.76
Dept of Health	221	\$16,565,953.17	46,087	\$87,574.16	\$12,890,383.47	38,364	\$80,342.43	\$5,709,875.60	15,267	\$34,167.65
Dept of Human Resources & Development	16	\$195,533.69	792	\$1,042.87	\$134,098.75	552	\$839.92	\$50,907.24	219	\$304.13
Department of Human Services	378	\$10,675,051.72	38,907	\$55,702.68	\$9,401,809.98	33,712	\$58,618.14	\$3,100,047.10	12,044	\$18,528.02
Dept of Labor & Ind Rel	60	\$2,373,279.25	3,874	\$12,514.09	\$3,027,709.65	4,210	\$16,627.23	\$1,096,850.57	1,769	\$6,570.49
Dept of Land & Natural Resources	263	\$5,584,157.87	22,535	\$29,303.97	\$6,014,056.17	19,737	\$37,450.79	\$2,126,294.42	7,541	\$10,984.89
Dept of Public Safety	77	\$2,648,644.33	7,090	\$14,483.56	\$2,857,623.40	7,344	\$17,808.63	\$1,087,803.36	2,977	\$6,508.95
Dept of Taxation	2	\$158,979.82	393	\$872.58	\$161,228.30	287	\$1,003.96	\$69,529.85	147	\$416.30
Dept of Transportation	252	\$10,396,234.78	23,322	\$54,341.36	\$11,008,979.40	22,307	\$65,368.02	\$4,647,401.94	10,545	\$27,821.12
Hawaii State Public Library Sys	16	\$1,172,511.06	3,638	\$6,343.49	\$858,517.98	2,521	\$5,342.41	\$202,787.24	837	\$1,211.70
Office of the Governor	9	\$319,620.03	1,480	\$1,703.29	\$187,011.28	942	\$1,165.57	\$71,802.56	365	\$428.62
Office of the Lt Governor	4	\$96,190.27	653	\$515.26	\$43,849.44	298	\$273.51	\$10,432.82	72	\$62.17
SUBTOTAL	1780	\$63,466,625.19	188,339	\$334,711.52	\$58,192,047.76	170,504	\$356,389.56	\$23,006,146.32	69,083	\$135,482.33
The Jurisdictions										
Dept of Education	397	\$4,488,460.63	28,641	\$24,299.58	\$4,420,811.40	26,379	\$27,541.60	\$1,514,872.46	10,152	\$9,028.32
University of Hawaii (has its own contract)	0	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00
Office of Hawaiian Affairs	9	\$564,138.32	1,873	\$2,936.31	\$447,991.39	1,767	\$2,793.14	\$199,191.17	1,042	\$1,188.90
State Senate	0	\$0.00	0	\$0.00	\$0.00	0	\$0.00	\$0.00	0	\$0.00
House of Representatives	20	\$54,058.44	290	\$291.59	\$97,428.65	699	\$603.17	\$61,869.56	614	\$166.58
Legislature:										
Office of the Ombudsman	4	\$39,662.27	117	\$208.57	\$32,858.67	97	\$205.20	\$9,308.69	28	\$55.85
Office of the Auditor	3	\$33,235.11	129	\$175.34	\$34,675.42	94	\$214.93	\$19,089.78	51	\$114.54
Legislative Reference Bureau	6	\$148,880.38	359	\$793.92	\$168,631.52	348	\$1,050.87	\$61,644.00	161	\$364.28
State Ethics Commission	5	\$47,174.87	125	\$232.10	\$69,583.20	119	\$435.91	\$27,762.63	76	\$371.22
Hawaii Health Systems Corporation	33	\$377,352.14	2,091	\$2,032.70	\$342,981.73	1,750	\$2,137.93	\$194,696.46	985	\$1,162.27
The Judiciary	43	\$496,926.02	4,376	\$2,594.28	\$358,938.69	3,054	\$2,240.16	\$134,321.18	1,224	\$713.68
Counties & Excutive Agencies - Executive Branch:										

