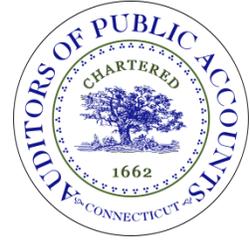
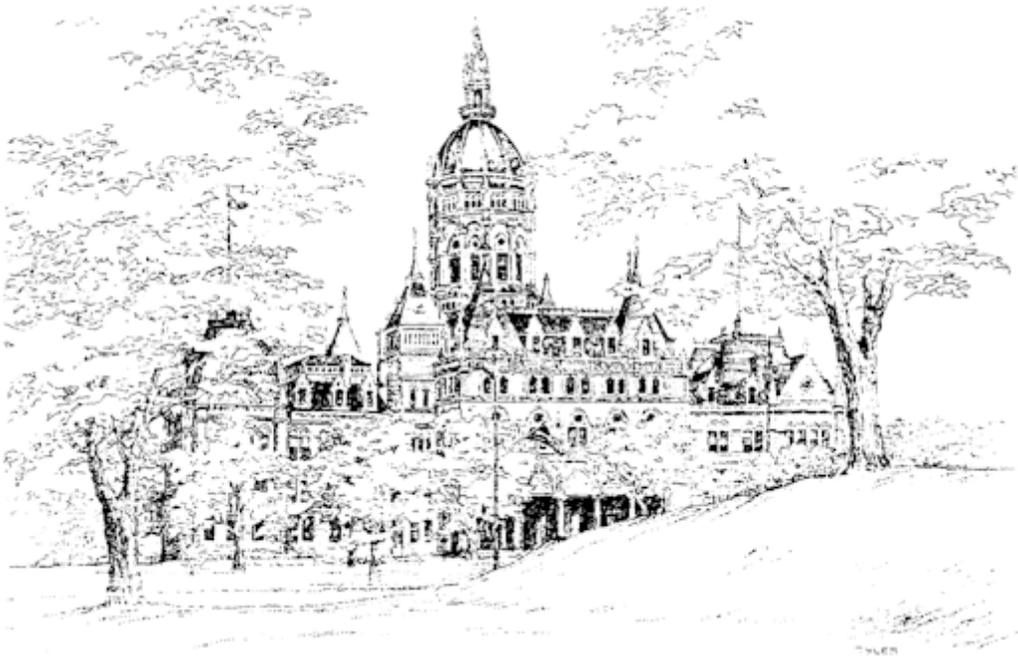

Auditors of Public Accounts

JOHN C. GERAGOSIAN ❖ ROBERT J. KANE



Statewide Purchasing Card Program Enhancing Rebate Opportunities

For the Fiscal Year Ended June 30, 2015



Auditors' Special Report

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February 8, 2018

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes we have conducted a performance review of the State of Connecticut purchasing card (P-Card) program. The purchasing card program is jointly administered by the Office of the State Comptroller (OSC) and the Department of Administrative Services (DAS).

The objectives of this review were to determine the following:

- Whether there was any increase in efficiencies or economical practices brought about from changes made to the state's purchasing card program in fiscal year 2012.
- Whether any additional changes could be made to further increase the efficiency or efficacy of the program.

Finding 1 Page <u>8</u>	Efficiencies in the state's procurement processes have saved an estimated \$27 million over a 3-year period ending June 30, 2015.
Finding 2 Page <u>10</u>	Expansion of the P-Card program and revisions to its contract resulted in a retroactive payment of \$279,000 for purchasing activity during the 2-year period ended December 31, 2010. These changes have also increased the annual rebates for participating entities.
Finding 3 Page <u>11</u>	By making certain recurring purchases within the P-Card program, state government could receive an estimated additional \$1.2 million in rebates and \$2.7 million of workflow savings annually.
Finding 4 Page <u>12</u>	Single transaction limits placed on individual cards could be increased by OSC and DAS to consider the changes, effective July 1, 2012, within section 4-98 of the General Statutes. Connecticut currently uses the P-Card less frequently than other governmental entities, limiting the program's potential.
Finding 5 Page <u>14</u>	Structuring P-Card bill payments to reduce the grace period for payment from 30 days to 14 days would generate an estimated additional \$160,000 to \$320,000 of rebates for the General Fund without increasing P-Card usage.
Finding 6 Page <u>15</u>	Notifying eligible entities of their ability to participate within the P-Card program could provide additional benefits to new and current members of the contract.

INTRODUCTION

A P-Card is a commercial form of credit card. The P-Card has greater utility as a payment method due to the infrastructure that has been created for credit cards. There are many instances in which goods and services for operational expenses are better procured through electronic payment over the internet as well as in brick and mortar stores.

A purchasing card pilot program was created for the State of Connecticut in 1998 by the Department of Administrative Services and Office of the State Comptroller. Since that time, the program has grown significantly. The program has expanded to include other entities that are termed outside addendum entities, as they were later added to the state's contract with its vendor bank that provides the P-Card. These addendum entities include municipalities, higher education, schools, quasi-public agencies and other non-profits. All entities included in the P-Card contract, their spending volume, and average transaction amount for calendar year 2015 are included in Exhibit A-1.

Exhibit A-1: Calendar Year 2015 Purchasing Card Usage

Entity	Spending Volume	Transaction Count	Average Transaction
Executive Branch (not Higher Ed)	\$ 33,837,035	114,666	\$ 295
All Other State Government	29,798,747	118,680	251
Outside Addendums	16,897,345	106,021	159
Total	\$ 80,533,127	339,367	\$ 237

The program has grown over the last 18 years as word has spread across state government about the benefits of the P-Card for state agencies and vendors already doing business with the state. For state agencies, P-Card usage allowed all procurements in a given billing cycle to be placed on a single purchase order for the P-Card bank vendor. This workflow change results in a significant reduction in time and effort required to authorize and make payment on a purchase. The purchasing card also yields savings by removing costs related to printing and mailing checks. Vendors are willing, or in some cases prefer, to receive payment by purchasing card despite fees assessed by the card bank, as it provides several cash flow benefits to their operations.

Agencies benefit by switching to the P-Card for many types of transactions because it is a convenient, more secure payment method than check or petty cash. Fraudulent activity is less likely to occur when payment is made by purchasing card or as an Automated Clearing House (ACH) transaction. The fraud detection and system of internal controls within the P-Card program are more comprehensive than controls over check payments or petty cash. For example, entire categories of purchases, (e.g. jewelry or event tickets) can be made ineligible for purchase on any given card. During our review, 27 high-risk transactions were selected for testing at three state agencies. The testing did not indicate that fraud or the circumvention of purchasing controls had occurred.

The P-Card provides a convenient solution for day-to-day transactions that state agencies must make as part of their operations. There are instances in which employees are away from their worksite and must make emergency purchases. Traditionally, these purchases would be paid by petty cash or personal funds for which the employee would later request reimbursement. Using a P-Card creates an audit trail by recording the existence and many details about a purchase. All P-Card payment transactions, as well as reports on cardholders and vendors, are reviewable by the state agency, the P-Card program administrator, and the State Auditors within the program vendor’s web portal.

The level of detail recorded within the web portal for P-Card purchases varies by vendor. Many large vendors report at what is known as the third level of transaction detail. This level provides individual line item information for everything included in a purchase, similar to what is available on a receipt, including: item identification numbers, quantity, unit of measure, unit price, and total price. This information can be used when reconciling between what was purchased and what was received without requiring manual data entry into the state’s recordkeeping systems. Many vendors have implemented this technology to improve inventory reconciliation and tracking of goods available for sale. There is similar detail provided for travel expenditures, which can include the names on airline tickets, hotel reservation numbers, type of car rented, and amount of miles driven, etc.

Exhibit A-2: Rebate History

Calendar Year	General Fund Rebate
2003	\$ 58,631
2004	139,722
2005	124,807
2006	162,186
2007	186,643
2008	210,397
2009	162,669
2010	205,863
2011	675,859
2012	635,414
2013	727,228
2014	792,450
2015	856,407

Commercial bank cards (P-Cards) have become a more popular payment solution in part due to their efficiencies, but also due to the rebates available. A rebate is primarily calculated on the spending volume and speed of payment of all entities participating in the P-Card program. The current contract with the P-Card vendor calculates the rebate based on the spending in each calendar year. The rebates received by the General Fund for calendar years 2003 through 2015 are included in Exhibit A-2. Spending by addendum entities included within Connecticut’s P-Card program is included within the rebate calculation, though each entity receives a separate rebate. This allows all contract members to qualify for a larger rebate.

The rebate amounts generally offset the cost of personnel assigned to administer the program at DAS and OSC. The P-Card vendor provides the physical cards, web portal functionality, and other administrative tools at no cost to the state. These factors further contribute to the administrative cost savings realized by the state and addendum entities when using the P-Card.

This review was limited to executive branch agencies within the portal that the DAS P-Card program administers. The portal is also where administrators can set controls on each card within their hierarchy. Merchant category codes, purchase limits, account limits, and billing cycle limits are some of the most frequently used controls.

In conducting this review, the audit team researched applicable laws and regulations, interviewed key personnel at the Department of Administrative Services, Office of the State Comptroller, and other select state agencies participating in the P-Card program. The evaluation methodology

included reviews of purchasing card transaction data and supporting documentation for those transactions maintained at a sample of participating state agencies.

The team also reviewed publications of federal agencies, other states' purchasing card programs, and industry reports to review examples of successful programs that maximize benefits while reducing risks.

This report has been discussed with appropriate personnel representing the Department of Administrative Services, Office of the State Comptroller, and other state agencies included in our review. A draft copy was provided for their review and they were invited to provide a written response. Pertinent responses from these agencies have been included in Appendix A of this report.

RESULTS OF ANALYSIS

Realized Savings from Purchasing Card Program Changes

OSC Memorandum 2011-11

The State Comptroller released on May 9, 2011, Memorandum 2011-11 effective for the 2012 fiscal year. The memorandum required that all purchases under \$1,000 be paid for by P-Card unless the vendor's limitations or other state policies made a different payment method necessary. This change encouraged state agencies to make use of the utility of P-Cards for many common transactions. It also reduced layers of processing required in the traditional governmental purchasing methodology.

The workflow within Core-CT when purchasing a good or service that will be paid for with a check begins with a purchase order. The purchase order is created and approved to encumber funds for the purchase. Once the good or service is received, a voucher is created and approved to authorize payment. The last step creates and mails a check to the vendor. The P-Card workflow reduces some of these steps, as only the P-Card vendor bank is paid by the state. There is no need to create purchase orders and vouchers for every vendor providing goods or services to state government. Instead, there is a single purchase order and voucher for each billing cycle that is amended as purchases are made with the card.

Exhibit B-1: Purchases under \$1,000 by Payment Type and Fiscal Year

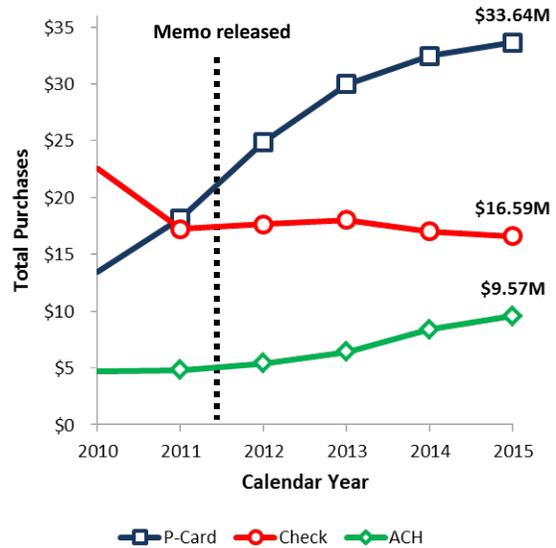
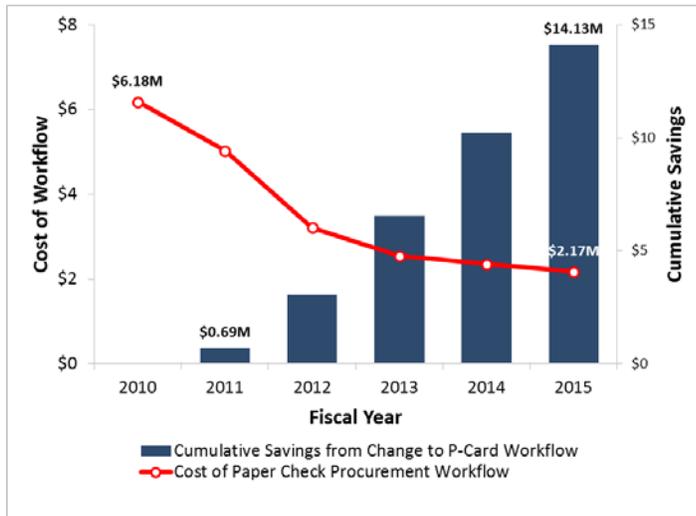


Exhibit B-1 shows that leading up to and following the memorandum's release there was a reduction in the amount and total value of checks issued for purchases under \$1,000. The amounts in Exhibit B-1 are limited to only executive branch expenditures and exclude higher education entities, due to a lack of detailed information readily available from components of higher education. The analysis includes state expenditures related to: commodities, utilities, motor vehicle costs, and information technology. This was done to reduce the likelihood that a transaction included in the review could not be paid for with a P-Card.

Some of the reduction in checks appears to be offset by an increase in ACH payments. There was also a significant increase in purchasing card usage from fiscal years 2011 to 2015, as its use as a payment solution doubled. The timing of the increase indicates that the memorandum very likely brought about the changes illustrated.

Exhibit B-2: Estimated Savings from OSC Memo 2011-11 (Millions)



The estimated cumulative savings by the end of fiscal year 2015 (\$14.13 million), and the estimated cost of procurement workflows involving check payments (\$2.17 million in fiscal year 2015) are presented in Exhibit B-2. These amounts are calculated by using the cost of salary and benefits for staff involved in the workflow and time estimates for completing each task. This figure was applied to the count of purchase orders and vouchers paid by check in each fiscal year to determine how much time and effort was required with the traditional workflow. These savings were then reduced by the costs

associated with the workflow required to create a purchase order, voucher, and ACH payment to the P-Card vendor each month.

The bars representing cumulative savings in Exhibit B-2 signify the efficiencies the state has realized when compared to the workflow processes that were in place during fiscal year 2010. The cost of workflow represents the estimated cost to the state for payments under \$1,000 made by check in each fiscal year within the selected account types. Exhibit B-2 shows that, while there have been significant cumulative savings and a reduction in the cost of workflow, there is a diminishing return from continuing efforts to change the payment method used for small dollar transactions from check to P-Card.

In Exhibit B-3, all cost reductions are relative to the amount of hours charged by the associated staff in the fiscal year ended June 30, 2010. This methodology does not account for all other factors that would cause a reduction in hours worked. Also, some of the positions include activity outside of procurement. However, the calculation does illustrate that the time and effort required of these positions are decreasing during a time period when the amount of purchased goods and services has increased.

A comparison of the actual and estimated cumulative savings in Exhibits B-2 and B-3 indicates that in earlier years, actual savings were less than what we estimated. However, as of the fiscal year ended June 30, 2015 savings have greatly exceeded the estimate in Exhibit B-2. This discrepancy reflects an inherent lag in workflow

Exhibit B-3: Actual Workflow Savings (Millions)



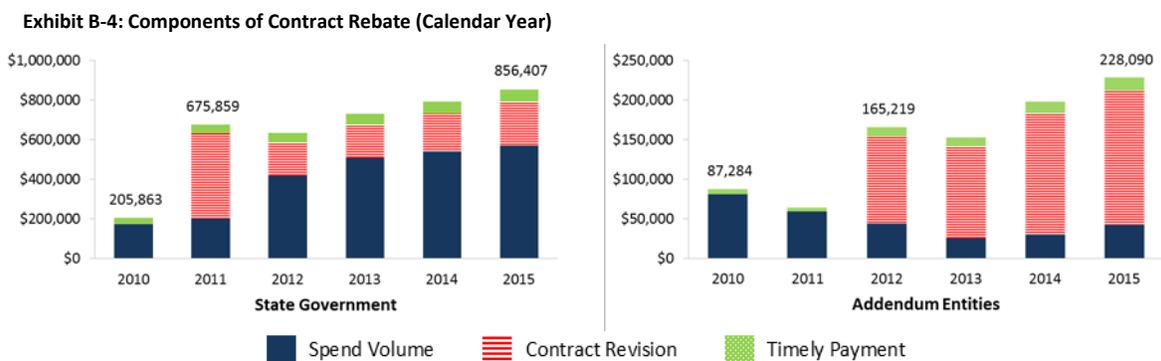
savings. Labor savings cannot always be realized immediately even if the workflow burden has been reduced. Sustained hiring freezes since the fiscal year ended June 30, 2012 have increased realized savings by holding positions vacant. The nature of these freezes has generated savings in excess of what was estimated based on the efficiencies of P-Cards versus checks. Ultimately, there were greater savings than anticipated but it occurred later than expected.

Contract Revisions with P-Card Program Vendor

Savings realized by increasing P-Card usage were not solely from workflow reductions, but also from the program vendor rebates. The program vendor issues a rebate every March based on the prior calendar year’s spending volume and the timeliness of payments. During our review, DAS provided documentation illustrating how the rebate rate increased due to a contractual revision it negotiated effective for the calendar year 2012 rebate. This revision increased the rebate to addendum entities by more than double: from \$64,000 in calendar year 2011 to \$165,000 in calendar year 2012.

The revision allowed the state and addendum entities to pool their spending to qualify for greater rebate percentages they would not be eligible for as individual entities. Prior to the revision, an individual entity had to have spending greater than \$1 million to receive a rebate. This revision makes Connecticut unique, as many state P-Card programs are only for state government. Some states administer a second program for counties, municipalities, schools, and nonprofits, but it is unclear whether the programs combine spending for calculating rebates.

State government rebates also increased because some components of higher education had been treated as addendum entities. The increase experienced by the state in 2011 includes a retroactive payment of \$279,000 for not grouping all of the state’s primary government in prior years. The impact of these changes can be seen in Exhibit B-4.



The state’s current contract requires it to make payment for P-Card purchases within 40 file turn days, on average. File turn days are calculated using the state’s payment terms of a 30-day billing cycle and 25-day grace period. Over the last 5 years, the state and the addendum entities have averaged 30 file turn days, creating a 10-day window that the card issuer credits with a 0.01% increase to the rebate for each day early. The value of these early payments is denoted in the timely payment portion of each column in Exhibit B-4. In calendar year 2015, the state received \$63,000 by paying its bill 10 days earlier than required.

Potential for Additional Savings from the Purchasing Card Program

Payment of Predictable and Recurring Transactions by P-Card

Policies and procedures have been redesigned throughout the years to allow for recurring transactions to be processed in a more efficient manner. For example, agencies may request a blanket purchase order for utilities, heating oil, gas, and postage. Agencies with repetitive and predictable payments may apply for a purchase order waiver from the State Comptroller. This waiver was created to reduce the workflow burden on agencies for transactions in which encumbrances are not a necessity.

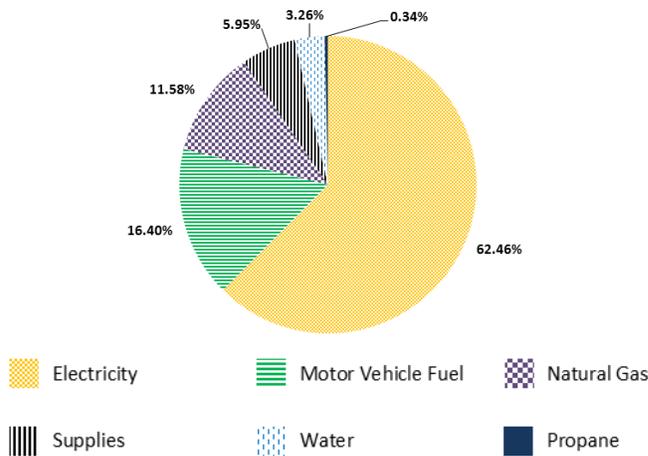
The original OSC Memorandum 2011-11 also included utilities as an example of purchase types under \$1,000 to be made by P-Card. However, a daily mail item at the start of fiscal year 2012 halted the mandate to pay utilities under \$1,000 by P-Card until further notice. Our review included an analysis of the potential savings to be realized by reinstating the use of P-Card payments for all applicable purchases under \$1,000, and including all payments (regardless of cost) for utilities, heating oil, gas, cleaning and maintenance supplies related to state office buildings and premises.

Savings related to the reduction in procurement workflow are similar to what our analysis identified related to the current impact from OSC Memorandum 2011-11. We have found that in the fiscal year ended June 30, 2015, there were 3,131 purchase orders, 55,219 vouchers, and 10,934 checks issued for purchases in the aforementioned categories, which totaled \$118,332,971. These purchases, combined with actual P-Card spending in that fiscal year, would total approximately \$179,800,000. If the entirety of these spending categories were procured by P-Card in that fiscal year, we estimate that the state would have saved \$3,900,000. Of this amount, \$1,200,000 would be from an increase in the rebate. This is due to spending being shifted to the P-Card, and the inclusion of all spending by state and addendum agencies on the contract. The reduction in potential workflow savings across fiscal years, even as spending increases, shows the impact of efficiencies to the procurement workflow, such as the purchase order waiver and blanket purchase order. Potential savings for fiscal years 2010 through 2015 are presented in Exhibit C-1.

Exhibit C-1: Combined Current and Potential Spending

Fiscal Year	Total Spending	Workflow Savings	Rebate Increase	Total Potential Savings
2010	\$ 171,600,000	\$ 3,400,000	\$ 1,400,000	\$ 4,800,000
2011	186,300,000	3,300,000	1,500,000	4,800,000
2012	165,000,000	2,900,000	1,200,000	4,100,000
2013	181,200,000	2,300,000	1,200,000	3,500,000
2014	184,000,000	2,800,000	1,300,000	4,100,000
2015	\$ 179,800,000	\$ 2,700,000	\$ 1,200,000	\$ 3,900,000

Exhibit C-2: Breakdown of Expenditures

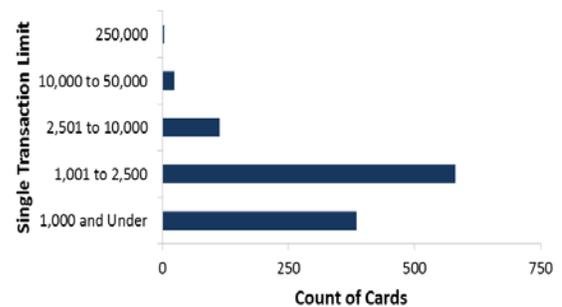


The size of each purchase category is presented in Exhibit C-2. Our review included a calculation of the benefits the state would realize from P-Card payments for utilities, net of credit card surcharges. Some vendors, including the largest vendor (electricity), assess a fee when the state makes payment by P-Card. In the case of this expenditure, payments over \$260 would always result in a benefit to the state. For this reason, potential P-Card payments to this vendor were limited to those checks that were issued for \$260 or more.

Increasing Limits of Single Transaction Amounts

The card issuer provides multiple internal controls for DAS and agencies to implement if there are specific risks they wish to address. One of the most frequently used controls is a single transaction limit, often set at \$2,500 by state agencies. This limit is set so that agencies comply with DAS General Letter 71, which allows for direct purchases of goods and services up to \$2,500 without obtaining a bid or quotation. Single transaction limits for cards used by executive branch agencies are presented in Exhibit C-3.

Exhibit C-3: Single Transaction Limits (Executive Branch Cards)



The most significant factor limiting P-Card usage is the single transaction dollar limit control, which is generally \$2,500 or less. The only way cardholders with these limits could make a purchase over \$2,500 would be to split a purchase with multiple swipes. This is expressly disallowed by the P-Card Program Cardholder Work Rules.

On average, governments and not-for-profits with a purchasing card program made payments for purchases valued at \$2,500 or less by P-Card 48% of the time. As presented in Exhibit C-4, Connecticut makes purchases by P-Card approximately 29% of the time. The state does make payment by check just as frequently as its peers for these small purchases. However, Connecticut makes payment by ACH far more frequently than most states.

A 2010 benchmarking survey on P-Cards reported many different aspects of their usage, including how frequently they are used for different types of transactions. The survey indicates that Connecticut uses the P-Card significantly less than other governmental and nonprofit entities for transactions in the range of \$2,500 and \$10,000. Exhibit C-5 shows this peer group used

purchasing cards as a payment solution for 26% of these transactions. In contrast, the State of Connecticut only made use of the P-Card for payments between \$2,500 and \$10,000 3% of the time within this range.

Exhibit C-4: Payment Method for Purchases \$2,500 and Under

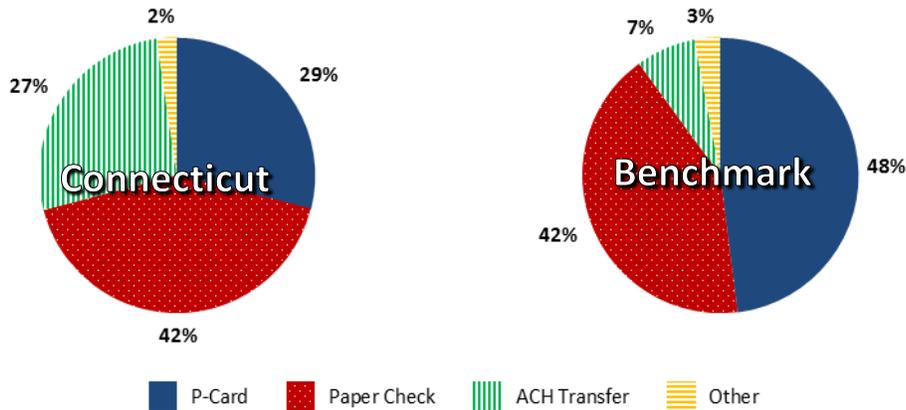
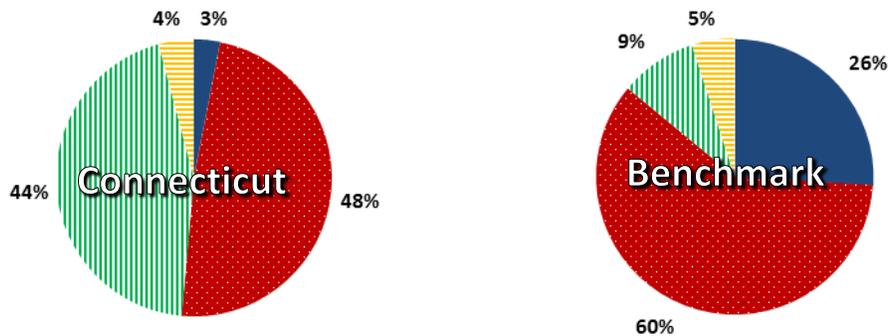


Exhibit C-5: Payment Method for Purchases Over 2,500 and Under \$10,000



The controls surrounding a payment tool like a P-Card must be strong, and the current single transaction limit prevents large ticket items from being purchased without additional approvals. The benchmarking indicates that expenses greater than \$2,500 have been found to be regularly payable by P-Card at other governmental entities. Section 4-98 of the Connecticut General Statutes was amended in a 2012 Special Session to increase the statutory cap on P-Card transactions from \$10,000 to \$250,000. There have been no changes to the transaction limits set at the agency level to reflect the statutory change.

If the state were to meet the 26% average P-Card usage in accordance with the benchmark, an additional \$34 million would be procured in this manner. With the information available, we were not able to estimate the workflow savings from these changes. However, the impact of all portions of these potential savings on the General Fund rebate is illustrated below in Exhibit C-6.

Revision of P-Card Contract Payment Terms

Connecticut’s P-Card program contract currently provides the most lenient payment terms available to entities, with a settlement period of 55 days, with a 30-day billing cycle and a 25-day grace period. It appears that many other states contract for a settlement period of 44 days, with a 30-day billing cycle and 14-day grace period. Through our review, we found that the program currently averages a 45-day settlement period, 1day shy of a 30/14 billing cycle. This provides the program with an additional rebate for each day the bill is paid early, as illustrated in Exhibit B-4. Contracting at payment terms of 30/14 should provide significantly greater benefits than the terms of 30/25, even after factoring in the early payment rebates.

The timely payment of large P-Card users has a significant impact on the overall calculation of the P-Card program’s average payment timeliness. The 15 state entities with the largest P-Card usage make up 60% of contract spending. The payment timeliness for these entities averaged 13 days as of the fiscal year ended June 30, 2015. Those entities making up the top 60% of contract spending are a mixture of higher education, executive branch, and addendum entities with average payment terms ranging from 8 to 24 days. This wide range in average payment terms appears to be more attributable to individual entity preference than the availability of funds.

Providing additional structure to the payment process would allow the state to realize increased rebates. Changing contract terms with the P-Card vendor to a 30-day billing cycle and 14-day grace period would also have a positive effect in other areas of the P-Card program. Exhibit C-6 presents the difference in rebates earned between various state programs at the Connecticut program’s spending level for the fiscal year ended June 30, 2015. It also demonstrates how the rebate terms from timely payment grow significantly if P-Card usage were to increase, as presented within Exhibits C-1 and C-5. In summary, Exhibit C-6 shows that Connecticut earns fewer rebates overall than other states, at the same level of spending. This difference in rebate dollars is significant and would be magnified at greater levels of spending.

Exhibit C-6: Timely Payment Rebates at Various Spending Levels

State	Spending Level					
	60 Million		100 Million		175 Million	
	Rebate Rate	Dollars	Rebate Rate	Dollars	Rebate Rate	Dollars
Delaware	1.85%	\$ 1,110,000	1.86%	\$ 1,860,000	1.90%	\$ 3,325,000
Florida	1.71%	1,026,000	1.71%	1,710,000	1.71%	2,992,500
North Dakota	1.57%	942,000	1.64%	1,640,000	1.67%	2,922,500
Connecticut	1.33%	798,000	1.37%	1,370,000	1.40%	2,450,000
14-State Average	1.72%	\$ 1,032,000	1.72%	\$ 1,720,000	1.72%	\$ 3,010,000

Exhibit C-6 illustrates the rebate terms from various state programs and the rebate that would be earned given Connecticut's current and potential P-Card spending. The column displaying the rebate rates and dollars at \$60 million of spending is representative of Connecticut's fiscal year 2015 purchasing card activity. Connecticut's values were calculated assuming a continuation of the current contract with 30/25 terms and an average of 15 days to payment. We were able to obtain 3 states' P-Card contracts, with detailed information of their rebate at various spending levels and payment terms of 30/14.

We also collected the spending and rebates of 14 state P-Card programs to determine their average rebate. There is a wide variation in the level of usage by each state, with program spending ranging from \$19 million to almost \$450 million. The average rebate to the 14 states in fiscal year 2015 was 1.72% of program spending (excluding Connecticut) with an average volume of \$138,539,000.

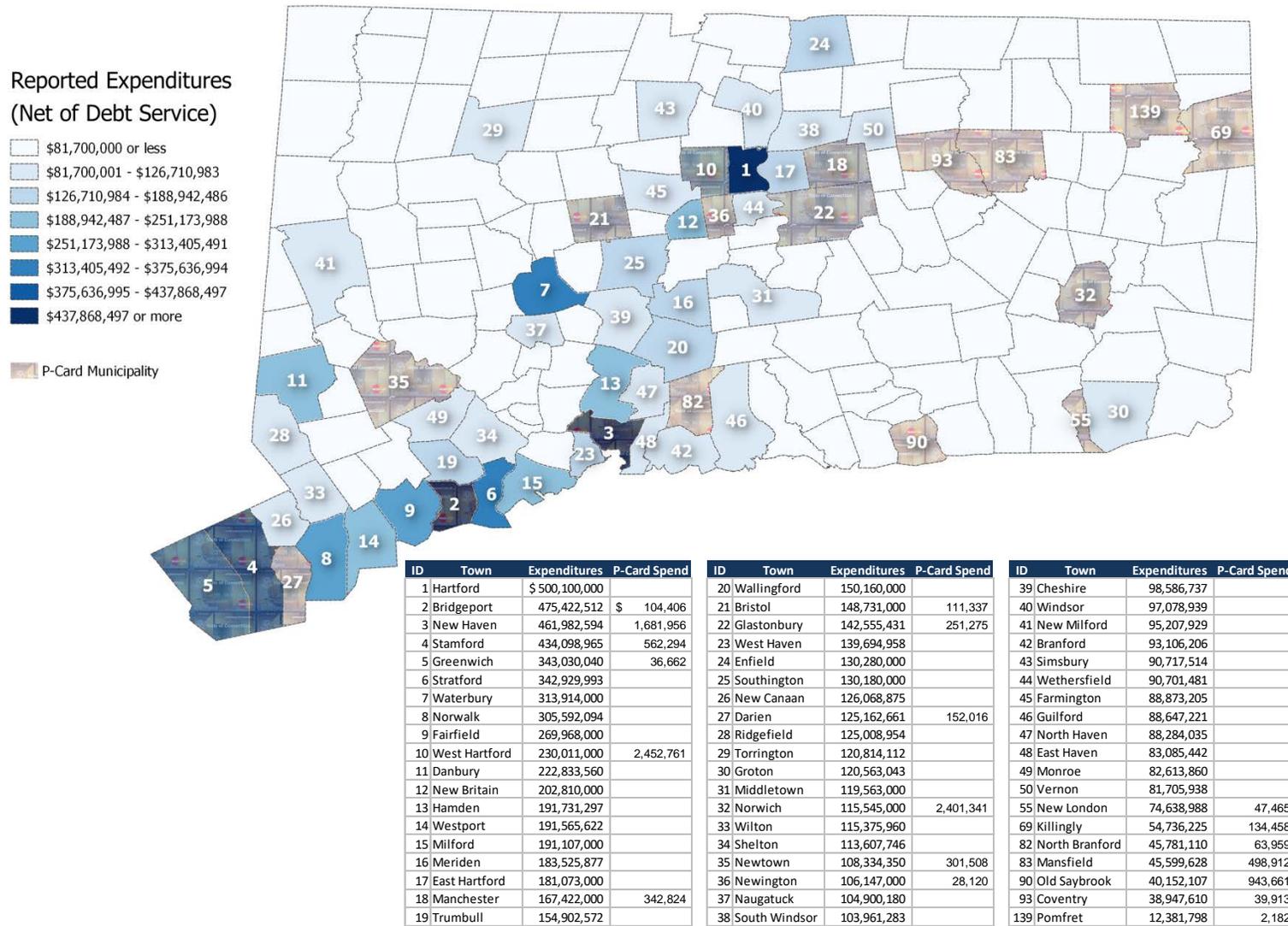
The General Fund rebate from the 2015 calendar year would be \$234,000 higher if Connecticut's use equaled the average of the 14 other states reviewed. Alternatively, the most favorable terms of the 3 contracts obtained indicate that the General Fund could receive an additional \$312,000 with settlement terms of a 30-day billing cycle and 14-day grace period. We estimate an increase in receipts to the General Fund from greater usage of the P-Card and changes to the contract payment terms to be in the range of \$1.6 to \$2.7 million. All municipalities, schools, and nonprofits would also benefit from the increased rebate percentages. The exact benefit calculation for these entities was outside the scope of our review.

Increasing Program Usage by Addendum Agencies

The structure of the state's purchasing card contract provides a substantial incentive for eligible municipalities and nonprofit organizations to join the program. Each entity that joins also provides a benefit to all current members, as increased spending provides a larger rebate to all participants in the program. In 2011, there were 13 municipalities participating as addendum agencies in the state's P-Card program. As of December 31, 2015, there were 30 addendum entities: 19 municipalities and 11 educational entities, such as school systems or boards of education. The financial savings realized by the state as a result of OSC Memorandum 2011-11 illustrates the savings that municipalities and boards of education could realize by joining the P-Card program and reducing their administrative burdens.

While the spending threshold was effectively removed by combining all contract spending, even entities that would normally not spend in excess of \$1 million per year could still find benefits in joining the program. This is due to revisions made by DAS to the P-Card contract. The impact of those revisions on the current addendum entities is illustrated as the red portion of the bar chart in Exhibit B-4. To further take advantage of the contract terms entered into by DAS, additional efforts should be made for municipalities and other governmental, quasi-governmental, and nonprofit organizations to join the state's P-Card program to benefit from their own operations and all other entities within the contract. Exhibit C-7 presents municipalities' total expenditures (excluding debt service) and their rebate from the program. Municipalities using the P-Card are shaded on the map with the state's P-Card.

Exhibit C-7: Top 50 Municipalities by Expenditures & All P-Card Participants



STATE AUDITORS' FINDINGS

1. The Office of the State Comptroller's Memorandum 2011-11 has allowed the state to realize significant efficiencies in its procurement processes. Further increasing the usage of P-Cards for purchases under \$1,000 may not provide as much utility as expanding the program in other areas.

Estimated savings from reductions in administrative costs are relative to the quantity of checks and the purchase orders and vouchers related to those checks issued during the fiscal year ended June 30, 2010. Using this methodology, savings in the 2014-2015 fiscal year are estimated to be \$4 million, and cumulative savings since the 2009-2010 fiscal year are estimated to be \$14.1 million.

2. The Department of Administrative Services has improved the effectiveness of the program through increasing the number of entities using the P-Card. There have also been revisions to the P-Card vendor contract. These factors combine to provide significant benefits to addendum entities that join the program.

The state benefited from a one-time retroactive payment of \$279,000 due to the P-Card vendor not combining all state agencies when determining rebate eligibility. For each year after this revision was made, the state and addendum entities have benefited from the clarification of contract terms.

3. The state has realized an additional \$1.17 million (including the retroactive payment above) in deposits to the General Fund for the period between June 30, 2010 and June 30, 2015. Addendum entities have realized \$548,000 more in rebate amounts than they would have if this change had not occurred. State agencies could shift predictable, recurring expenses to the P-Card to substantially increase the volume of spending and increase the rebate earned by all members of the state's purchasing card program.

Savings from making P-Card payments for utilities and other recurring-type purchases would be realized through a decrease in administrative costs and an increase in rebates deposited to the General Fund. In the fiscal year ended June 30, 2015, the rebate increase would have been an additional \$1.17 million (net of processing fees assessed by the largest electricity supplier). The workflow savings are estimated to be an additional \$2.69 million. Workflow savings for state government are termed "soft" savings due to the need to reduce or reassign resources before the savings are achieved. These are the amounts assigned to the actual savings in administrative workflow that would be realized.

4. The P-Card program and state agencies could raise current dollar limits on single transactions to allow more types of P-Card purchases. The increased risk from weakening this control would be offset through a complement of new controls and the issuance of additional P-Cards for specific purchase categories or vendors.

Connecticut's usage of a P-Card for transactions in the \$2,500 to \$10,000 range is far lower than the benchmarks of other governmental and nonprofit entities. Increasing the practice to bring Connecticut's usage even with the benchmark could result in approximately \$34 million more in spending within the program. This spending would result in larger rebates and a reduction of administrative costs.

The usage of P-Cards in this dollar range is prevented by administrative limitations at the agency level, and not statutory limitations. Prior to the approval of Public Act 12-1 of the June Special Session in 2012, the P-Card purchase limit was set at \$10,000. Section 249 of the act amended Connecticut General Statute 4-98 and increased the limit to \$250,000. Both of these limitations have not had an impact on P-Card usage in the \$2,500 to \$10,000 range and the change in statutory language has not had a material impact on P-Card usage.

5. The P-Card program could add additional structure to its payment processes to provide additional rebates earned through the program. Other states receive larger rebates by agreeing to a shorter settlement period.

A comparison of other state P-Card contract terms and rebates received showed that Connecticut could receive larger rebates at its same level of spending. This would be accomplished by negotiating with the P-Card vendor for faster payment terms. The vendor prefers to receive payments in an expedient manner, and the review indicated that state agencies should be able to make more timely payments.

Our review indicated that most states agree to payment terms of a 30-day billing cycle and 14-day grace period. There was no state contract reviewed that included the 25-day grace period Connecticut maintains. The increase in rebate rates from providing the vendor with timelier payments exceeds the early payment incentive currently provided by the vendor. The anticipated annual increase in rebates would be \$166,000 to \$319,000 to the General Fund if terms are changed to 30/14 from 30/25, with all other factors being constant.

To determine the feasibility of executing earlier payments, we reviewed detailed information on average payment terms by each cardholding agency and addendum entity. The top 15 members, representing just over 60% of all spending in the P-Card program, average payment terms of 13 days. As such, the average payments are one day earlier than the 14 days required for the increased rebate terms.

6. Increasing awareness of the P-Card program among municipalities, boards of education, nonprofits, and similar entities may lead to additional utilization. The contract likely provides better terms than any one entity could obtain on its own, with significant benefits to small operations that may not otherwise find such a program cost effective.

Information obtained from the OPM municipal benchmarking datasets did not show a trend in P-Card usage relative to expenditures for a given municipality. There are also many municipalities that have far greater expenditures than those currently participating in the contract that would likely benefit from joining the state's program.

APPENDIX A: AGENCY RESPONSES

DAS Comment to Conclusion 1:

Agree – The current P-Card enhancements that will be implemented in the Spring of 2017 through CORE-CT will have a direct impact on increased adherence to OSC Memorandum 2011-11. By enabling agencies to use their P-Card as a payment tool in Core-CT a natural expansion of usage will occur outside of the current arena which is currently primarily retail/swipe transactions.

DAS Comment to Conclusion 2:

Agree – Renegotiation of the contract language changed the rebate language to enable all contract users to earn a rebate regardless of their spend amounts. Previous contract language restricted users to only earn a rebate after a million dollars was spent. This renegotiation of the contract made marketing the P-Card program to addendum agencies much easier because presenting a rebate for monies that would be spent anyway is a great benefit.

DAS Comment to Conclusion 3:

Agree – DAS supports the use of the P-Card for utilities. DAS has discussed this concept numerous times to representatives of OSC and OPM as their buy-in is needed to affect current processes. The most recent discussion related to the payment of utilities was on 07/21/16.

The integration with CORE-CT will provide P-Card expenditure reporting for non-swipe transactions in CORE-CT, including utilities. The lack of CORE-CT reporting (in the past) has discouraged use due to the “consumption report.”

It also needs to be determined how to handle the offset of the transaction fee incurred by the individual agencies for paying their utilities via credit card. Since the agencies do not receive the rebate into their specific account (rather the general account) some have requested that their transaction fees be reimbursed. It’s our understanding that OSC is reviewing the cost benefit analysis of such.

OSC Memorandum 2011-11 states:

Effective July 1, 2011, payments for purchases by all state agencies under \$1,000 shall be made using the State of Connecticut Purchasing Card. Purchasing cards (P-Card) must be used for payments to any vendor that provides commodities, services and/or utilities. Exceptions to this policy would be for purchases that must be approved using the Core 10 process, vendors who do not accept credit cards and purchases to restock inventories carried in the Core-CT inventory module. Agencies are encouraged to continue the use of P-Cards for all transactions within their agency purchasing policies.

Core-CT Financials Daily Mail below dated 6/30/2011 states:

P-Card Payments for Utilities

The OSC's Memorandum 2011-11 directed agencies to pay for all purchases (commodities, services, and/or utilities) under \$1,000 using the P-Card. The mandate to pay for utilities under \$1,000 by P-Card is on hold until further notice. Agencies are advised to continue paying utilities in the manner in which they are accustomed. Agencies that have been using the P-Card may continue to do so. Agencies that have not been using the P-Card should not commence.

OSC Comment to Conclusion 3:

There are two significant barriers to converting payments for utilities to P-card. First, there may be a fee for payments by P-card by utility companies. There is no one particular utility company that charges a significant fee for payments by P-card which may not apply in the same way to other utility companies. Secondly, the voucher consumption page (in Core-CT) may be an issue with payment of utilities by P-card. This page is used for utility consumption reporting and budgeting.

APA Concluding Comment to Finding 3:

The significant fees charged by a utility company when making payment by P-Card have been included within the estimated savings calculated within this review. The legality of fees assessed by utility companies for P-Card payments is unclear. Such surcharges may be disallowed under Section 42-133ff of the General Statutes.

DAS Comment to Conclusion 4:

Agree. Agencies currently have this flexibility. This is one of the features of a commercial card, the ability to tailor each card to a specific need.

DAS Comment to Conclusion 5:

Agree. As this relates to payments, this is an OSC process decision.

OSC Comment to Conclusion 5:

With the implementation of expanded P-Card functionality in Core-CT with the 9.2 upgrade, the Office of the State Comptroller (OSC) will be making changes that will potentially increase the rebate. The 9.2 upgrade is anticipated for completion in March 2017. First, OSC will be significantly changing the timing of payments. Where currently each agency makes one payment per month OSC will have the ability to make payments daily by cardholder rolled up to the business unit level. This will increase the percentage of payments made early and result in a higher percentage for the rebate. OSC will have the ability to identify vendors that are willing to accept payment by P-Card on purchase orders. This will allow agencies to utilize the

procurement process in Core-CT with all inherent approvals and choose the P-Card payment method. Paying eligible purchase orders by P-Card will increase the volume of payments and thereby increase the rebate.

DAS Comment to Conclusion 6:

Agree. DAS currently markets the program prospective addendum organizations and will work to expand these marketing efforts.

OSC Additional Comment:

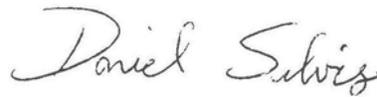
Not addressed in the report are the objections of a significant portion of the vendor community. One issue is that the vendor accepting payment by P-Card is assessed a fee. Small businesses have expressed a concern that their larger competitors are more able to absorb this fee and this may squeeze the small businesses out of the state market.

APA Concluding Comment:

If a vendor has decided to accept credit card payments from its customers, it should also accept P-Card payments from the state. Many vendors accept payment by credit card because they determine the benefit of prompt payment exceeds any assessed fees by the card bank. If a vendor would prefer that the state pay by check or ACH, they may incentivize that behavior through a cash discount in the contract.

APPENDIX B: CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the State Comptroller and the Department of Administrative Services during the course of our review.



Daniel J. Silvis
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
Auditor of Public Accounts