

STUDY OF STATE DISBURSEMENT PROCESSES

NOVEMBER 2010



AUDIT SUMMARY

The Commonwealth of Virginia uses various methods to disburse funds for purchases, payroll, retirement benefits, unemployment benefits, social service benefits and other expenses related to the operations of state agencies. Most disbursements occur through either traditional paper checks or an electronic disbursement method, which can include Electronic Data Interchange (EDI), Automated Clearinghouse (ACH), or wire transfers. The Commonwealth also utilizes a charge card program designed to provide state agencies and institutions the opportunity to streamline payment for small dollar goods and services.

Each disbursement method has different processing costs as well as different qualitative risk factors. There are also other disbursement methods the Commonwealth uses that include an EPPI debit MasterCard and an EBT card, however, these disbursement methods occur less frequently and are not part of this report. This report will provide an overview of the volume of transactions and costs associated with the most commonly used disbursement methods utilized by the Commonwealth and Decentralized Institutions of Higher Education.

Agencies and institutions have decreased the volume of checks written over the past several years. However, our report identifies a number of opportunities for agencies to further reduce administrative costs associated with check-writing through the use of various electronic disbursement methods.

We identify over \$100,000 in potential annual cost savings through implementing recommendations to further promote e-commerce. Our estimates of cost savings use solely variable costs and do not consider reductions in fixed costs as we could not estimate at what reduced transaction volume a reduction in fixed costs, such as a full-time equivalent employee, could occur. Therefore we consider our estimates conservative and achievable through implementation of recommendations in this report. We also identify more than \$900,000 of annual costs related to checks issued by the Department of Taxation due to circumstances that may be outside of their control which may warrant further review.

Our recommendations center on reducing the number of physical checks issued by the Treasury in lieu of payments by Electronic Data Interchange, Automated Clearing House, or charge card. In instances where payments are less than \$5,000, the recommendations envision using the charge card, with the expectation that agencies have sufficient monitoring controls in place to reduce the risk of fraud, waste, or abuse. Generally when the Commonwealth makes frequent payments to a person or business that would otherwise be paid by check; the Commonwealth should require the payee to register with its Electronic Data Interchange in order to receive payment.

Generally, agencies need to exercise sound judgment in determining the methods to pay employees, vendors, and other third parties. There are a number of opportunities remaining to reduce disbursement costs with increased use of e-commerce. Agencies may realize those benefits through exercising sound judgment and the Department of Accounts may realize those benefits with increased enforcement of existing policies.

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OVERVIEW

The Commonwealth pays its employees, vendors, and other non-agency recipients through a variety of methods. With improved security and timeliness of electronic payment processing over the past ten years, the state has worked to shift payments from physical checks to less-costly electronic payment means but still has some opportunity to further reduce administrative costs for disbursing funds.

The focus of this report is on identifying the methods used to disburse funds, estimating the administrative costs associated with each of those methods, and recommending ways to further reduce administrative costs or improve efficiency for state agencies and institutions with respect to disbursing funds.

Our analysis generally found that while wire transfers are the most costly, they are also the most infrequently used method of payment, generally reserved for very large transfers of money such as debt service payments or payment of federal payroll withholdings to the US Treasury. We found check writing was the most expensive means of payment, aside from wire transfers, and charge card programs to be the least expensive means of payment.

The remainder of our report discusses the cost and volume of transactions paid by each of the following methods listed below from most costly to least.

- Wire Transfer
- Check
- Electronic Data Interchange
- Automated Clearing House
- Electronic Benefits Transfer
- Charge Card Program

Our goal is to recommend improvements that will encourage the payment of funds due to citizens and businesses in the most cost-effective and controlled manner available. Many of our recommendations focus on eliminating checks in lieu of processing payments by electronic means. Of particular interest is increasing the use of the charge card program due to the rebate the Commonwealth receives on all card purchases. While this is a very advantageous cost reduction strategy, as we will discuss later, it is critical to ensure proper controls exist on charge card payments to mitigate the risk of cardholder misuse or abuse.

We first discuss check writing including the volume and cost associated with printing checks. We also compare the check writing costs of Institutions of Higher Education and the state Treasury. We follow with strategies to reduce the number of checks written by utilizing less costly, and in many cases, more secure methods of payment. We discuss the advantages and disadvantages of each alternative payment method and conclude with a discussion of some unique methods of payment for certain specific purposes.

CHECK WRITING

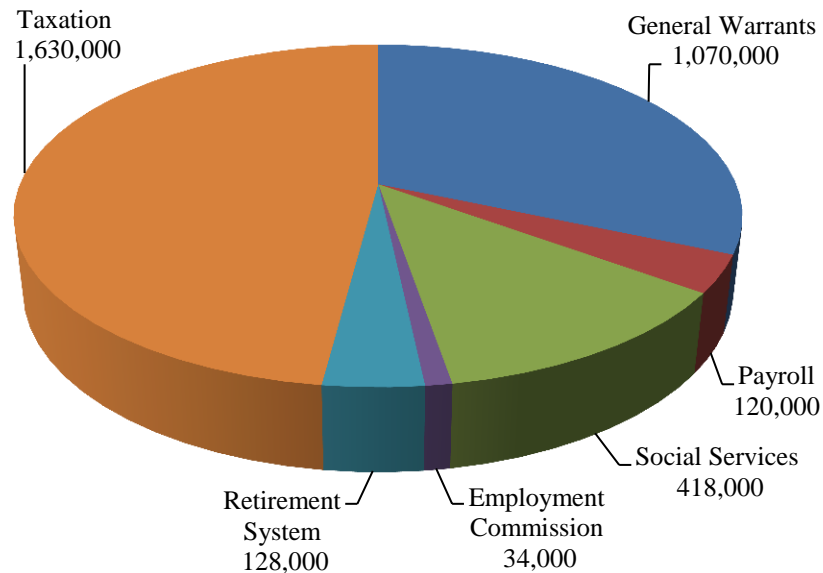
The most well-known and widely accepted method for payment requires the physical printing of a dated and signed instrument that Treasury must mail or hand deliver to its payee. While being the simplest and most familiar method of payment, it is also one of the most costly.

Treasury is responsible for nearly all check printing operations in the Commonwealth. Treasury, with the assistance of the Department of Accounts (Accounts), prints General Warrant checks for vendor payments processed through the Commonwealth's Accounting and Reporting System (CARS), as well as Payroll checks processed through the Commonwealth's Integrated Payroll Processing System (CIPPS). Treasury is also responsible for printing checks for the Department of Taxation (Taxation), the Virginia Retirement System (Retirement System), the Department of Social Services (Social Services), and the Virginia Employment Commission (Employment Commission). Most of the Decentralized Institutions of Higher Education do not use CARS for their expense processing, and in many cases are responsible for their own disbursements, including printing paper checks.

Check Writing Statistics

During calendar year 2009, Treasury printed approximately 3.4 million paper checks. The following chart summarizes the approximate number of checks printed during calendar year 2009 by type.

Chart A: Checks Printed by Treasury for Calendar year 2009¹



¹ Source: Commonwealth Accounting and Reporting System

The number of checks issued by Treasury has declined significantly over time. Treasury has eliminated positions to reflect this decline and reduced check printing to a part-time operation. However, there are still significant fixed and substantial variable costs for check printing operations. The two most significant costs related to check printing are postage and bank service charges. Other costs related to check processing include personnel and administrative costs, check stock, equipment, hardware maintenance, courier services, telecommunication and hardware costs, supplies such as ink and toner, disaster recovery related expenses, and software maintenance. Treasury estimates the cost per check printed to be approximately 72.5 cents.

Our analysis identified eight Institutions of Higher Education that issue a significant number of checks and have separate banking contracts not managed by the State Treasurer. These Institutions either are decentralized or participate in the Commonwealth Restructured Higher Education Financial and Administrative Operations Act (Restructuring Act). Table A below illustrates the volume and cost per check printed by those Institutions contrasted with the same information for Treasury check printing.

Table A: Decentralized Institutions of Higher Education Check Statistics²

<u>Agency/Institution</u>	<u>Volume of Checks</u>	<u>Total Cost</u>	<u>Cost per Check</u>
Treasury	\$3,392,639	\$2,445,709	\$0.73
University of Virginia	68,072	54,700	\$0.80
Old Dominion University	52,882	46,420	\$0.88
Virginia Tech	91,502	110,966	\$1.21
George Mason University	54,015	71,853	\$1.33
Virginia Commonwealth University	54,897	76,184	\$1.39
James Madison University	32,685	54,892	\$1.68
Radford University	19,915	45,396	\$2.28
The College of William and Mary	<u>53,620</u>	<u>126,761</u>	\$2.36
TOTAL ³	<u>\$3,820,227</u>	<u>\$3,032,881</u>	

The majority of the difference in costs per transaction for Treasury and the Institutions above hinges on significant fixed costs for owning and operating the check printing machinery and for direct labor necessary to perform the check printing function relative to the number of checks actually written. While variable costs for check-writing vary slightly between Treasury and these Institutions, the spreading of fixed costs over a much greater volume allows Treasury to write checks at a lower unit cost than these Institutions.

² Source: Agency and institution provided check volume and check processing, printing, and distribution costs.

³ Note that this study does not include every separate check-writing process across Commonwealth agencies, only those determined to be significant.

Chart B shows a percentage breakdown of cost components for check-writing by Treasury and for the combined Higher Education Institutions in Chart C.

Chart B: Cost Breakdown for Check-Writing - Treasury

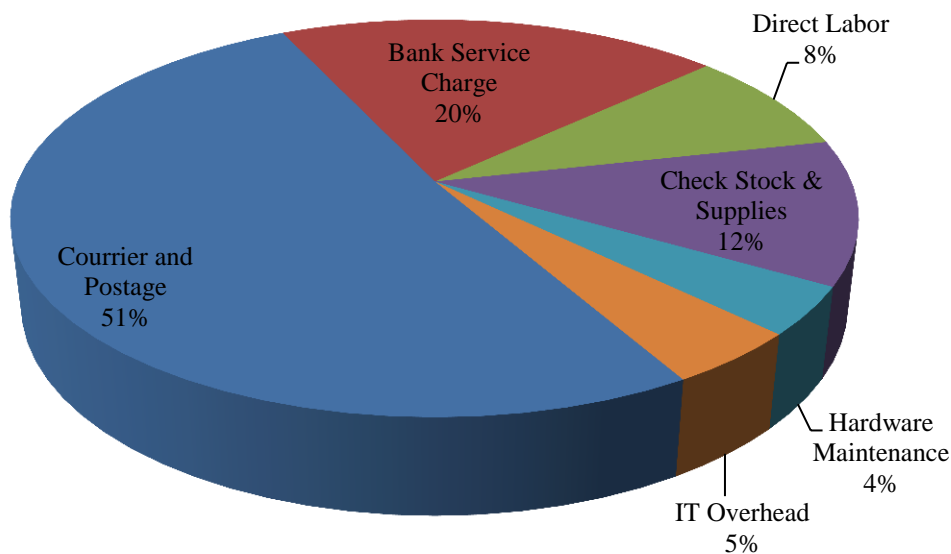
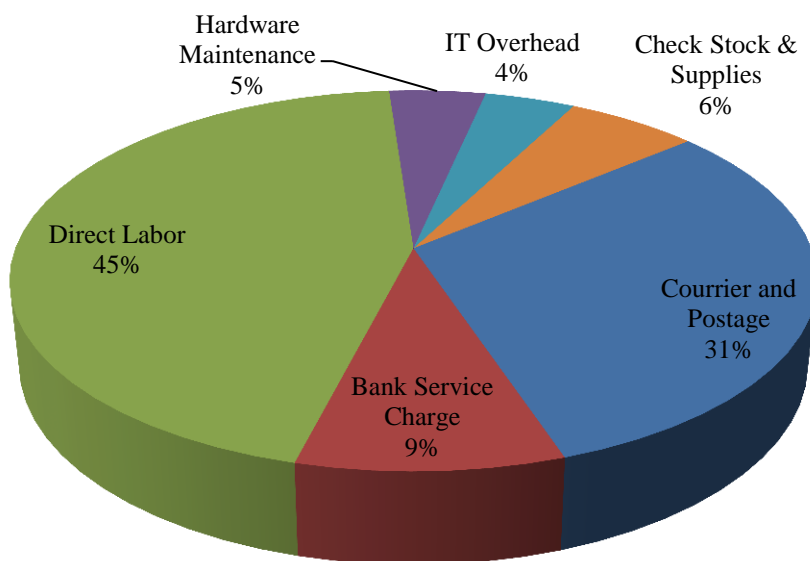


Chart C: Cost Breakdown for Check-Writing – Higher Education Institutions⁴



⁴ Information used to compile the breakdown of cost components for check-writing at Institutions of Higher Education is based on estimates provided by those institutions. Because the institutions track costs at varying levels of detail, we present a summarized aggregate of all institutions costs as a percentage.

Analysis of Agency and Institution provided cost data demonstrates that Institutions of Higher Education carry significantly higher direct labor costs per check than the Treasury. Institutions also have lower total variable costs for supplies, postage, and bank fees due to their reduced volume of checks compared to the Treasury. This analysis demonstrates the significance of fixed costs for check-writing when the volume of checks printed is substantially low.

Recommendation 1

The Commonwealth may wish to consider consolidation of all check printing operations, including Institutions of Higher Education, with the Treasury in order to realize economies of scale. As we illustrate, decentralized Institutions of Higher Education generally have higher costs to print and issue paper checks. We believe this is due to the relatively large fixed costs allocated over a small volume of checks.

Institutions could transmit check-write files to Treasury in the same manner currently used by the Employment Commission, Taxation, the Retirement System, and Social Services. The Commonwealth may realize savings from reducing fixed costs related to equipment, annual maintenance contracts, materials, and direct labor associated with producing paper checks.

While consolidation of check-writing processes may allow for greater efficiencies through sharing of certain fixed costs such as equipment, labor, and other overhead, the majority of check-writing costs for the Treasury are variable. While postage and courier costs are relatively consistent across organizations, bank fees vary across organizations. Bank fees are generally dependent upon the overall negotiated rates for services (including disbursements, deposits, and in some cases investment management) and are generally not comparable across agencies and institutions on a per transaction basis.

Because these institutions pay a variety of banking fees for services, including deposit related services, management fees, accounting fees, check-writing fees, positive pay service, and many other banking services it is not possible to reasonably compare the banking fees related to disbursements across Institutions or with the Treasury contracts as each Institution has negotiated lower prices for the services they make the most use of and in turn, pay higher costs for services used the least. These fees generally include an assurance service known as Positive Pay.

Positive Pay is an automated fraud detection tool offered by most banks. The service can provide various levels of assurance, but generally matches the account number, check number and dollar amount of each check presented to the bank for payment against a list of checks previously authorized and issued by an organization. All three components of the check must match the listing exactly or the bank will not pay. Banks may also provide additional assurance by matching additional data fields such as the payee or other items before payment. This service provides a significant fraud prevention control to state agencies.

Recommendation 2

With or without the consolidation of check-writing, the Treasury may wish to consider options for outsourcing its check-writing process to a third party. With many financial institutions providing check writing services along with “Positive Pay” assurance, there is minimal risk to the Treasury in relinquishing control over this process.

We cannot estimate the potential savings or cost from outsourcing check-writing because pricing would be dependent upon the outcome of a competitive procurement process. However, outsourcing would allow Treasury to convert a process carrying both fixed and variable costs to a strictly variable cost. Removing the fixed cost component from check writing will become increasingly more important as Treasury continues to reduce the number of overall checks written.

Treasury should solicit price estimates from the banking community for these services to compare with existing known operating costs and determine if outsourcing is a viable option that could reduce annual administrative costs.

Further analysis of the underlying costs of writing checks found consistency in the most significant costs. Postage and Bank Service charges account for more than sixty percent of the cost of writing checks. This is a truly variable cost and is dependent solely on the volume of checks written and would therefore be unaffected by any consolidation effort. The only way to reduce these costs is through reduction of checks written through the use of alternative payment methods, which we discuss later in this report.

While agencies and institutions have worked toward reducing the number of checks written in lieu of alternative payment methods, there are also certain limitations to the reduction of physical check writing. Our remaining analysis of check processing is based on Treasury-printed checks and excludes Institutions of Higher Education.

Limitations to Reducing Check Writing

Tax Refunds

When check recipients refuse to receive payment by any other means, the result is a significant number of checks issued. For example, the Department of Taxation had Treasury print more than 1.6 million checks to citizens and businesses for state income tax refunds and other tax related reimbursements. In contrast, Taxation issued 1.2 million refunds by direct deposit. While Taxation offers direct deposit options to taxpayers, they cannot require use of that service.

There are other considerations relative to tax refund payment processing. Although there is no cost to the taxpayer to receive refunds via check or direct deposit, some third-party tax preparation software products assess fees for processing direct deposit refunds should a tax payer chose to have their preparation fees deducted from their refund. Fees vary by tax software provider, but can be significant to individual taxpayers. These fees may have an impact on Taxation’s ability to encourage the use of direct deposit over paper checks for tax refunds.

Observation 1

The Commonwealth spends over \$959,700⁵ per year in postage costs, check stock, and bank fees for writing checks to taxpayers who are due tax refunds. Other than the implicit benefit of receiving refunds faster, there is no incentive in the current process to encourage taxpayers to use direct deposit for refund.

Recommendation 3

The Governor and General Assembly may wish to have Taxation review the underlying reasons taxpayers elect to receive their refunds by check versus other faster and more secure reimbursement methods. Taxation should continue to promote the use of direct deposit for citizen reimbursements through the tax preparer community and any other means they deem appropriate.

General Warrants - Other Payees

There are other payees, who regularly conduct business with agencies. During calendar year 2009, Treasury issued over 1 million checks to various payees, many of whom refuse to accept payment by means other than check. These payees include suppliers, service providers, state employees, contractors, and benefit recipients of Commonwealth or federal grant or loan programs. While the Treasurer or these agencies cannot directly influence the behavior of these payees to accept an alternative payment method, they can promote and encourage use of these alternative payment methods.

Further, while the Comptroller has the authority to assess a penalty to agencies for incurring unnecessary administrative costs by making payments with checks when other less-costly electronic means would suffice, no agency has the authority to impose such a fee on individuals or businesses outside of state government.

REDUCING THE NUMBER OF CHECKS WRITTEN

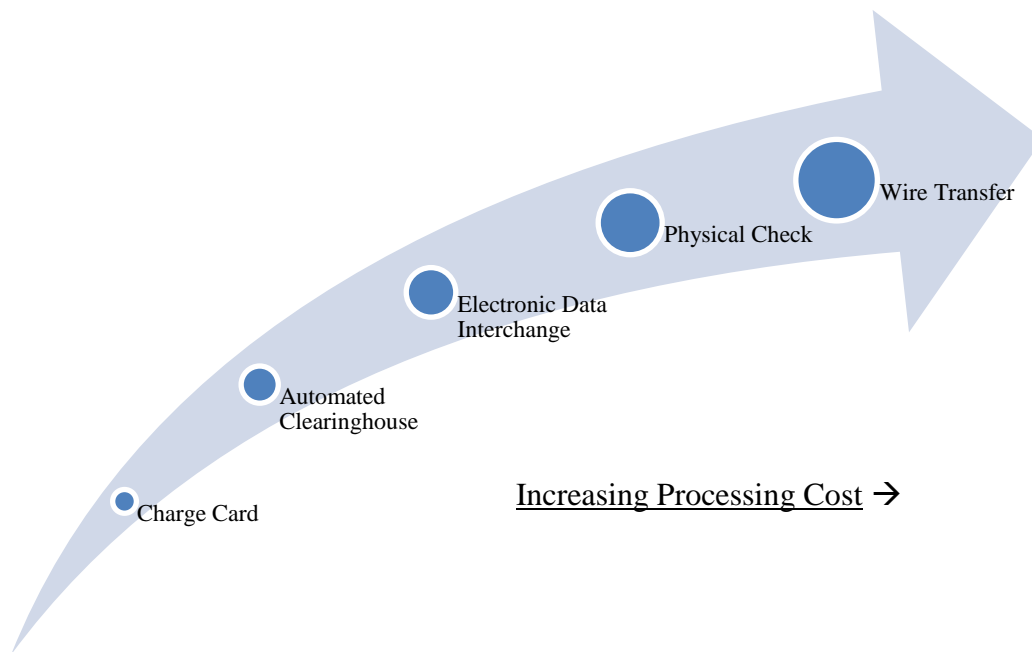
There are a number of alternative payment methods already in use by agencies. Generally, we can group these methods into two major categories: electronic transfers and card programs. There are generally three types of electronic transfer methods: wire transfers, electronic data interchange, and automated clearinghouse or direct deposit payments.

There are a variety of card programs in use by agencies including: a charge card program for small purchases, a travel card program, a fuel card program, an electronic benefit transfer (EBT) program for food assistance, and an electronic payment card program. We discuss the costs and benefits of all methods below.

⁵ Total direct variable cost of \$959,700 equals 1.6 million checks times variable cost of printing checks (\$0.60). Check printing costs include: postage (\$0.37), check stock (\$0.08), and bank fees (\$0.15). Costs do not include hardware and software maintenance, IT overhead, telecommunication services, and labor as we cannot determine at what reduced volume those fixed costs may be reduced or eliminated.

The cost of processing each of these various payment techniques varies significantly. Generally, the more labor intensive the process, the more expensive it is. Although one might think that physical check printing and distribution would be the most costly method of payment, this is generally not the case. Each of these payment methods is demonstrated in Diagram A in order of increasing cost.

Diagram A: Relative Cost of Payment Processes



Wire Transfers

One of the fastest and most secure methods of transferring money between parties, the wire transfer establishes a direct, secure link between two parties' bank accounts in order to exchange funds. Unlike bank drafts or checks, each wire transfer requires the individual establishment of contact between the payer's and payee's banks at the time of transfer, therefore making them the most costly payment method.

Wire transfers are same day electronic transfers of funds from one financial institution to another, conducted through the Federal Reserve's Fedline system. The average cost for Treasury to complete a wire transfer is about \$17.50 per transaction. This cost incorporates both direct bank processing costs and an estimate of indirect personnel costs for executing each transfer. The Treasury uses wire transfers to make debt service payments, transfer funds to and from external investment managers, and execute other large transactions that need urgent completion. All wire transfers, including both recurring and non-recurring, are completed using online banking systems.

There are four main types of wire transfers performed by Treasury. The first type includes wire transfers between various Treasury accounts held at different banks and occurs to meet cash needs among accounts. The second type of wire transfer is for investment and debt service payments. The third type of wire transfer is for special vendor payments. These transfers can include funds for Medicaid, disbursements to vendors from other agencies, and debt service payments for which Treasury is not the trustee. The last type of transfer occurs for participant withdrawals from the Local Government Investment Pool (LGIP) Program.

Treasury is also responsible for the administration of the online banking system used by other agencies such as the Employment Commission, Department of Transportation (Transportation), and the Department of Health's Women, Infant, and Children (WIC) program to initiate and execute wire transfers. Treasury only carries the responsibility of administering access to the online banking system that these agencies use to complete wire transfers, which includes account set-up, modification, and deletion. Therefore, these agencies have the ability to initiate and execute a wire transfer without direct assistance or approval from the Treasury. These transfers carry approximately the same cost as those executed directly by Treasury.

Our study found that all eight decentralized Institutions of Higher Education that maintain separate bank accounts from the Treasury pay a wide range of fees for each wire transfer. Some wires cost as little as four dollars, while others are as expensive as fifty dollars. The cost of a wire transfer varies depending upon the contract an Agency or Institution has with its respective financial institution, whether or not the transfer is international, or the overall volume of transfers made by the Agency or Institution.

Because wire transfers are generally done infrequently and the cost of executing these transfers hinges on so many unique factors, it is not practical to compare the costs incurred for completing these transfers across institutions and agencies.

Electronic Data Interchange (EDI)

Electronic Data Interchange permits payers to transfer funds along with remittance advice information, which shows a bill or invoice number, or any other combination of identifying information. This process allows the batching of invoices from multiple agencies or institutions into a single payment through the national Automated Clearing House. Payees may elect to access invoice and voucher data through the Commonwealth's EDI website or have that information transmitted to their financial institution so that payees can appropriately record payment receipts.

The Comptroller created an electronic commerce initiative in order to reduce the number of paper checks by using more efficient and less expensive payment methods. As a result, the Comptroller implemented the Financial Electronic Data Interchange (FEDI) program in May 1994. Electronic Data Interchange (EDI) is the computer-to-computer exchange of information between two or more parties, known as Trading Partners. EDI electronically transfers funds from the Commonwealth's bank account to the Trading Partner's bank account. The Comptroller batches these electronic payments and they go through the Automated Clearing House (ACH) banking network. The Comptroller posts the various state agencies' EDI remittance information to the EDI website for trading partners to access.

The EDI process allows trading partners to have access to the funds on the payment due date and access to the remittance detail on the EDI website one day prior to the deposit date. The EDI website maintains the prior four months of remittance data for all EDI processed transactions. EDI combines multiple payments to one vendor with the same due date from one state agency or multiple state agencies into a single disbursement, thus further reducing processing costs. The trading partner has remittance data in order to determine the invoices included in each combined payment.

During calendar year 2009, Accounts completed approximately 200,000 individual transactions by EDI. The total bank service fees related to these disbursements were approximately \$16,200, which equates to a unit cost of approximately \$0.08 per transaction. This banking cost includes fixed account maintenance fees as well as variable fees for processing each transaction. In addition to the banking fee, a significant cost to the program is the direct labor required to set up and maintain payee information for EDI.

Accounts estimates the total annual direct labor cost of maintaining EDI payee information is \$273,833⁶. This includes the most labor intensive process for EDI vendor account set-up. The total cost to set up a vendor for EDI is approximately \$39. Since there is a significant labor effort to set-up and maintain vendor records within the EDI system, it is not practicable for all vendors with whom the Commonwealth conducts business receive payment this way.

Using both variable and fixed cost components for setting up and maintaining vendors for EDI, we estimate it is not currently cost effective to set-up and maintain a vendor for EDI, unless the Commonwealth pays the vendor at least 55 times during the course of their business relationship. However, Accounts plans to automate the payee registration process to allow both outside payees and Commonwealth employees to use a “self-service” function to set up and maintain their own bank account transfer information. As Accounts automates the process, the cost of processing EDI accounts will diminish and the benefits of shifting payments from check to EDI will be greater.

Recommendation 4

Accounts should continue to encourage agencies and the vendor community to use the EDI program where the cost of setting up a vendor is justified by the volume of transactions. Accounts should also work with General Services’ Division of Purchase and Supply to implement a process by which vendors registering for the Commonwealth’s eVA Procurement system may simultaneously register for the EDI program. This registration process should further promote the benefits of EDI in a way that is both convenient to the vendor community and cost effective to the Commonwealth.

⁶ Labor costs were adjusted to eliminate a portion of time spent on customer service by DOA which would otherwise be performed by agencies when payments are made by check. This adjustment is necessary so that the EDI cost basis is comparable to the check-writing cost basis used for comparison.

Automated Clearing House (ACH)

Automated Clearing House transactions permit a payer to send funds to a payee through the National Automated Clearing House Association system. Unlike EDI, these payments do not have any remittance advice information other than the amount and the payer name. Generally, state agencies use ACH for payroll direct deposit, tax refunds, and some bill payments where there is no requirement for remittance advices to accompany payment.

Payroll Direct Deposit

The most common use of ACH is the Payroll Direct Deposit program. This program allows employees to have their paychecks electronically deposited to a saving account, checking account, or any debit/pay card that will accept electronic deposits using Electronic Funds Transfer. The program provides a convenient method to pay employees at any Federal Reserve affiliated financial institutions worldwide. Direct Deposit is the primary method of paying Commonwealth employees. All state employees can participate in the direct deposit program regardless of their frequency of pay and/or salary status. Direct Deposit benefits both the employee and the employer. Some of the benefits realized by the Commonwealth include reduced processing time and requirements for reconciliation, enhanced cash management by increasing predictability of cash flows, and elimination of forged, stolen, or lost checks.

Payroll Earnings Notices

Treasury prints payroll earnings notices using the same equipment and check stock to print paper checks. Employees who participate in the Direct Deposit program are automatically set up to receive printed payroll earnings notices. Therefore, simply encouraging employees to sign up for Direct Deposit does not necessarily eliminate the costs associated with those printing checks, unless employees use Account's Payline web-site to access their earnings reports. Employees who participate in Direct Deposit and Payline may opt out of receiving the printed earnings notices.

Effective August 1, 2008, the Commonwealth mandated direct deposit for all new employees. However, agencies could not require existing employees to use direct deposit. Effective January 1, 2009, all employees who have access to state-issued computers and internet access must use Payline and no longer receive printed earnings notices.

Charge Card

Charge card use in the Commonwealth has grown tremendously due to the speed of payment and relatively low administrative costs. While charge card payments appear to be the most streamlined and least costly method of payment, those benefits are not without risk. The Commonwealth has more than \$219 million of purchasing power each month on more than 18,000 active charge cards through their aggregate monthly limits. During calendar year 2009 the Commonwealth spent \$340 million using these cards, generally for purchases less than \$5,000 each.

Accounts implemented the Charge Card Program in 1996 to improve efficiency and reduce operating costs. The Commonwealth currently contracts with Bank of America to offer the Visa

charge card program. The program has four offerings: the small purchase charge card (charge card) program; the gold card program; the airline travel card program for those agencies that have frequent national and international travel; and the individual liability travel card, which is the responsibility of the individual employee and not paid by the Commonwealth.

Agencies and institutions use the charge card to procure small dollar goods and services of less than \$5,000. Gold cards generally have restrictions, which normally limits their use to agency purchasing officers for transactions between \$5,000 and \$50,000. A designated travel coordinator generally has the airline cards and the limits are generally \$5,000 or less, depending on the volume of travel purchases for the institution or agency.

The charge card program offers state agencies and institutions opportunities to streamline the process of procuring and paying for goods and services. Bank of America provides a variety of management information reports that are available to agencies via the bank's online program management system. These reports assist agencies in maintaining control over the purchases and payments associated with the charge card program.

Each agency assumes the ultimate liability for purchases made to the authorized charge card users. Therefore, each agency has a charge card administrator who is registered with Bank of America and Accounts as the only person authorized to add, change, or cancel cards. The agency head generally assigns someone as the charge card administrator, who has a variety of responsibilities.

These duties may include the following.

- Approving applications
- Setting appropriate charge limits
- Issuing cards
- Annually analyzing each cardholder's usage and limits for reasonableness
- Monitoring and cancelling inactive cards
- Training cardholders
- Monitoring transactions to ensure compliance
- Notifying Bank of America of any potential or confirmed fraudulent use
- Resolving vendor issues for incorrect charges and non-receipt of goods or services

There are a number of benefits to the Commonwealth in using the charge card program. Some of those benefits follow below.

Reduced volume of invoice processing by Accounts Payable Departments

A typical purchase includes the following events: creating a purchase requisition, supervisory review and approval of the requisition, creating a purchase order, generating a receiving report, receiving a vendor invoice, keying an accounting entry, and granting authorization for payment. By issuing charge cards directly to responsible end-users, the Commonwealth streamlines the process by pushing responsibility for many of these events directly to the end-users and supervisors.

Charge Card Rebate Deposited to the General Fund

Under the current contract, Bank of America agrees to pay a rebate back to the Commonwealth annually, based on the total volume of purchases on charge cards. The Commonwealth receives 1.46 percent of all purchases made on state-paid cards and 0.4 percent of all purchases made on individual liability travel cards in the form of an annual rebate in August of each year. The Commonwealth also received a conversion bonus of \$2.5 million upon signing the contract in November 2008. In August 2010, the Commonwealth received a total rebate of about \$6 million. However, \$750,000 of that rebate goes to participating local governments and political subdivisions and \$2.3 million to participating institutions of higher education. Therefore, the total rebate to the General Fund was nearly \$3 million.

Cost of Administering Card Program

The charge card program generally has lower administrative costs than other disbursement methods in addition to the rebate discussed above. One significant identifiable cost associated with administering the card program, not included in the other payment methods discussed, is the Card Administrators' coordinating and monitoring of the cardholders and purchases. We surveyed 30 Card Administrators from a variety of agencies to determine the number of staff and percentage of time devoted to the administration of the charge card program at their agency and used that information to estimate the total cost of administering the card program statewide.

We found the costs of salary and benefits for the administration of the charge card program vary depending upon the size of the card program. We categorized agencies based on number of cardholders and grouped them as follows: small programs have less than 50 cardholders; medium programs have between 50 and 200 cardholders; large programs have between 200 and 800 cardholders; and huge programs have more than 800 cardholders. Using the relative administrative costs for each program, we estimate the total card administration cost statewide at \$4.5 million. The breakdown of program administration costs by category is in Table B.

Table B: Average and Total Cost of Charge Card Administration⁷

	<u>Count of Agencies</u>	<u>Average Cost</u>	<u>Total Cost</u>
Small Programs (<50 cards)	140	\$24,200	\$3,385,900
Medium Programs (50 – 200 cards)	26	29,200	758,800
Large Programs (200 – 800 cards)	7	22,000	154,100
Huge Programs (>800 cards)	<u>6</u>	<u>39,700</u>	<u>237,900</u>
Total	<u>179</u>	<u>\$115,000</u>	<u>\$4,536,700</u>

While it appears that charge card administration cost is over 86 percent of the total annual state rebate of \$5.25 million, it is important to note that the largest contributor to this cost is the administration of small card programs. Of those small program agencies surveyed, no

⁷ Source: Commonwealth Personnel and Payroll System; Bank of America database of Commonwealth cardholders; and surveys completed by a sample of agency card administrators.

administrators devoted more than 35 percent of their time to card administration, with 17 out of 19 surveyed spending less than a quarter of their time on card administration. This survey indicates that the cost of administering charge cards for small programs are typically sunk costs, meaning that agencies would more than likely incur the cost whether or not the program was in place. In contrast, for medium and larger card programs, card administrators do devote more time. While we cannot estimate the true incremental cost associated with card administration due to a lack of historical data; we can safely conclude that the charge card is the least expensive means of processing payments for the Commonwealth.

Moving Payments to the Charge Card

Our analysis of check payments during the 2009 calendar year found that of the 1.07 million general warrant checks written: 479,100 went to non-individuals, while the remaining 587,400 were to individuals who are not likely to accept charge card payments. Further, of the 479,100 checks to non-individuals, 421,100 (87.9 percent) were for amounts less than or equal to \$5,000. This leads us to conclude that there are opportunities to further reduce the amount of general warrant checks written each year by directing those payments to the appropriate electronic methods.

Accounts recognizes that the charge card program saves substantial administrative time and cost and actively promotes the use of the Commonwealth's charge card program. Section 4-5.04(f) of the 2010-2012 Appropriations Act authorizes the State Comptroller to charge state agencies a fee of \$5 per check or earnings notice when, in his judgment, agencies have failed to comply with the Commonwealth's electronic initiatives to reduce unnecessary administrative costs for printing and mailing of checks and earnings notices.

Accounts tracks charge card utilization compliance and publishes the information quarterly in the "Report on Statewide Financial Management and Compliance." Accounts matches all payments under \$5,000 processed through CARS not placed on a charge card against VISA's vendor database. This matching process determines which transactions an agency or institution could have done with a charge card. The Comptroller currently imposes a fee on agencies and institutions failing to place a minimum of 70 percent of eligible transactions on charge cards for any quarter in the year.

During calendar year 2009, agencies and institutions paid a total of \$138,310 as a penalty for not utilizing the charge card for at least 70 percent of eligible transactions. According to Accounts, agencies and institutions did not pay any penalties for the 1st quarter of 2009 due to implementation delays; therefore, the total penalty amount only represents 3 out of the 4 quarters in calendar year 2009. Accounts and Treasury split the penalty.

Recommendation 5

Accounts should continue to enforce participation and compliance in the charge card program. The Comptroller should continue raising the underutilization percentage from 75 percent to 90 percent over time to further encourage agencies to use the charge card program. Since the Comptroller already accounts for vendors who do not accept charge cards as a form of payment, it is not unreasonable to expect a higher rate of compliance from agencies and institutions.

Converting just half of the 406,300 checks written for amounts less than or equal to \$5,000 would yield over \$121,890 in savings through reduced printing, postage, and other direct variable costs⁸, not including any reduction in fixed costs. Converting 75 percent of these checks to charge card payments would yield over \$182,835 in annual savings.

Observation 2

Some Institutions of Higher Education pointed to the fees associated with the use of the Commonwealth's electronic procurement system (eVA) as a reason why charge card utilization targets are difficult to meet. The fees associated with purchases in eVA were not within the scope of this review; however we are also engaged in a statewide review of Electronic Procurement and plan to address these concerns in that upcoming report.

Diverting payments to charge cards is not without risk. Agencies must take care to ensure adequate processes are in place to maintain security and safeguard all cards, preserve the integrity of the purchases made with those cards, and implement sufficient monitoring to detect any abuse or fraud. Using a charge card for purchases in lieu of checks or other electronic methods removes a number of preventative controls from the process in exchange for reduced processing time and cost. Instead agencies must have a system of detective controls, such that after someone makes a purchase the controls ensure they had the authorization by appropriate supervisors and managers to make the purchase. They must also monitor overall card transactions for inappropriate use that supervisory or management review may not detect.

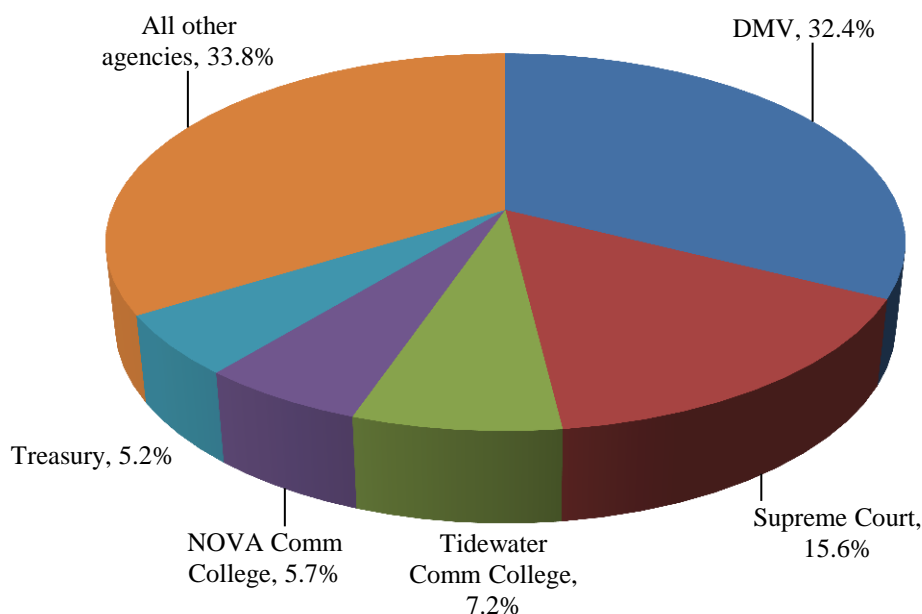
While diverting this large volume of transactions from check to charge card payments may be an opportunity to reduce annual administrative costs, agencies and the Comptroller must exercise care to ensure adequate controls for charge card administration exist for all agencies participating in the program.

Checks Written to Individuals

Our analysis of general warrant checks found 587,400 checks written to individuals. Chart D reflects the allocation of these checks among the five agencies who issued the most checks to individuals. The majority of these checks are for refunds processed by Motor Vehicles for various taxes and fees throughout the year. Other significant checks include numerous legal and other management service fees paid to individuals by the Court system; reimbursements for excess student financial aid received by Community Colleges; and miscellaneous reimbursements to agency employees, primarily for travel expenses. The Comptroller assesses a fee for checks issued to individuals, particularly for reimbursement of employee-related travel expenses when alternative means of payment are available.

⁸ Total direct variable cost (\$0.60) includes the following: \$0.37 for postage and handling, \$0.15 for banking fees, and \$0.08 for check stock. Costs exclude hardware and software maintenance, IT overhead, telecommunication services, and labor.

Chart D: Agency Distribution of Checks Issued to Individuals⁹



Other Unique Payment Methods

There are a few other methods that agencies use to pay employees, vendors, and other external parties that are unique in their own right. We discuss some of these methods below; however, due to their nature, they are not comparable to the other payment methods discussed in this report and we conducted no further analysis of these methods.

EPPI Card

Virginia along with eighteen other states uses a prepaid debit banking card program for payments to some Commonwealth employees, custodial parents, and benefit recipients. Recipients who choose to participate receive a debit card and the Commonwealth directly deposits payments to the individual's account. The program allows a means for those without existing checking or other bank accounts to receive direct deposits, which helps reduce the number of physical checks printed by the Treasury.

This debit card is the EPPI Debit MasterCard, and it provides recipients with a traditional debit card accepted at any location that accepts MasterCard, Maestro, or Cirrus cards. There is no monthly service fee associated with the card; however, cardholders can make only two withdrawals per month or they must pay additional fees. There are also fees charged to cardholders for making more than one visit to a teller window each month, ATM balance inquiries, card replacement, international transactions, and other miscellaneous services.

⁹ Source: Commonwealth Accounting and Reporting System

There is little to no cost to the Commonwealth for administering the EPPI card program. There are no fees charged by the banking contractor for administering the program, and the only cost to the Commonwealth is setting up the payee for direct deposit, just as they would for any employee payroll.

Electronic Benefits Transfer (EBT) Card

All states now use EBT to issue Supplemental Nutrition Assistance Program (SNAP) benefits, formerly the food stamp program. Virginia-issued cards will work in other states and Virginia stores accept other states' cards. This program is a unique method of payment for a specific type of transaction and carries some limitations imposed by the Federal government.

Unlike the EPPI card, the EBT cards come at a cost to the Commonwealth. The federal government prohibits the credit card industry from imposing a merchant fee to accept these EBT cards for SNAP benefits. While the merchant community typically pays on average 2 percent of the transaction value in an interchange fee for accepting credit cards, the federal Nutrition Assistance Program does not allow these fees. Because this is a unique program with specific limitations on use, we did not perform additional analysis on the program.

WIC Food Instruments

The Department of Health administers a federal program for Supplemental Nutrition for Women, Infants, and Children (WIC). This program uses a unique method of disbursement to pay recipients. Health issues a "food instrument" which lists a "prescription" of food goods, which the recipient may use for a specified price range of approved food goods. The instrument is only redeemable for the maximum value of the listed goods and the merchants bear the responsibility to ensure that buyers only purchase the goods listed on the instrument. This is a very unique method of payment due to the complexity of the preventative controls in the system.

E-COMMERCE QUARTERLY REPORT

Each Quarter, Accounts issues a report entitled, "Report on Statewide Financial Management and Compliance". Each quarterly report contains an E-commerce section which includes statewide performance statistics designed to illustrate the percentage of payments that agencies and institutions have executed using electronic means, such as ACH, EDI, and charge card rather than traditional paper checks. Our review of these reports determined that the reports exclude a significant number of checks and electronic disbursements that are not directly processed by Accounts and Treasury.

The analysis excludes disbursements from Taxation and the Retirement System for tax refunds and retirement benefits payments. In calendar year 2009, Taxation and the Retirement System initiated approximately 52 percent of the 3.4 million checks printed.

Recommendation 6

Accounts should include statistics for electronic payment data from Taxation and the Retirement System in the E-Commerce section of its quarterly report. By including check and electronic payment statistics for Taxation and the Retirement System, the quarterly report will more accurately reflect the state of the Commonwealth's E-Commerce initiatives.
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LIST OF OBSERVATIONS AND RECOMMENDATIONS

(In order of appearance in Report)

Recommendation 1:

The Commonwealth may wish to consider consolidation of all check printing operations, including Institutions of Higher Education, with the Treasury in order to realize economies of scale. As we illustrate, decentralized Institutions of Higher Education generally have higher costs to print and issue paper checks. We believe this is due to the relatively large fixed costs allocated over a small volume of checks.

Institutions could transmit check-write files to Treasury in the same manner currently used by the Employment Commission, Taxation, the Retirement System, and Social Services. The Commonwealth may realize savings from reducing fixed costs related to equipment, annual maintenance contracts, materials, and direct labor associated with producing paper checks.

Recommendation 2:

With or without the consolidation of check-writing, the Treasury may wish to consider options for outsourcing its check-writing process to a third party. With many financial institutions providing check writing services along with “Positive Pay” assurance, there is minimal risk to the Treasury in relinquishing control over this process.

We cannot estimate the potential savings or cost from outsourcing check-writing because pricing would be dependent upon the outcome of a competitive procurement process. However, outsourcing would allow Treasury to convert a process carrying both fixed and variable costs to a strictly variable cost. Removing the fixed cost component from check writing will become increasingly more important as Treasury continues to reduce the number of overall checks written.

Treasury should solicit price estimates from the banking community for these services to compare with existing known operating costs, and determine if outsourcing is a viable option that could reduce annual administrative costs.

Observation 1:

The Commonwealth spends over \$959,700 per year in postage costs, check stock, and bank fees for writing checks to taxpayers who are due tax refunds. Other than the implicit benefit of receiving refunds faster, there is no incentive in the current process to encourage taxpayers to use direct deposit for refund.

Recommendation 3:

The Governor and General Assembly may wish to have Taxation review the underlying reasons taxpayers elect to receive their refunds by check versus other faster and more secure reimbursement methods. Taxation should continue to promote the use of direct deposit for citizen reimbursements through the tax preparer community and any other means they deem appropriate.

Recommendation 4:

Accounts should continue to encourage agencies and the vendor community to use the EDI program where the cost of setting up a vendor is justified by the volume of transactions. Accounts should also work with General Services' Division of Purchase and Supply to implement a process by which vendors registering for the Commonwealth's eVA Procurement system may simultaneously register for the EDI program. This registration process should further promote the benefits of EDI in a way that is both convenient to the vendor community and cost effective to the Commonwealth.

Recommendation 5:

Accounts should continue to enforce participation and compliance in the charge card program. The Comptroller should continue raising the underutilization percentage from 75 percent to 90 percent over time to further encourage agencies to use the charge card program. Since the Comptroller already accounts for vendors who do not accept charge cards as a form of payment, it is not unreasonable to expect a higher rate of compliance from agencies and institutions.

Converting just half of the 406,300 checks written for amounts less than or equal to \$5,000 would yield over \$121,890 in savings through reduced printing, postage, and other direct variable costs, not including any reduction in fixed costs. Converting 75 percent of these checks to charge card payments would yield over \$182,835 in annual savings.

Observation 2:

Some Institutions of Higher Education pointed to the fees associated with the use of the Commonwealth's electronic procurement system (eVA) as a reason why charge card utilization targets were difficult to meet. The fees associated with purchases in eVA were not within the scope of this review; however, we are also engaged in a statewide review of Electronic Procurement. We plan to address these concerns in that upcoming report.

Recommendation 6:

Accounts should include statistics for electronic payment data from Taxation and the Retirement System in the E-Commerce section of its quarterly report. By including check and electronic payment statistics for Taxation and the Retirement System, the quarterly report will more accurately reflect the state of the Commonwealth's E-Commerce initiatives.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

November 1, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have reviewed the disbursement methods used by the agencies and institutions of the Commonwealth and are pleased to submit our report entitled **Study of State Disbursement Processes**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective is to study the various disbursement methods used by Commonwealth agencies and institutions to identify opportunities that may exist to reduce payment processing costs and/ streamline operations.

Audit Scope and Methodology

We gained an understanding of the various methods used by Commonwealth agencies and institutions to disburse funds. We identified five unique methods for processing payments to external parties which each have associated costs and benefits. Our study focused on the primary disbursement agents for the Commonwealth: the Department of Treasury and Department of Accounts, however our analysis found that some agencies and institutions of higher education perform similar processes to those performed by these central service agencies and we include the following agencies in our analysis.

College of William and Mary
Department of Taxation
George Mason University
James Madison University

Old Dominion University
Radford University
University of Virginia
Virginia Commonwealth University
Virginia Polytechnic Institute & State University

We gathered financial data and cost information from the agencies and institutions identified above in order to analyze and compare the volume and estimated costs of processing check payments. We conducted interviews, performed analysis, and reviewed contracts and other documents in order to draw our conclusions and develop our recommendations and observations.

Conclusions

We found that opportunities to streamline payment processes and reduce business expenses associated with those processes do exist but some of those opportunities come with increased risk as described in the body of the report. The Governor and General Assembly may wish to implement some or all of the recommendations within this report while considering the risks associated with implementing such changes and ensuring substantial monitoring procedures are in place to mitigate such risk.

Exit Conference and Report Distribution

We discussed this report with the management of each agency listed above between November 2, 2010 and November 19, 2010. Individual agency responses to recommendations identified in our audit are included in the section titled “Agency and Institution Responses.” We did not audit these responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/alh



COMMONWEALTH of VIRGINIA

Department of the Treasury

MANJU S. GANERIWALA
TREASURER OF VIRGINIA

P. O. BOX 1879
RICHMOND, VIRGINIA 23218-1879
(804) 225-2142
Fax (804) 225-3187

November 19, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, VA 23219

Dear Mr. Kucharski:

The Department of the Treasury (Treasury) appreciates the opportunity to respond to the comments and recommendations in your Study of Statewide Disbursement Methods. Your recommendations are appreciated and given the highest level of importance by Treasury as we strive to continue to improve our processes and provide services to the Commonwealth.

Recommendations pertaining to Treasury in the Disbursements Review

Recommendation 2:

With or without the consolidation of check-writing, the Treasury may wish to consider options for outsourcing its check-writing process to a third party. With many financial institutions providing check writing services along with "Positive Pay" assurance, there is minimal risk to the Treasury in relinquishing control over this process.

We cannot estimate the potential savings or cost from outsourcing check-writing because pricing would be dependent upon the outcome of a competitive procurement process. However, outsourcing would allow Treasury to convert a process carrying both fixed and variable costs to a strictly variable cost. Removing the fixed cost component from check writing will become increasingly more important as Treasury continues to reduce the number of overall checks written.

Treasury should solicit price estimates from the banking community for these services to compare with existing known operating costs and determine if outsourcing is a viable option that could reduce annual administrative costs.

Treasury Response: As noted in the Study, Treasury has been streamlining check printing operations and reducing fixed costs over time as the check volume has decreased. In FY2010, Treasury further reduced staff in the check printing area. Additionally, Treasury has controlled for risks surrounding the check printing operations and maintains a “hot site” for continuation of operations. Treasury ensures that disbursements can be made for the Commonwealth even in the event of a disaster.

While a recent internal review indicated that it is cost effective for Treasury to continue check printing operations in-house, Treasury will continue to evaluate its options based on a number of factors including any significant changes in check volumes, changes in fixed costs, and the availability and affordability of other solutions that would impact such a decision.

Again, thank you for the opportunity to respond to your report.

Sincerely,

A handwritten signature in black ink, appearing to read "Manju Ganeriwala", with a stylized flourish at the end.

Manju S. Ganeriwala

c: The Honorable Richard D. Brown
Secretary of Finance



COMMONWEALTH of VIRGINIA

Department of Taxation

November 19, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Department of Taxation (TAX) appreciates the opportunity to comment on a draft of the Study of State Disbursement Processes report. The staff at TAX believes the report is very well done and provides meaningful recommendations. I also appreciate the report's acknowledgement that the Department strives to use the most efficient methods available to deliver services to the public.

Specifically, the report recommends that "Taxation should continue to promote the use of direct deposit..." TAX currently promotes awareness of the advantages of direct deposit utilizing both web and print materials and has been working with the Department of Treasury to increase the number of tax refunds that are direct deposited. TAX will continue these efforts and identify others that will further this goal.

Again, thank you for the opportunity to review and comment. Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "CMB", written over a circular stamp.

Craig M. Burns
Tax Commissioner



MEMORANDUM

TO: Mr. Walter J. Kucharski
Auditor of Public Accounts

FROM: Eric Denby
Director, Procurement Services

Steve Kimata
Assistant Vice President for Finance
and University Comptroller

SUBJECT: Study of State Disbursement Processes

Thank you for the opportunity to provide our thoughts regarding this study. Copied below is Recommendation #1 and then our management response.

Recommendation 1: The Commonwealth may wish to consider consolidation of all check printing operations, including Institutions of Higher Education, with the Treasury in order to realize economies of scale. As we illustrate, decentralized Institutions of Higher Education generally have higher costs to print and issue paper checks. We believe this is due to the relatively large fixed costs allocated over a small volume of checks. Institutions could transmit check-write files to Treasury in the same manner currently used by the Employment Commission, Taxation, the Retirement System, and Social Services. The State may realize savings from reducing fixed costs related to equipment, annual maintenance contracts, materials, and direct labor associated with producing paper checks.

UVa Management Response:

As a Tier 3 institution, the University of Virginia (University) has used its additional autonomy to reengineer, streamline, and reduce costs in a number of areas, one being the payment process. Since FY2005, the University has reduced the number of non-personal services checks

printed annually from 107,181 to 68,072. This represents a 36.5% reduction.

This reduction was accomplished by taking advantage of electronic payment methods, such as ACH and Ghost Card. These methods were in addition to electronic methods already in place such as Direct Deposit for employees and students, and the Purchasing Card. Furthermore, the University has been able to reduce the time it takes to process a payment, resulting in additional early payment discounts. These payment discounts amounted to \$274,253 in FY2010 and are projected to be \$450,000 for FY2011.

In comparing the University's cost per check of \$.80 to the Treasury cost of \$.73, the potential savings of centralization comes out to \$4,765 (\$.07*68,072 checks). While any dollar savings are important, centralizing a process which the University has already re-engineered successfully should be evaluated from a cost/benefit perspective.

Considerations which should be part of this analysis include:

1. The Commonwealth currently requires payment transactions to be sent at least 5 days prior to the due date. This change would result in losing 5 business days at UVa, reducing the flexibility in our processing schedules, and increasing the risk of not meeting Prompt Pay standards and losing early payment discounts.
2. It is not practical to centralize all payments. Many payments require physical attachments. The amount of time and effort to ensure attachments are properly included in a centralized payment process could outweigh any benefits.
3. The University provides vendors with on-line access to their invoice and payment status because the University's systems can track and report that data. This service saves significant hours of staff time annually in responding to telephone calls and provides valuable payment updates to the University's suppliers.

Summary:

The University fully supports the concept of utilizing electronic payment processes to streamline operations, eliminate paper checks and effect cost savings, as evidenced by its own increasing use of electronic processes.

For many institutions, such as Tier III Restructured institutions, it makes sense to maintain and expand the focus on automating payment processes locally. Doing so provides faster, more effective service to our customers and creates a true reduction in costs without incurring the expense of altering systems.

We would like to thank the staff of the Auditor of Public Accounts for their assistance in discussing and reviewing the report.



V i r g i n i a C o m m o n w e a l t h U n i v e r s i t y

Monroe Park Campus

Senior Vice President for Finance and Administration

John M. Bennett

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November 18, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street, 8th Floor
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. ^{Walt}Kucharski:

Virginia Commonwealth University concurs with the cost per check information provided in Table A of the *Statewide Review of Disbursements* report, but wanted to point out action taken by the University to further reduce the administrative costs associated with check-writing subsequent to the study period.

Effective August 2010, the University outsourced its vendor check printing. This change in operations reduced equipment costs and postage, while providing the University with an improved disaster recovery plan to ensure uninterrupted service. This change further reduced the University's cost of check printing to a projected cost per item of \$1.00.

Thank you for the opportunity to review and respond to your review of disbursement practices.

Sincerely,

John M. Bennett
Senior Vice President for Finance and Administration

JB/ljc



November 17, 2010

Mr. Walter Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski,

We are in receipt of your statewide report on state disbursement processes. We concur with the overall assessment that eliminating paper checks as a means of payment is the best strategy for reducing costs and gaining further efficiencies in disbursement processes. Under the authority granted to the university by the Restructuring Act, we have strategically focused on reengineering and streamlining the entire non-payroll expenditure process – from requisition to payment. Our efforts have focused on improving processes with the greatest return and impact on increasing efficiencies through automation of labor intensive processes. We have leveraged our ERP system and our electronic procurement system to implement state of the art procurement and accounts payable processes which include the following:

- Processing electronic invoices from high volume vendors to eliminate data entry of paper invoices
- Implementing automated integration of receiving reports from our e-procurement system into our ERP system
- Implementing automated three way matching of purchase orders, vendor invoices, and receiving reports (again eliminating former manual processes)
- Implementing imaging / document management and workflow processes to route documents within the accounts payable group for audit, review, and entry into Banner.
- Actively soliciting and increasing vendor enrollment in ACH/EDI payment programs or payment card methods to reduce the number of paper checks created. We have concentrated these efforts on vendors with high volumes of activity.

The implementation of these electronic initiatives has resulted in real cost savings through the reduction of employee staffing levels in the accounts payable area (5 wage staff and 2 full time positions have been eliminated).

As part of the university's management agreement under restructuring authority, the university continues to identify the optimal structure to provide the lowest cost administrative services that meet the needs of the university's students, faculty, staff and other constituents. As a part of that ongoing process of cost analysis and reduction, the university will include an evaluation and assessment of the disbursement recommendations included in this review as a part of our administrative cost process. The university will continue to implement the most cost effective combination of activities to achieve an optimal administrative cost structure.

In conclusion, we believe the most cost effective and efficient processes can be obtained through the automation of manual processes associated with accounts payable and procurement processes and through the continued reduction of the number of paper checks created.

Sincerely,

Kenneth Miller
University Controller

Invent the Future

RESPONSIBLE OFFICIALS

Richard D. Brown, Secretary of Finance

Manju Ganeriwala, State Treasurer

David A. Von Moll, State Comptroller

Craig Burns, Tax Commissioner

Gerard Robinson, Secretary of Education

Institutions of Higher Education Presidents

John R. Broderick, Old Dominion University

Penelope W. Kyle, Radford University

Michael Rao, Virginia Commonwealth

University

Linwood H. Rose, James Madison University

Teresa A. Sullivan, University of Virginia

Alan G. Merten, George Mason University

W. Taylor Reveley, III, William and Mary

Charles W. Steger, Virginia Tech