



VISA GOVERNMENT SOLUTIONS SUCCESS STORY

STREAMLINING GOVERNMENT PURCHASING PROCESSES IN THE STATE OF WEST VIRGINIA

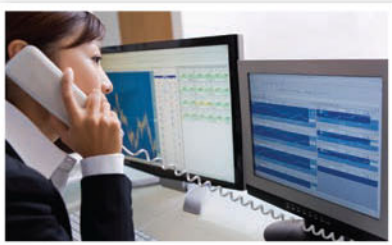
Governments around the world are facing the challenges of having to do more with fewer resources, while remaining transparent and improving accountability. **For many governments, processes to procure goods and pay for services are inefficient, costly and provide limited visibility and control.** By implementing a Visa Purchase card program, the state of West Virginia has enhanced its stewardship of taxpayer money and models one of the most efficient and fiscally responsible procurement processes in the United States.

BACKGROUND

State governments in the United States are responsible for providing services that range from building and maintaining infrastructure to delivering educational services and managing social benefits programs. The State of West Virginia Auditor's Office serves as the administrator of the state's public funds, with an annual budget of US\$11.4 billion in fiscal year 2012 (July 1, 2011 - June 30, 2012). Each state agency is responsible for the timely, responsible and efficient payment of a wide assortment of goods and services for the state government, for everything from construction materials like asphalt for road repair, to cafeteria supplies for university students, and computers and printers for administrative purposes.

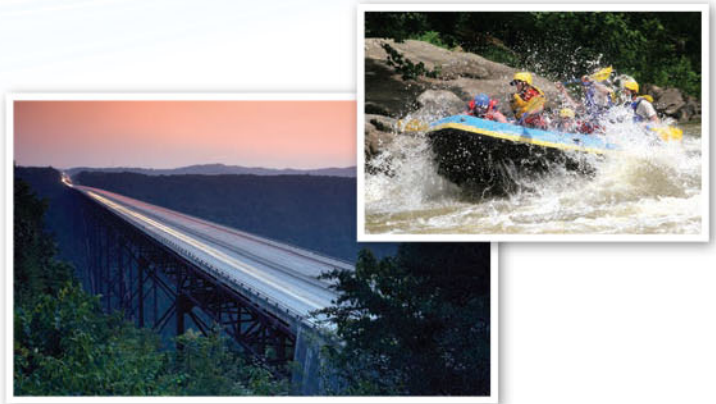
In 1996, West Virginia established the Visa Purchase card program in order to create more accountability for purchases, improve relations with vendors, and save money by eliminating a costly purchase order and check payment process. Migrating from paying by check to paying by Visa Purchase cards has resulted in an annual cost savings of more than US\$145 million* for the state and its taxpayers.

*Source: West Virginia State Auditor's Office, October 2012



"The purchase order and check payment process was expensive, and often incurred more expense over and above the purchase price of some items."

— Glen B. Gainer III
State Auditor, West Virginia



DRIVERS FOR CHANGE

In the late 1990s, the state conducted an extensive review of its procurement process to determine where the gaps were. The results showed three specific areas of opportunity: cost savings, improved vendor contract terms, and enhanced record-keeping compliance.

- + **Save money on the purchasing process** — The paper-based purchase system was costly and inefficient and resulted in millions of dollars of unnecessary expense. For example, a simple US\$10 vendor payment actually cost the state an additional US\$30-US\$35 in check processing costs.
- + **Improve vendor relationships and contract terms** — Vendors received payment for services 75 days or more after invoice due dates, which burdened them with cash flow constraints and disrupted their supply chains. Delayed payment kept many businesses, including smaller firms, from bidding on state contracts. That, in turn, meant the state did not receive the volume of supplier bids necessary to conduct competitive negotiations for vendor contracts.
- + **Enhance record keeping efficiency** — A finite amount of storage space for purchase orders, receiving reports, invoices and check copies quickly reached maximum capacity. Storing an abundance of paper records resulted in extra costs for storage as well as labor when staff needed to search for supporting documentation regarding invoice payments.

SOLUTION REQUIREMENTS

Several other states had already established purchase card programs when West Virginia was exploring ways to better manage procurement. A team from West Virginia visited Texas and Virginia, early purchase card adopter states, to learn how those states implemented and managed purchase cards in their procurement process.

During the visits the team learned about the importance of choosing the right issuer and card brand. With regard to choosing an issuer, both Texas and Virginia stressed the importance of finding a bank with experience managing a purchase card program and the ability to deliver dependable, day-to-day support. In choosing the card brand, it was determined that products, services, expertise, acceptance, security, reliability and scale would be the important differentials.

Before issuing a Request for Proposal (RFP) to issuers, West Virginia developed criteria for evaluating proposals in order to be fair and accurate in making an informed decision. Some of the criteria used included the amount of experience with card programs, service standards, customer service capabilities, training and implementation attributes, technology infrastructure, data and reporting capabilities, fees and costs, and incentives.

Because a key goal of the program was to engage all agencies, boards and commissions across the state to use the card, the program also had to meet these important requirements:

IMPLEMENTATION

West Virginia implemented its state-wide purchase card program in 1996. They began with two goals: shorten payment processing time and move as many small-dollar purchases to the card as possible. With the help of Visa and the issuing bank, the state reviewed its spending and identified approximately 500,000 check payments of less than US\$500 to vendors that accepted cards for payment. Low-cost purchases under US\$500 were the first payments earmarked for the new program.

A multi-stage and carefully considered rollout was critical to the initial success of the program. Late in 1997, the Auditor's Office piloted the Visa Purchase program, followed shortly by the Department of Administration, the State Treasurer's Office, West Virginia University and Fairmont University over the course of 12 months. Within the first year, transactions increased from 265 the first month to over 7,000, and purchase volume increased from US\$30,000 to over US\$1 million in the same time period.

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REQUIREMENTS	VISA PURCHASE SOLUTION
Make it easy to migrate vendors to card payment	With the help of Visa and the card issuing bank, agencies were able to easily identify vendors that accept card payments.
Enhance control and accountability	Built-in controls made it easy to enforce purchasing guidelines and prevent misuse.
Improve reporting	Automatic data consolidation and spend analysis streamlined agency reporting.

HOW IT WORKS

The state of West Virginia deemed the Visa Purchase card the preferred method of payment for goods and services purchased by all state agencies. Today, all government agencies use the charge card, averaging 56,000 transactions and more than US\$36 million in purchase volume each month in fiscal year 2012. Cards are used for transactions which range from small-dollar, one-time purchases to major contract payments for infrastructure projects.

The program is managed through the Purchasing Card Division of the State Auditor's Office by a staff of 20, which includes six certified purchasing card professionals, two certified public accountants, and two certified fraud examiners. Between them, they have responsibility for activities in three key areas: operations, program evaluation and the e-travel program.

Staff in the operations group manage the issuing bank contract and work with all state agencies and institutions of higher education on a daily basis regarding card issuance, card maintenance, general card use, training, utilization, reporting and transaction monitoring. This ensures that cards are used appropriately and that all questions about who can use a card and how to use a card are answered quickly.

Work in the program evaluation group includes program reviews of all users to be sure the State Auditor's Office Purchasing Card Policies and Procedures and other relevant governing criteria are followed.



“Utilizing cards is one of the ways that we have been able to cut through bureaucracy and improve the way the state does business.”

— Glen B. Gainer III
State Auditor, West Virginia

The e-travel program group implements and trains cardholders and maintains and supports the e-Travel Management System (Truexpense). The state purchase card program is incorporated into this automated, policy driven end-to-end travel management system, enabling staff to track and report travel and procurement spend.

Electronic training saves the state time and also makes it easy to determine how well those who undergo the training understand the rules, regulations and terms of use and management. Cardholders are required to complete refresher training biennially.

Program coordinators are required to participate in annual face-to-face training, which focuses on the card as a payment mechanism where all other purchasing policies and governing instruments are adhered to. This training also includes ethics, how to use the software tools available, best practices in transaction monitoring, common concerns and development and enhancement of internal controls.

CARD PROGRAM PARAMETERS

All state employees whose job duties require they make purchases are determined to be card eligible. Employees receive cards after they complete training, which can be done online. While cards in the pilot program had transaction limits of \$500, which was increased to \$2,500 and \$5,000 in subsequent years, today most cards have no transaction limits. In fact, the state now routinely makes payments in excess of US\$1 million dollars using the cards. Responsible purchasing is expected and communicated from all levels, from the Auditor's Office down through each agency. That ethic is enhanced with a strong system of checks and balances which include:

- + **Agency-wide program evaluations to identify use**
- + **Daily transaction monitoring to document use and identify suspicious transactions**
- + **Use of built-in card controls and fraud prevention tools from the card's issuing bank**

Each spending unit determines the restrictions or controls to be activated on the cards their employees use. Some spending units choose to limit the types of transactions allowed by blocking purchases that fall under certain Merchant Category Codes, or limit spending to a particular amount per transaction and per card. Cash withdrawals from ATMs are prohibited.

"Visa and the issuing bank have been outstanding business partners, working with us to better meet the needs of our vendors."

— **Glen B. Gainer III**
State Auditor, West Virginia



RESULTS

Today, all of the 217 spending units of the West Virginia government use Visa Purchase cards. Those units include large entities such as the West Virginia University and the State Department of Transportation, down to small boards and commissions with only a handful of members. The cards are used to pay for a wide range of goods and services purchased by the agencies, such as: construction materials by the Department of Transportation; printing services, textbooks, inter-campus purchases and travel expenses by West Virginia University; and computers, office supplies, and provisions for benefits programs by the Department of Health and Human Resources. The state's Department of Homeland Security also issues cards to its first responders to pay for essential supplies like food, lodging and clothing to help meet the needs of its citizens during a natural disaster or emergency.

More than 6,400 Visa Purchase cards were used for approximately 700,000 transactions and US\$465 million in purchases in fiscal year 2012. The program has helped the state of West Virginia bring efficiency, transparency, control and security to its purchasing processes, resulting in:

- + **A reduction in check payments**, generating millions of dollars in savings annually
- + **An improved state reputation** with vendors because of prompt payment of services
- + **Diversification** of the state's business partners and negotiation of better discounts on cost of goods and services
- + **An increase in operational efficiency** from a reduction in paperwork and administrative effort
- + **Enhanced visibility** into spend providing greater control and accountability

BENEFITS REALIZED

In addition to achieving the state's goals, the program has delivered significant benefits including:

- + **Annual savings of more than US\$145 million** in payment processing costs
- + **A higher bond rating** because payment obligations are met in a timely manner
- + **More than US\$1.8 million each quarter in rebate income** (a return of a percentage of the money spent that quarter)
- + **A reduction in the state's payment cycle** from net 75 days to net 30 days resulting in faster payment to vendors
- + **A decrease in fraud** with purchase card misuse accounting for only US\$250 of every US\$1 million in card transactions



"The card is used for every possible purchase, from office supplies and one-time meeting expenses, to major contract payments for asphalt."

— **Glen B. Gainer III**
State Auditor, West Virginia

CRITICAL SUCCESS FACTORS

The state considers one of the most critical factors in the success of its card program to be the early formation of the Purchasing Card Advisory Committee (PCAC), designed to enable collaboration with all agencies that would use the card. This statutory committee includes 14 members of state agencies and institutions of higher education and is chaired by the State Auditor.

From program initiation to present day, the PCAC has been invaluable in:

- + **Identifying areas for improvement within the program**
- + **Promoting buy-in from all agencies by providing them a direct voice in the direction of the program**
- + **Drafting and approving any policy and procedure changes**
- + **Initiating well-defined policies and procedures**
- + **Defining expectations and responsibilities of card use and management**

Other critical factors in the program's success include:

- + **Daily transaction monitoring** – Because transactions are monitored in real time, agencies are provided immediate reports of suspicious transactions. This not only extends the existing controls, but mitigates risk. When cardholders know that purchases are reviewed immediately, there is less chance of fraudulent purchasing.
- + **Training** – Before a state employee is issued a purchase card, they are required to complete a detailed online training program which includes communication about policies, procedures and expectations of appropriate use. Once the training is complete, they must take a test to prove they have full understanding about the material covered in the training session. Refresher training is mandatory for all cardholders every two years. Outcomes have proven that the quality of training directly results in better compliance, appropriate application of procedures and reasonable governance of card use.



"I am very proud of our program and excited about the future uses across the state. This is our state's safest and most secure way to make payment and it is in our best interest to use the card program for all possible payments."

— Glen B. Gainer III

State Auditor, West Virginia

THE FUTURE

West Virginia's future initiatives with the purchase card program include the implementation of a new Enterprise Resource Planning (ERP) system to centralize procurement activities and deliver on constituents' demands for better, faster and more reliable ways to conduct business with the state. The new ERP system is expected to enhance opportunities to use the purchase card for payments.

The state is also planning to move travel expenses to the purchase card. To meet its goal, an additional 10,000 purchase cards will be issued to those who are required to travel as part of their state duties. Next, the state will convert fleet spending to the card. The ultimate goal is to have an integrated one card solution to pay for the state's procurement, travel and fleet expenses, while providing greater efficiency, transparency, control and accountability in its purchasing processes.



To learn more about how Visa is partnering with governments to transform payments in the U.S. and around the world, visit www.visa.com/government and www.visagovernmentsolutions.com or email governmentsolutions@visa.com.

