

Date: 01/30/2012

Committee: House Education

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: HB 1591 RELATING TO EDUCATION.

Purpose of Bill: Allows the principal of each public school to establish and use a debit card system based at the individual school level for the purpose of purchasing school supplies and other related curriculum support supplies. (\$)

Department's Position: The Department of Education (DOE) appreciates the Legislature's support of principals and teachers; however, the Department **strongly opposes** this bill, since we currently utilize a Mastercard purchasing card (P-Card) program, which is in place at all schools for the convenience of purchasing classroom supplies for teachers. The P-Card can also be used at the school by teachers to place internet and phone orders. The existing P-Card provides several advantages over the proposed debit card, as follows:

- P-Card expense management and accounting efficiencies
- P-Card "float" controls
- P-Card authorization controls
- P-Card declining balance controls
- P-Card rebate program

Attached is a table that outlines the advantages of a P-Card over the debit card in more detail.

Debit cards for the teachers would not provide fiscal accountability of funds by the principal. Our current P-Card system allows charges to be reviewed electronically by the principal prior to payment. This allows schools to meet goals of purchasing flexibility and convenience, as well as fiscal accountability. Debit cards would not allow for review by the principal.

Additionally, schools currently have the option to utilize "open" purchase orders. This allows teachers to order and purchase items at their discretion at selected vendors, within authorized dollar amounts. In addition, if purchases by teachers are not subject to either pre-approval or post review by the principal, the debit card would be construed as an expense account, and could result in income tax liability for teachers. Furthermore, the Department has concerns about the implementation and on-going management and administration of a debit card program, which has fewer controls, for approximately 14,000+ teachers when the P-Card program is already in place. Additional workload to implement an additional program would include: administering teacher transfers to different schools; retirements; resignations; new hires; reassignments to positions no longer in the classroom; lost cards; post-audit and follow-up; etc. P-Cards are coded with school-specific financial codes, and cannot be transferred with the teacher or principal.

In order to manage the workload increase caused by this initiative, we would need a minimum of two (2.00 FTE) Unit 13 specialists, and one (1.00 FTE) clerical staff for the implementation and management of this program. We would also need three (3.00 FTE) pre-audit clerk positions in Vendor Payment to handle the post-audit function. The total estimated amount for salaries and fringe benefits would be \$340,000. We would also need start-up funds for furniture, computers, supplies, mileage and postage. The total estimated amount for the one-time start-up costs would be \$36,000, while the recurring costs for on-going operating expenses is estimated at \$28,000. Therefore, the total estimated costs to implement and manage this program is \$404,000.

Storage of the additional debit card documents would also pose a major space problem in our office. While scanning documents may be a possible solution, the training, equipment and manpower to successfully store electronic documents will require more resources to implement.

The Department does recognize that teachers often use their own funds

for special instructional supplies not typically provided in school. For example, food is often used in language arts, mathematics, science, social studies or health lessons. Teachers often purchase their own additional reference books to enrich lessons. They often also provide specialty supplies such as colored pens, small rewards such as stickers, and other art supplies to promote and encourage student achievement. In addition to food or other specialty supplies, schools and/or teachers may take it upon themselves to help needy students with basic living needs such as rubber slippers to be worn in the classroom, or other daily hygiene needs like deodorant, soap, shampoo, toothbrushes, and toothpaste in order for children to not be negatively singled out in the classroom.

There are already procedures and mechanisms in place to pay for classroom expenses utilizing the P-Card, or to reimburse teachers for expenses, once there is adequate funding to do so. The question is not how or whether we should reimburse, but do we have sufficient funds to reimburse? Particularly for basic living needs, those should not be the responsibility of the Department of Education's appropriated budget. In summary, the Department appreciates the Legislature's support of principals and teachers; however, **we strongly oppose this measure**, since we already have a P-Card process and procedures are in place to reimburse teachers for approved expenses incurred. Thank you for the opportunity to provide testimony.

Department of Education (DOE)
 Testimony Attachment for HB 1591
 Comparison of Proposed Debit Card to Existing DOE P-Card
 January 30, 2012

Description	Proposed Debit Card	Existing DOE P-Card
1. Expense management and accounting efficiencies	Insufficient expense management controls.	Existing CentreSuite software allows DOE to custom code transactions; data is uploaded to DOE's financial system electronically.
2. "Float" controls	Funds charged real-time; deducted from account immediately, not allowing for review or approval.	DOE has a one-month cycle to review and approve transactions prior to payment due date.
3. Authorization controls	Insufficient authorization controls.	DOE P-Card controls include spending limits, and Merchant Category Codes to control types of card usage for purchases.
4. Access to checking accounts	Directly linked to checking accounts, accessing the entire account's available balance, which can be depleted if compromised due to potential fraud by merchants.	Not directly linked to access or charge any checking account. Payment is processed by DOE monthly on a cycle.
5. Declining balance controls	Insufficient declining balance controls.	P-Cards can be established with fixed limits, that decline until the card balance is fully used.
6. Rebate program	Congressional legislation (Durbin Amendment) on debit card transaction interchange reduces fees from a "fee + percentage" basis, to a flat fee of \$ 0.21 per transaction. Due to the 80%+ reduction in revenue, debit card issuers have reduced or cancelled all debit card rebate programs.	P-Card program offers a generous rebate based on usage volume.



STATE OF HAWAII
STATE PROCUREMENT OFFICE
P.O. Box 119
Honolulu, Hawaii 96810-0119
Tel: (808) 587-4700 Fax: (808) 587-4703
<http://hawaii.gov/spo>

TESTIMONY
OF
AARON S. FUJIOKA
ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE
HOUSE COMMITTEE
ON
EDUCATION

January 30, 2012

2:00 p.m.

HB 1591

RELATING TO EDUCATION.

Chair Takumi, Vice Chair Belatti, and committee members, thank you for the opportunity to testify on HB 1591.

The State Procurement Office (SPO) currently administers the purchasing card (pCard) program used by all Executive departments and agencies, the department of education, Judiciary, House and Senate and its agencies, the counties, etc.

In lieu of a debit card system, a more viable alternative is a declining balance purchasing card, which is currently a specialized feature of the State's pCard program. As a participating jurisdiction the Department of Education (DOE) may use this pCard feature at any time. In memos to the superintendent dated July 18, 2007 and again in January 10, 2011, as a follow up memo the SPO offered assistance and support to the DOE to implement the declining balance purchasing card feature. We have attached for your information the memos and flowchart of the proposal submitted to DOE.

The declining balance pCard (DBpC) is comparable to a 'gift card,' except it does not require prepayment associated with typical 'gift cards' programs. The DOE will be billed monthly for purchases. The transaction amount is withdrawn immediately, but payment to the pCard provider is made based on when the cycle ends; this averages 50 days from the time the purchase is made to when the payment is due to the bank. In comparison, a debit card system allows a cardholder access to the school's entire checking account balance and the funds are withdrawn within two days.

The DBpC is set to a specific dollar amount for each cardholder (may vary for each cardholder) and used until the value is depleted, and may be reloaded with additional dollar amounts. Expiration dates may be assigned allowing the issuance for a specific period (monthly, quarterly, or annually). The DBpC utilizes authorized controls for credit and merchant categories and may be used with any approved vendor accepting MasterCard. All expenditures on a DBpC would also be included in the State's total spend volume and qualify for quarterly rebates, thus giving dollars back to the State.

The DBpC is personalized with teacher's name and photo, offering enhanced accountability and audit tracking capabilities. The program allows the DOE to allocate budgeted funds without fear of overspending due to revolving or refreshing credit lines. Teachers will have 24-hour internet access to verify transactions and check balances.

The declining balance card program offers the DOE more flexibility, while maintaining control and accountability with audit capabilities.

attachment



**STATE OF HAWAII
STATE PROCUREMENT OFFICE**

P.O. Box 119
Honolulu, Hawaii 96810-0119
Tel: (808) 587-4700 Fax: (808) 587-4703
<http://hawaii.gov/spo>

SPO 11-075

January 10, 2011

TO: The Honorable Kathryn Matayoshi
Superintendent
Department of Education

FROM: Aaron S. Fujioka 

SUBJECT: Declining Balance Purchasing Card

The State of Hawaii Purchasing Card (pCard) program, implemented in 2003 has been a highly effective tool to pay for goods and services procured. Currently, the Department of Education (DOE) has 390 pCards, averaging 2,076 transactions and \$346,000 of expenditures per month (based on Oct. 1, 2009 – Sept. 30, 2010).

The DOE could expand the use of the program by taking advantage of a specialized pCard utilizing a declining balance feature from First Hawaiian Bank, the pCard provider. The declining balance pCard is a convenient tool that would facilitate the acquisition capabilities of DOE teachers to obtain school supplies and materials. Attached is the July 18, 2007 memo to DOE providing the details of the program.

While the DOE elected not to implement the declining balance pCard when it was introduced in 2007, the features and advantages of the specialized pCard are worthy of reconsideration.

If the DOE would like to implement the declining balance pCard, the State Procurement Office and First Hawaiian Bank would offer assistance and support in:

- Developing accounts, and procedures;
- Training assistance for users, administrators, and managers, on internet options, and program capabilities;
- Assistance in procurement training in the use of the declining balance pCard for price/vendor list items.

The program may be tailored to meet the department's requirements and we encourage the DOE to revisit the benefits and advantages.

Your staff may contact Bonnie Kahakui at 587-4702 if they have any questions, or to arrange a meeting, or you may call me at 587-4700.

Attachment

LINDA LINGLE
GOVERNOR



PROCUREMENT POLICY BOARD
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DARYLE ANN HO
GREGORY L. KING
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STATE OF HAWAII
STATE PROCUREMENT OFFICE
P.O. Box 119
Honolulu, Hawaii 96810-0119
Tel: (808) 587-4700 Fax: (808) 587-4703
www.spo.hawaii.gov

SPO 08-012

July 18, 2007

TO: The Honorable Patricia Hamamoto, Superintendent
Department of Education

ATTENTION: James Brese
Deputy Superintendent

FROM: Aaron S. Fujioka 

SUBJECT: pCard Program Proposal for a
DOE Teachers' Declining Balance pCard Program

This memo is a follow-up to the July 11, 2007 meeting with Mr. Brese and your staff. To assist the DOE in formulating strategies to implement a pCard program for teachers, the State Procurement Office would like to offer the following proposal. By developing the State's current pCard program, the DOE may issue specialized pCards utilizing a declining balance feature from First Hawaiian Bank, the pCard contractor. The features of a declining balance pcard (DBpC) are:

- Similar to a gift card rather than a traditional credit card;
- Value of the DBpC is set to a specific dollar amount for each cardholder, and used until the value is depleted;
- Expiration dates may be assigned to the card allowing the issuance of cards for specific periods (monthly, quarterly, annually);
- The DBpC utilize authorized controls for credit, and merchant categories;
- DBpCs are issued as the State of Hawaii pCards with the First Hawaiian Bank - MasterCard logo, and may be used with any approved vendor accepting MasterCard.

Declining Balance pCard - Advantages:

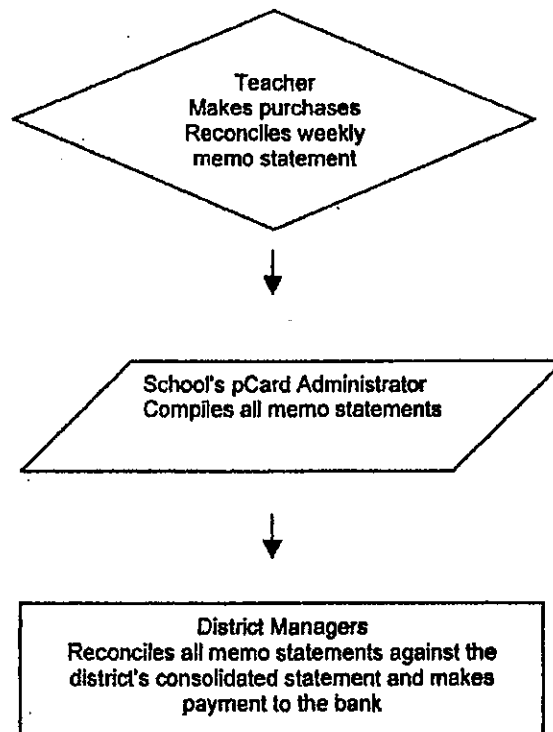
- DBpC is personalized with teacher's name, offering enhanced accountability and audit tracking capabilities;
- Allows the DOE to allocate budgeted funds without fear of overspending due to revolving or refreshing credit lines;
- Personalized PINS for cardholder to check balance, verification via call center or ATM;
- Does not require personal credit checks or qualification, nor affect individual's credit history;
- Does not require prepayment associated with typical 'gift card' programs;
- DOE will be billed monthly for purchases, able to take advantage of the float associated with the State's pCard program. The transaction amount is withdrawn immediately, but payment to FHB is made based on when the cycle ends, this typically means an average of 50 days from the time the purchase is made to when the payment to the bank is due;

- MasterCard benefits for Zero Liability Protection and unauthorized charges and fraud;
- 24- hour Internet accessibility and e-statements are available;
- Placing low-value, high-volume transactions on the pCard will reduce paperwork and increase efficiencies.

PCard Program Support from the State Procurement Office and FHB:

- Assistance in developing new accounts, card maintenance forms & procedures.
- Training assistance for users, administrators, and managers on the use of the pCard, Internet options, and program capabilities.
- Assistance in procurement training on the use of the DBpC for price/vendor list items.

Documentation Flow Chart



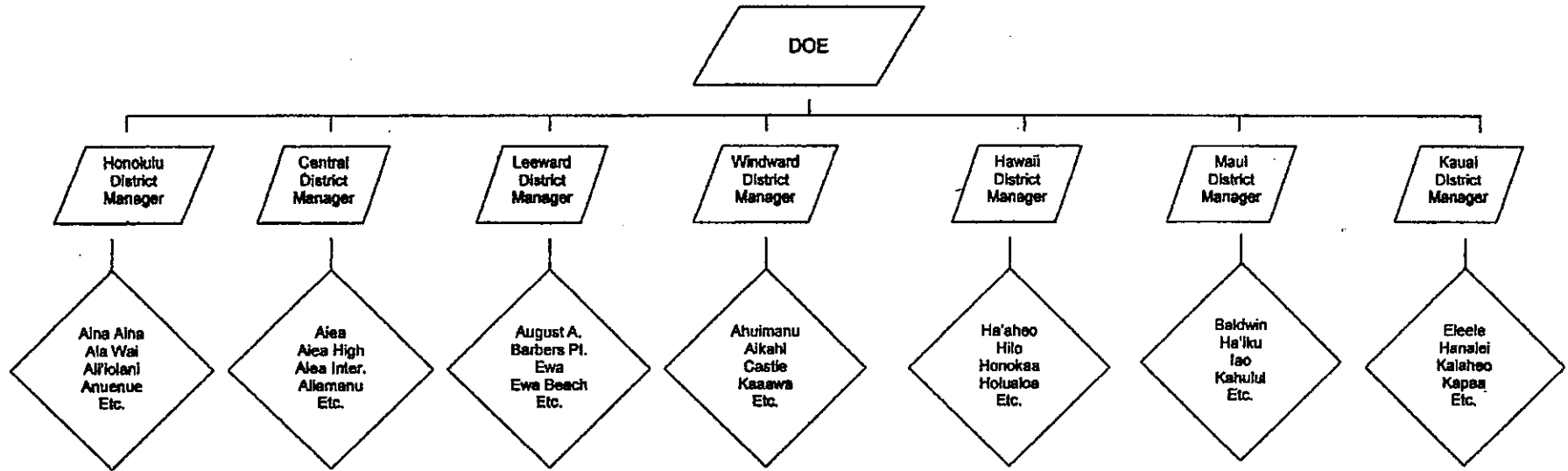
Attached is a flowchart of a proposed DBpC structure, for purposes of management and maintenance of the program.

Your staff may contact Bonnie Kahukui at 587-4702 if they have any questions, or you may call me at 587-4700.

Attachment

c: Russ Saito, Comptroller

Sample DOE Declining Balance pCard (DBpC) Structure



Notes:

- Department Administrator with complete oversight.
- Seven District Managers (may be expanded to include Superintendent and other Support Agencies). Responsible for reconciling schools' statement against the district's consolidated statement.
- Each school would have a School Administrator.

**Department of Education
Declining Balance pCard (DBpC) Policies & Procedures**

1. The Superintendent (or designee) will sign the First Hawaiian Bank (FHB) DBpC contract and credit request.
2. To obtain a DBpC, teachers must submit a completed DBpC Request Form to the school's DBpC administrator. The principal (or designee) shall approve the credit limit.
3. The school administrator shall notify FHB of new cardholders to establish new cards.
4. The school's administrator shall be responsible for:
 - Reviewing cardholders' responsibilities prior to submission of their application;
 - Collecting memo statements (with charge slips and other supporting documentation);
 - Reconciling the school's monthly statements to the cardholders' memo statements, and sign off as to accuracy;
 - Sending the approved school monthly statement, teachers' memo statements, and charge slips and other supporting documentation to the District Manager; and
 - Acting as a liaison between DBpC holders and District Manager.
5. District managers shall be responsible for:
 - Collecting all schools monthly statements;
 - Reconciling monthly statements to District's consolidated statement;
 - Preparing summary warrant voucher for payment to FHB;
 - Sending out check to FHB; and
 - Acting as liaison between FHB and school DBpC administrators.



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Legislative Director

TESTIMONY FOR HOUSE BILL 1591 and HOUSE BILL 1667

House Committee on Education
Hon. Roy M. Tkumi, Chair
Hon. Della Au Belatti, Vice Chair

Monday, January 30, 2012, 2:00 PM
State Capitol, Conference Room 309

Honorable Chair Takumi and committee members:

I am Kris Coffield, representing the IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 150 local members. On behalf of our members, we offer this testimony in support of HB 1591 and HB 1667, relating to education.

According to a report released by the National School Supply and Equipment Association, public school teachers spent \$1.33 billion out of pocket on school supplies and instructional materials during the 2009-2010 school year, an average of \$356 dollars per teacher. While down from previous years in which analysis was conducted, that number, when broken down, nonetheless amounts to \$170 on supplies and \$186 on instructional materials that should, under a well funded education system, be provided for by the Department of Education. Moreover, NSSEA attributes the decrease not to increased funding at the classroom level, but to the fact that educators, who are paid far less than professionals with comparable work experience and training, were hit hard by the recent recession and had less discretionary income to spend.

The trend is, if anything, worse in Hawaii, which has consistently ranked at or near the bottom in national cost-of-living studies and was recently ranked last in a MoneyRates.com evaluation of adjusted-average income—at \$22,107.96, Hawaii was more than \$7,000 behind Maine, the next-to-last state on the list. Thus, we urge your committee to increase state educators' purchasing power by instituting tax credits for supplies and a localized, administratively operated debit card system, which will assist in the recruitment and retention of effective teachers who might otherwise leave the state or profession because of financial encumbrances. Mahalo for the opportunity to testify in support of these measures.

Sincerely,
Kris Coffield
Legislative Director
IMUAlliance

January 29, 2012

To Whom This May Concern:

I am writing in strong support of HB 1591, which would allow the use of a debit card for teachers to purchase much needed classroom supplies. We can get great deals at places like Longs, Walmart, Target, Costco and mom and pop stores – however current procurement policies prohibit Purchase Orders to these stores. In essence, we end up spending more of the state’s money to purchase the school supplies. For example, Walmart recently had glue for a penny – yet the catalog from which we ordered was over \$2.00 for the same glue. Same with Crayola brand crayons. Walmart had it for 25 cents – and catalogs were over \$3.00 – then we had to add shipping and handling!

I hope you’ll consider passing this bill. Might I suggest a friendly amendment though? Instead of saying “principals may establish and use a debit card system” – could you please change it to “principals shall establish and use a debit card system”? This way every teacher will be able to use this great option to purchase school supplies, rather than having some principals or school SASA’s say “no, we’re not going to participate.”

Thank you for your time and consideration. I am glad some representatives are being friendly to teachers, unlike some of your colleagues who are attacking us at every direction.

Mahalo,

Lawrence Denis III
Teacher
Waikoloa Elementary School

belatti2 - Kate

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, January 29, 2012 3:42 PM
To: EDNtestimony
Cc: Ddkaoki@mac.com
Subject: Testimony for HB1591 on 1/30/2012 2:00:00 PM

Testimony for EDN 1/30/2012 2:00:00 PM HB1591

Conference room: 309
Testifier position: Support
Testifier will be present: No
Submitted by: Diane Aoki
Organization: Individual
E-mail: Ddkaoki@mac.com
Submitted on: 1/29/2012

Comments:

I am a 5th grade teacher at Kealakehe Elementary School in Kona on the Big Island. I am writing I support of the proposal for teachers to be issued debit cards for school supplies. There are many reasons that this is a good idea. Our dollars can stretch further because we can make choices and get the best deals rather than be limited by vendors who take DOE purchase orders. We can be more responsive to student needs and buy supplies throughout the year rather than have to plan for the year ahead in April. As a science teacher, there are many supplies I can buy at the grocery store for science experiments that I currently buy out of my own pocket because I did not anticipate that need in April and because it is currently impossible to do a purchase order for items such as vinegar, baking soda, and Borax. I have made cell models in the past using jello. This is such a common sense proposal and an affirmation of your trust in us as professionals. Thank you for considering the passage of this very good proposal.

belatti2 - Kate

From: mailinglist@capitol.hawaii.gov
Sent: Monday, January 30, 2012 7:51 AM
To: EDNtestimony
Cc: Brendan.poff@gmail.com
Subject: Testimony for HB1591 on 1/30/2012 2:00:00 PM

Testimony for EDN 1/30/2012 2:00:00 PM HB1591

Conference room: 309
Testifier position: Support
Testifier will be present: No
Submitted by: Brendan Poff
Organization: Individual
E-mail: Brendan.poff@gmail.com
Submitted on: 1/30/2012

Comments:

Please help to pass this bill. The DOE has made it almost impossible to purchase things needed in the classroom with their Purchase Order requirements. In this day and age we need to keep up with current technologies and the use of a debit card would be a great first step. It would honestly just make life easier for principals, teachers and staff. Much appreciated.