



# Office of General Services

## State Agency Small-Dollar Purchases

Report 2009-S-56



Thomas P. DiNapoli



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# State of New York Office of the State Comptroller

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## Division of State Government Accountability

September 9, 2010

John C. Egan  
Commissioner  
New York State Office of General Services  
41<sup>st</sup> Floor, Corning Tower  
Empire State Plaza  
Albany, New York 12242

Dear Mr. Egan:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of State Agency Small-Dollar Purchases. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8, of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*





# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

### **Audit Objectives**

The objectives of our audit were to determine the extent to which State agencies process small-dollar transactions (i.e., those up to \$2,500) using paper-based voucher processes instead of the State procurement card, and to identify potential cost savings and revenue enhancements achievable through better use of procurement cards.

### **Audit Results - Summary**

We audited use of the State procurement card (P-Card or Card) for small-dollar purchases in a prior audit (2007-S-27, issued in June 2008), and found that State agencies could have saved at least \$13.4 million in process costs and realized at least \$2 million in rebate revenues annually if they had used the P-Card instead of traditional vouchers for small-dollar purchases. In our current audit, we assessed changes in agencies' P-Card use and also updated our estimate of the savings opportunities and revenue enhancements that may still be available through increased use of the Card, using more recent purchase and rebate information.

Overall, we found agencies have made progress in moving their smaller purchases to the P-Card. Most State agencies have increased their P-Card use since the 2005-06 fiscal year, and more agencies have acquired and are beginning to use the Card and are encouraging its wider distribution and use. As a result, the number of small-dollar purchases that we estimate could have been made with the P-Card, but were not, fell from 578,000 per year in our prior audit to just 386,000, a decrease of 33 percent.

Although P-Card use is improving, many opportunities still exist for agencies to more fully benefit from the savings and revenues associated with using the Card for eligible small-dollar purchases. We estimate the potential cost savings and rebate revenues that could be realized in the three years remaining on the State contract with the P-Card provider could total about \$49 million.

From July 1, 2008 to June 30, 2009, State agencies processed almost 500,000 voucher payments totaling over \$250 million for purchases valued up to \$2,500. Our statistical sample of these payments showed that about 78 percent of the voucher-based purchases could have been put on the Card. Had agencies made these purchases with the P-Card, rather than a voucher, we estimate the State could have saved about \$14 million in processing costs and realized about

\$2.3 million in additional rebate revenues. If State agencies continue to adopt the changes we suggest and use the Card for more purchases, they can expect to achieve the \$14 million in process cost savings each year. In addition, these changes would result in about \$6.9 million of additional rebate revenue to the State through the end of the P-Card contract in August 2013.

The P-Card contract includes a provision that only those payments made within 30 days of the date the statement becomes available are considered timely and eligible for rebates. We found the State forfeited P-Card rebates of \$186,434 and \$255,596 in 2007-08 and 2008-09, respectively, due to agencies' late payments. We estimate the State could realize approximately \$825,000 in additional rebate revenues through the end of the contract if agencies simply make payments on time.

Similar to what we concluded in our prior audit of small-dollar purchases, the extent to which the State can actually realize these cost savings depends largely on agency willingness both to shift more eligible purchases to the P-Card and to strengthen efforts to make timely payments. We visited several State agencies (See Exhibit A) to identify factors that hindered their acceptance and use of the P-Card for small-dollar purchases, and to learn about agency practices that enabled them to best benefit from the Card. We found that management at most of these agencies encourages or is starting to promote increased P-Card use, although they experience some obstacles, including lack of incentive to earn rebates, fiscal concerns, and lengthy reconciliation processes.

Several agencies also expressed concern about the increased risk for improper use that is inherent with credit cards and the ability of their internal control systems to prevent inappropriate purchases. We agree that these risks are real, but are confident that the potential benefits can outweigh them. In addition, we believe agencies can mitigate the risk of improper transactions, not only by establishing detection controls to identify irregularities, but also by creating an organizational culture that clearly communicates management's expectations and ensures that transgressions are dealt with swiftly and consistently.

Our report contains three recommendations to assist State agencies by encouraging increased use of the P-Card for eligible small-dollar transactions, and investigating alternatives that could enable more agencies to directly benefit from the rebates associated with using the Card. OGS officials indicated they will continue to promote the P-Card contract and the benefits that it provides to the State.

This report, dated September 9, 2010, is available on our website at:

<http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or

Office of the State Comptroller

Division of State Government Accountability

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## Introduction

### Background

Use of procurement cards has become more widespread over the years in both government and private industry settings. According to the Government Finance Officers Association (GFOA), the benefits associated with using procurement cards include lower transaction processing costs and rebates based upon purchase volume. GFOA recommends that governments explore how they can benefit from using procurement cards.

New York State offers procurement card (P-Card or Card) services through a contract with Citibank. The Office of General Services (OGS) developed the contract and acts as the statewide program administrator and assists contract users who need help establishing or administering their account. State agencies use the P-Card to purchase commodities and services such as equipment, supplies, and printing. Generally, a maximum single transaction limit is established at the same level as an agency's Quick Pay limit (the threshold under which agencies can make payments without submitting additional information to the Comptroller's Office), but agencies can set lower limits depending on their needs. Participating agencies are expected to develop their own internal procedures to ensure appropriate oversight of the program.

The voucher- or purchase order-based system often includes many layers of sequential approvals and extensive prevention controls, both of which are typically labor-intensive and therefore expensive. With small-dollar purchases, the cost of these controls may exceed the risks posed by individual transactions. The State's P-Card program was designed to be a more efficient and cost effective way to expedite small-dollar purchases by eliminating or reducing some of the manual processes and preventive controls and relying more on detecting problem transactions that may have occurred. These detection controls are generally more cost effective, because purchases are reviewed, analyzed and reconciled as a group, resulting in a smaller cost being spread across all transactions.

In addition to the potential cost savings from more efficient processes, the P-Card program includes opportunities for rebate revenues. The State's contract with Citibank provides for rebates based on the purchasing volume on the Card, including an incentive in the form of a higher rebate rate for earlier payment. Payments made beyond 30 days aren't eligible for rebates. Citibank performs an annual calculation of statewide P-Card spending to determine the rebate rate that will be applied to the eligible purchase volume. It then uses that rate to calculate individual agency

rebates based on the timeliness of the agency's monthly payments. OGS, as administrator of the program, notifies agencies of their rebate amount and provides instructions in how to transfer funds to an agency account, if it's statutorily permissible.

In our prior audit, we found the State could have realized at least \$4 million in additional rebate revenues over the two-year period ended March 31, 2007 if it had moved more small-dollar purchases to the P-Card. In June 2008, the State renegotiated some of the terms in the P-Card contract, which resulted in higher rebate rates and the potential for even greater revenues from using the P-Card. These higher rates are reflected in our latest estimates in this report. During 2008-09, the State realized almost \$1.5 million in rebate revenues.

### **Audit Scope and Methodology**

The objectives of our audit were to determine the extent to which State agencies process small-dollar transactions (i.e., those up to \$2,500) using paper-based voucher processes instead of the State procurement card, and to identify potential cost savings and revenue enhancements achievable through better use of procurement cards.

Our audit included tests of selected small-dollar purchases made by State agencies during the period April 1, 2007 through June 30, 2009. To assess the extent to which State agencies process small-dollar transactions using paper-based processes, we analyzed State agency payment data and selected a statewide statistical sample of small-dollar purchases to evaluate their eligibility for P-Card use. Our sampling population consisted of paper-based transactions valued up to \$2,500 (or \$1,000 for agencies with a \$1,000 transaction limit) for the period July 1, 2008 through June 30, 2009.

To isolate the population most likely to be the candidates for the P-Card, we excluded several categories of payments, including travel, grant expenditures, capital construction, utility services, nonemployee compensation, not-for-profit loans, and general State or special department charges. We also eliminated certain contract payments and payments to the State's procurement card provider. Finally, we excluded purchases by the Governor's Office, the Legislature and the State Comptroller. To achieve a 90-percent confidence level and a sampling precision of less than 5 percent for our conclusions, we selected a statistical sample of 271 of these purchases from the population of 493,959 payments that were processed using vouchers. We then obtained supporting documentation from agencies, and evaluated the purchases' eligibility for P-Card use. To assess eligibility, we contacted vendors to determine if they would have accepted the Card at the time of purchase. If the vendor would not have accepted the Card, we considered the transaction ineligible for P-Card

use. We also assessed whether the purchase type was eligible for the Card (i.e., it was a commodity or a non-travel service) and made other inquiries where necessary to determine eligibility.

To determine per-transaction process cost savings, we used an estimate derived from a 1994 State of California study, which we adjusted for inflation to arrive at a current estimate. We did not audit this study or its reported results. To estimate potential savings from using the P-Card instead of vouchers, we projected our sample results to the population of vouchers. To estimate potential rebate revenues from moving more purchases to the Card, as well as rebates lost due to late payment, we projected our sample results using rebate information from the existing P-Card contract. Finally, we visited seven State agencies and met with officials directly involved in the purchasing and payment functions to identify obstacles to maximizing use of the P-Card, as well as best practices in realizing its benefits.

We conducted our 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.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

**Authority**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

**Reporting  
Requirements**

A draft copy of this report was provided to OGS officials for their review and comment. Their comments were considered in preparing this report, and are included at the end of the report.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of General Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

**Contributors to  
the Report**

Major contributors to this report include Frank Houston, John Buyce, Joel Biederman, Sharon Salembier, Joseph Robilotto and Andre Spar.

## Audit Findings and Recommendations

### Statewide P-Card Usage

Through the State Accounting System, the Office of the State Comptroller maintains data on agency purchases. We reviewed this data to assess changes in agency P-Card use between 2005-06 and 2008-09, and found an increase in the number of agencies that participate in the P-Card program. In 2008-09, 62 of 330 agency codes (about 19 percent) hadn't implemented the P-Card, compared with 122 of 376 (32 percent) in 2005-06.

As part of our analysis, we followed up on progress at the four agencies we reviewed in our prior audit (OGS, the Department of Correctional Services, the Department of Environmental Conservation and the Office of Children and Family Services), and found that all four increased their P-Card use from 2005-06 to 2008-09. Most other agencies had also increased their use of the P-Card. We found that 230 of the 330 agency codes (these include central and regional offices, as well as facilities) in the 2008-09 data, or about 70 percent, showed an increase in P-Card use from 2005-06. For example, the Department of Correctional Services increased its Central Office P-Card use from about 14 percent in 2005-06 to nearly 32 percent in 2008-09. About 9 percent (31 of 330) of the agencies showed a decrease in P-Card use, and about 2 percent (7 of 330) weren't included in the 2005-06 analysis and therefore we didn't calculate their change in use. The remaining 62 agencies in the 2008-09 analysis were those without the Card.

#### *Potential Cost Savings*

We analyzed expenditures made between July 1, 2008 and June 30, 2009, and found that State agencies processed over \$250 million in small-dollar purchases using almost 500,000 paper-based purchase orders and vouchers. We used a statistical sample of 271 of these purchases to determine whether they were eligible for the P-Card at the time of purchase. We then projected the results to the population to arrive at an estimate of how many small-dollar purchases could have been made using the P-Card.

We found that about 78 percent of the voucher payments we tested were eligible for the P-Card. We projected these results to the population, and determined with 90 percent confidence that about 386,000 of these vouchers (plus or minus about 20,000), or between 73 and 84 percent of the half-million voucher transactions processed, could have been avoided if agencies had used the P-Card instead of paper-based methods.

We estimate the dollar value of these transactions to be \$204.4 million (plus or minus \$26.9 million).

To project potential cost savings, we needed to identify a per-transaction estimate of these savings that reflected a public sector purchasing environment. In our prior audit of small-dollar purchases, we used an estimate that was based on a 1994 State of California Department of General Services (DGS) pilot study of credit card savings using time and cost data from five participating test agencies. The DGS estimated per-transaction cost savings of \$24.49 from using the P-Card instead of a paper-based process. Since we didn't find a more recent study during the course of fieldwork for our current audit, we again used the DGS figure and adjusted it for inflation to arrive at a per-transaction savings estimate of \$36.25.

We estimate that if agencies had moved the \$204.4 million cited above to the P-Card, the State could have saved about \$14 million (plus or minus \$738,000) in processing costs from July 1, 2008 to June 30, 2009, and annually thereafter. The State isn't realizing these savings because some agencies continue to process many small-dollar purchases using the more expensive voucher process, instead of the P-Card. Reasons for this vary, and are discussed more fully in the Obstacles and Opportunities section of this report.

#### *Rebate Revenues*

The State P-Card contract with Citibank contains a provision for rebates based on the volume of purchase activity on the Card and the speed of payment. Greater volume results in a higher rate used to calculate the rebates. Only those payments made within 30 days of statement availability are eligible for rebates, with preferred rates for earlier payments. In 2008-09, 123 agencies earned P-Card rebates totaling almost \$1.5 million. The current contract, executed in June 2008, provides higher rebate rates than did the prior five-year contract.

We estimated potential additional rebate revenues assuming two things: first, that agencies move the \$204.4 million in eligible purchases cited above over to the P-Card and second, that payments to Citibank are made within 30 days. We estimate the State could have earned \$2.3 million (plus or minus \$304,000) in additional rebate revenues between July 1, 2008 and June 30, 2009 if these purchases had been made with the P-Card, rather than a voucher. Therefore, if agencies both increase their future P-Card usage and make payments at 30 days, the State can realize approximately \$6.9 million (plus or minus \$913,000) in additional rebates for the three fiscal years remaining in the P-Card contract.



We found that one reason rebates are not as high as possible is the fact that most agencies do not have a direct incentive to maximize these revenues. Most personal credit cards that offer rebate programs routinely provide consumers with rebate information as frequently as monthly. In contrast, the State's rebate calculation occurs only once each year, usually around June. At that time, Citibank calculates rebates based on the prior fiscal year's purchases and payments and provides the funds to OGS, which deposits the rebates in the State's General Fund. OGS then notifies agencies, generally in September, of their allocable share of the rebates.

Under the current system, most agencies can't directly benefit from the rebates, since they first become available after the relevant fiscal year's appropriations have already lapsed. In those cases, the rebates remain in the General Fund. In fact, some agencies we visited during the course of this audit cited this lack of incentive as a factor that limited their perceived value of the rebates that accompany use of the Card. If, in its role as administrator of the P-Card program, OGS could arrange for rebates to be distributed to the State periodically throughout the year, agencies may have more incentive to maximize rebate revenues.

Even under the current system, some agencies can already benefit directly from the rebates. For example, agencies with operations that use specific designated funds (e.g., Special Revenue Funds), or those with operations that are run as an enterprise that is charged back to participants (e.g., Workers' Compensation) can request the relevant portion of their rebate be credited as a revenue to the originating fund. Similarly, agencies with specific authorizing language in their appropriations may request that their rebates be credited against those appropriations. Any rebates that are not claimed by agencies under one of these provisions are credited as current year revenue within the General Fund, where they benefit the State as a whole.

As with the cost savings cited above, the State isn't fully benefiting from these rebate revenues for reasons described in more detail in the Obstacles and Opportunities section of this report.

#### **Forfeited Rebates**

Eligibility for rebates depends on timely payment. Payments made beyond 30 days from the time the statement is available aren't timely and are therefore excluded from Citibank's calculation of the purchase volume eligible for rebates. The State has forfeited rebate revenue due to agencies' late P-Card payments. During 2007-08 and 2008-09, late payments totaled \$25.5 million and \$24 million, respectively. If these payments had been made on time, even as late as the 30th day, the State would have realized rebates of \$186,434 and \$255,596, respectively, totaling \$442,030 for those two years. While we acknowledge that fiscal

concerns may have played a role in these late payments, we also believe that lack of communication about the consequences of late payments, including the lost rebates, was a contributing factor.

Unless agencies change their payment habits and make payments more timely, the State will continue to lose out on rebate revenues. If agencies' payment practices remain similar to 2008-09, we estimate the State will forfeit about \$825,000 in rebates for the three remaining fiscal years in the contract, even if agencies implement our recommendation to use the P-Card for more small-dollar purchases.

## **Obstacles and Opportunities**

In our prior audit, we visited four State agencies with varying degrees of P-Card use to gain a better understanding of the differences between their paper-based and P-Card processes. We recommended that agencies increase their use of the Card and streamline their P-Card processes to best benefit from the potential cost savings and rebates associated with using it. In our current audit, we met with officials familiar with the P-Card function at seven State agencies (See Exhibit A) with varying levels of Card use, including one agency that hasn't implemented the P-Card, to identify best practices agencies have used to get the most benefit from using the Card, and to learn about obstacles they have encountered. Agencies cited several factors that contributed to their reluctance or inability to maximize use of the Card, including:

- current spending restrictions that involve additional approvals for many purchases;
- the need for newer or better policies and training in proper use of the Card;
- a lengthy statement reconciliation process, especially in the absence of specialized software, that can result in late payments and lost rebates; and
- difficulties in capturing the desired level of detail regarding purchases, especially minority and women-owned business enterprise information.

The most critical obstacle is that many agencies perceive a risk that improper purchases will occur and are thus less willing to abandon their current paper-based systems. While this risk undoubtedly exists, we believe that the benefits of increased P-Card use can outweigh the costs. The key is for agencies to transform activities from preventive controls, like prior approvals and sequential processing, to detective controls based on analysis and follow-up of suspicious transactions.



More importantly, agencies need to establish clear expectations for accountability, and communicate these expectations to all employees. A strong control environment that demonstrates to staff that transgressions will be identified and dealt with swiftly and consistently can be a very effective preventive tool.

We believe that agencies can overcome some of the other obstacles as well, through both stronger communication and improved purchasing practices. For example, the spending restrictions are in response to the State's current economic condition and therefore are likely to be temporary; as conditions improve, the restrictions should ease, giving agencies increased flexibility. We also recognize that some agencies, such as the Department of Correctional Services, will need to retain some preventive controls for other reasons, such as security. However, even that agency has been able to identify improvement opportunities, and thus has increased its Central Office P-Card use, while not jeopardizing security at its facilities.

Agency officials also cited factors that influence the degree to which they actually benefit from P-Card rebates. These include economic conditions that affect timeliness of payments and may result in purchases being ineligible for rebates, and, as previously noted in this report, lack of incentives due to the timing of the funds' availability or lack of appropriation language. These factors may dilute the value of the rebates at the agency level and hinder optimum use of the Card.

On the other hand, agencies also employ best practices to make the most out of the program. For example, at least one agency has implemented reconciliation software to improve the time it takes to reconcile P-card statements, and another agency conducted an internal audit of its P-card use to identify which vendors could be paid using the card. Perhaps most importantly, we found that, at most agencies, management either encourages or is starting to promote increased use of the P-card. Finally, though differences exist among agencies' statutory ability to benefit from their earned rebates, officials recognized that, at a minimum, the rebates benefit the State as a whole.

- Recommendations**
1. Investigate alternative approaches that could provide incentives for State agencies to increase their use of the P-Card by enabling them to directly access and benefit from procurement card rebates.

(OGS officials indicated they are currently working with Citibank on changes that would make it easier for P-Card users to receive their rebates.)

2. Help agencies strengthen their efforts to make P-Card payments timely, and communicate the importance of doing so, emphasizing the rebates forfeited due to late payments.

(OGS officials reported they recently held a training session about the benefits of using the P-Card, including how to maximize the P-Card rebate, at their 2010 Purchasing Forum for state and municipal purchasing officials.)

3. Work with agencies to promote use of the P-Card for eligible small-dollar transactions, via top-down communication and training, to increase the likelihood of realizing cost savings and rebate revenues.

(OGS officials responded that the Governor's Director of State Operations, the Office of Taxpayer Accountability (OTA), and OGS executive staff have taken several steps designed to expand the use of P-Cards. In a memorandum issued in March 2010, the Governor's Director of State Operations directed agencies to expand the use of the P-Card. Also, OTA's March 10, 2010 Interagency Task Force meeting of agency managers included a presentation by the OGS Internal Audit Director on establishing optimal internal controls to increase agency confidence in and use of P-Cards.)

**Listing of State Agencies Visited**

- Department of Correctional Services
- Department of Transportation
- Division of Parole
- Office of Children and Family Services
- Office of Mental Retardation and Developmental Disabilities
- State University of New York
- Workers Compensation Board



## Agency Comments



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JOHN C. EGAN  
COMMISSIONER

July 19, 2010

Mr. Joel Biederman  
Audit Supervisor  
NYS Office of the State Comptroller  
110 State Street  
Albany, NY 12236

Dear Mr. Biederman:

This letter is in response to the draft audit report (2009-S-56), which examined state agency small dollar purchases and the use of the procurement card (P-Card) for the period July 1, 2008 – June 30, 2009.

The Office of General Services (OGS) developed the contract that agencies use to obtain P-Cards and aids contract users in establishing or administering their accounts. OGS believes that the contract has been successful in allowing agencies to efficiently make modest purchases. Additionally, use of these cards earns rebates for agencies based on a combination of total annual spending by all users and the promptness of the agencies' account payments. OGS agrees that agencies can increase the benefits obtained by expanding the use of P-Cards and paying the Citibank invoice in an expedited manner.

Officials within Governor Paterson's Administration, including the Director of State Operations, the Office of Taxpayer Accountability (OTA) and OGS executive staff have taken several steps designed to expand the use of the P-Card and address common user concerns, such as whether agency internal controls over the use of the card are adequate to prevent misuse. In a memorandum issued March 5, 2010, the Governor's Director of State Operations directed agencies to expand the use of the P-Card, especially for transactions under \$2,500, and to implement appropriate internal controls. On March 10, 2010, OTA's Interagency Task Force meeting of agency managers included a presentation by the OGS Internal Audit Director on establishing optimal internal controls to increase agency confidence in and use of P-Cards.

The remainder of this response highlights recommendations in the report which have been indented and OGS' comments and actions taken to date.



#### Recommendation 1

Investigate alternative approaches which could provide incentives for state agencies to increase their use of the P-Card by enabling them to directly access and benefit from procurement card rebates.

OGS developed the existing rebate procedures to process P-Card rebates in accordance with the State Finance Law and Office of the State Comptroller (OSC) accounting policy. Agencies would be more likely to use the P-Card program if the rebates were applied to agency budgets instead of the General Fund.

Currently, OGS is working with Citibank on changes that would make it easier for P-Card contract users to receive their refunds. One proposal which would have provided the rebate as a credit on each agency's credit card bill was declined by Citibank because it did not meet the original contract terms. Currently, the state rebate is calculated on the total aggregate billings of all contract holders. The percentage of the rebate increases with the amount of purchases made using P-Cards. The amount of the rebate is also tied to how soon the invoice is paid by the agency after receipt. Citibank produces a report each year that details agency spending using P-Cards and how much of a rebate was earned based on spending and payment history. However, the full amount of the rebate cannot be calculated until the final year-end contract purchase total is determined and the money is typically received in a lump sum after June 30<sup>th</sup> when the state closes its fiscal year. The rebate money is deposited in the state's General Fund. Agencies may apply to have the refund returned where expenditures were paid with federal funds or the card use related to a special revenue account.

OGS has explored various options to establish additional incentives for agencies to use the P-Card. Citibank proposed shortening the period that the rebate is earned to eleven months and paying the rebate based on eleven months of use and payment history. OGS did not accept this proposal because it was not in the state's interest to defer receipt of the twelfth month's rebate for almost a full year. Additionally, lower thresholds of spending based on eleven months of use would result in a smaller refund. OGS and Citibank continue to negotiate in an effort to develop a mutually acceptable procedure that would maximize the rebate earned.

OGS has also directly communicated with agencies to raise awareness of the benefits of card use and rebate potential. For example, OGS discussed the benefits of the P-Card and the rebate methodology at a meeting with the directors of various agency internal audit units. OGS explained how agencies can save the state money by increasing the use of the card and paying their bills in an expedited manner. Internal audit directors were also encouraged to consider adding tests to identify eligible purchases that were not made on the P-Card while performing internal purchasing audits.

#### Recommendation 2

Help agencies strengthen their efforts to make timely P-Card payments, by emphasizing the rebates forfeited due to late payments.

OGS annually sends correspondence to state agencies describing the rebate process, the amount of the rebate earned, and an agency-specific spreadsheet documenting its spending and payment history. In November 2009, OGS issued a contract update that reiterated the details of the program. See Attachment A. OGS also held a session about the benefits of using the P-Card including how to maximize the P-Card rebate at its 2010 Purchasing Forum training for state and municipal purchasing officials.

The state's extraordinary fiscal crisis has required agencies, including OGS, to implement aggressive cash management strategies that, in some cases, may not have maximized the rebate earned. However, with regard to its own agency purchases, OGS makes every effort to pay the bill upon receipt, charging funds against default cost centers associated with each card. This allows the agency to pay the invoice without waiting for individual accounts to be reconciled. This does not impact OGS' ability to dispute a charge because the process requires that the bill be paid and questioned charges be reported as erroneous first to the vendor and then to Citibank if the vendor does not reverse the charge. OGS has tested this process and is satisfied that it can successfully reverse disputed charges.

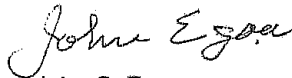
Recommendation 3

Work with agencies to promote use of the P-card for eligible small-dollar transactions, via top-down communication and training, to increase the likelihood of realizing cost savings and rebate revenues.

As discussed previously in this response, the Executive Chamber has worked to increase the use of the card and maximize the rebate earned, as well as improve the efficiency of the state's payment process. OGS has also shared information about how to maximize the value of the contract through training sessions at the Purchasing Forum, and communications with Internal Audit Directors and contract users. OGS will consider other methods of communicating the benefits of using the P-Card for small purchases and maximizing the rebate through prompt payment of invoices.

OGS believes that the audit demonstrates that the contract is providing value and that efforts by the OTA, OGS and others to promote the use of the P-Card are working. The audit has also demonstrated that agencies are reluctant to make further use of the card until they are confident that appropriate internal controls are in place. In addition, as earlier noted, the state's severe fiscal crisis has required agencies to implement aggressive cash management strategies that do not lend themselves toward maximum use of the procurement card. OGS will continue its efforts to promote this contract and the benefits that it provides to the state. OGS thanks the audit team for its efforts and courtesy.

Sincerely,

  
John C. Egan

Attachment A

New York State Office Of General Services  
Procurement Services Group  
Corning Tower Building  
Empire State Plaza  
Albany, New York 12242  
<http://www.ogs.state.ny.us>

## PURCHASING MEMORANDUM

### CONTRACT AWARD NOTIFICATION UPDATE #21

**AWARD NUMBER:** 02837

**DATE:** November 18, 2009

**GROUP:** 79008 - Bank Card Services,  
Purchasing & Travel Card Services

**PLEASE ADDRESS INQUIRIES TO:**

**STATE AGENCIES & CONTRACTORS**

Nicholas C. Jacobia

Purchasing Officer I

(518) 473-4651

[nicholas.jacobia@ogs.state.ny.us](mailto:nicholas.jacobia@ogs.state.ny.us)

**CONTRACT PERIOD:** August 22, 2003  
through  
August 21, 2013

**OTHER AUTHORIZED USERS**

Customer Services

(518) 474-6717

[customer.services@ogs.state.ny.us](mailto:customer.services@ogs.state.ny.us)

**CONTRACT NO.:** PS60443

**CONTRACTOR:** Citibank (South Dakota), N.A.

**SUBJECT:** Rebate Information

#### TO ALL AUTHORIZED USERS:

The purchasing and travel card services contract between the State of New York and Citibank provides for rebates based on the aggregate spend volume for each card program – purchase and travel. Citibank sets the basis points for various annual spend thresholds (assuming payment in 25 days) for each card program. Citibank will add 1 basis point for every day early (prior to 25 days) that the authorized user remits payment. Additionally, Citibank will decrement by 2 basis points (per day) for payment received from day 26 through day 30. Payments that are not made within 30 days are not eligible for rebates.

The rebate calculations are performed on an annual basis; based on the state's fiscal year. Once the aggregate spend volume has been determined for each card program, the basis points are set. Citibank then calculates each authorized users rebate on the timeliness of each monthly payment. The funds are forwarded to OGS around the end of June each year, along with the supporting data. The data from Citibank is then analyzed and assembled into a format to send to each authorized user of the contract.

For state agencies, a letter is sent to each agency's fiscal officer listing the rebate amount attributed to their agency with the following instructions on how to transfer the funds to an agency account:

*If it is statutorily permissible for an agency to transfer this revenue into a fund or account outside of the General Fund, to align receipts with the fund or account where the original purchases were charged, they should complete a Revenue Transfer (AC 2414) and submit this with supporting documentation, including this letter, to the following address or review, approval, and processing:*

OSC – Bureau of State Accounting Operations  
Revenue Accounting and Processing Section  
110 State Street – 9<sup>th</sup> floor  
Albany, NY 12236



Attachment A

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For other authorized users of the contract, with rebates greater than \$25.00, checks are mailed to each organization with a letter containing the backup for the rebate check.

Use of the Purchasing & Travel Cards for necessary purchases also provides administrative cost savings as processing a Purchasing or Travel card transaction costs only a fraction of the cost of issuing & processing a Purchase Order.

Any questions concerning the rebates should be addressed to:

Rosalind Yezzi  
Division of Financial Administration  
Phone: 518-402-5220  
e-mail: Rosalind.Yezzi@ogs.state.ny.us  
**All other Terms & Conditions remain the same.**