



State of North Carolina

Office of the State Controller

James B. Hunt, Jr., Governor

Edward Renfrow, State Controller
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March 16, 2000

MEMORANDUM

TO: Chief Executive Officers
Chief Fiscal Officers
Chief Information Officers

FROM: Edward Renfrow
State Controller

Harlan E. Boyles
State Treasurer

Rick Webb
Chief Information Officer

SUBJECT: Credit Card Acceptance Project Update

Introduction

A joint project between Office of the State Controller (OSC), Office of the State Treasurer (OST) and Information Technology Services (ITS) was initiated in December, 1999 for the purpose of providing the citizens of North Carolina with additional and more convenient payment methods. IBM was engaged to lead a three-month effort to assist in the analysis of requirements for key credit card payment processes and to prepare a bidding document for obtaining processing services that will meet statewide needs. The project team is working hard to ensure that credit/debit card processing services will be available for use by all agencies this summer.

Project Status

In addition to the Request for Proposal (RFP), the project also prepared both a technical requirements and business requirements document that can be referenced @ <http://irm.state.nc.us/projects.htm>. The RFP, ITS 000039 Credit Card and Debit Card Processing Services for the State of North Carolina, was published on February 29, 2000 and can be referenced @ <http://www.itp.state.nc.us/>. A vendor pre-proposal conference was held on March 8, 2000 with nine vendors in attendance. Based on comments from the vendor community, the proposal deadline has been extended from March 22, 2000 to 12:00 Noon , March 31, 2000.

The OSC, OST and ITS presented a report to the Joint Legislative Commission on Government Operations on February 15, 2000. G.S. 146-86.22, as amended by Senate Bill 222, requires the State Controller and the State Treasurer to consult with

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this Commission before establishing policies that allow accounts receivable to be payable by electronic payment and before authorizing fees associated with electronic payment to be paid out of the General Fund and Highway Fund. The report was intended to provide the Commission with a current status of activities and issues associated with acceptance of electronic payments by credit/debit cards. Follow-up reports to this Commission will be provided as required.

Next Steps

A follow-up report will be made to the Joint Legislative Commission on Government Operations on March 21, 2000. The project team will continue to provide periodic status reports concerning the implementation of credit/debit card acceptance of payments to this Commission and to State agencies/institutions. In order to expedite the statewide implementation of credit/debit card acceptance, the OSC, OST and ITS will suggest the Commission consider accepting periodic status reports in lieu of the requirement for each state agency to consult with this Commission before implementing any program to accept electronic payments. The results of this discussion will be forwarded to you in the next project status update.

It is anticipated that credit/debit card processing services will be available for use by all agencies this summer. Key work tasks and timeframes for meeting this schedule are summarized below.

- The RFP responses are due to the OSC on March 31, 2000 and a vendor should be selected by mid-April.
- From March to the end of April, the state's common credit card infrastructure will be built.
- During April, May and June, a few agencies will be selected to verify that the new infrastructure works.
- Beginning in late June, additional agencies will be implemented, as the process is put into practice statewide.

Attached for your information is a detailed project status and explanation document. If additional information is required, please contact Don Waugh (981-5465) or Amber Young (981-5481).

Attachment

Electronic Payment Processing (Credit/Debit Card) Project Detail Status

Background

Session Law 1999-434, Senate Bill 222, ratified in July 1999, amended G.S. 146-86.10,.11,&.22 by authorizing state government agencies to maximize acceptance of electronic payments including credit/debit card payments. A joint project between OSC, OST and ITS was initiated in December, 1999 for the purpose of providing the citizens of North Carolina with additional and more convenient payment methods. As with the other major electronic commerce initiatives in State government, the Credit Card Project is following an enterprise approach. The primary intent is to maximize cost savings by aggregating demand and attaining the greatest volume discounts from the credit card processing vendor which will be selected through a formal bidding process.

A key objective of the project is to maximize economies and efficiencies by providing a consistent processing approach to citizens through a single statewide method for processing credit/debit cards payments by all state agencies. Additional credit card acceptance objectives are reflected below.

- **Improve customer service for citizens**
- **Reduce accounts receivable**
- **Reduce credit card fees (per transaction)**
- **Enable electronic commerce in government**
- **Integrate credit card acceptance into current State business processes**

CREDIT CARD ACCEPTANCE OBJECTIVES

IBM was engaged to lead a three-month effort to assist in the analysis of requirements for key credit card payment processes and to prepare a bidding document for obtaining processing services that will meet statewide needs. In addition to the Request for Proposal (RFP), the project also prepared both a technical requirements and business requirements document that can be referenced @ <http://irm.state.nc.us/projects.htm>:

- Credit Card Project - Business Requirements
- Credit Card Project -Technical Requirements

Credit/Debit Card RFP

The RFP, ITS 000039 Credit Card and Debit Card Processing Services for the State of North Carolina, was published on February 29, 2000 and can be referenced @ <http://www.itp.state.nc.us/>. A vendor pre-proposal conference was held on March 8, 2000 with nine vendors in attendance. As a follow up to less than anticipated vendor participation at this conference, the project team began the process of surveying potential vendors to notify them about the RFP. Several of the vendors expressed concern with the published March 22, 2000 deadline because the RFP is considered complex and may result in multiple proposals being made by a single vendor. Since the vendor time required to complete and review the proposals is extensive the project team decided that it is in the best interest of the State to extend the RFP deadline to 12:00 Noon March 31, 2000.

Objectives of the Credit/Debit Card Acceptance RFP are to:

- Solicit information and proposals specific to the implementation and support of credit/debit card payment acceptance at North Carolina State agencies.
- Establish a master agreement with a selected vendor(s) that will eliminate the need for additional card procurement by state agencies.

- Realize economic and operating benefits from a statewide enterprise approach by consolidating functions, standardizing and reusing components, and reducing the overall IT burden on enterprise members in financial transactions.
- Take advantage of the combined charge volumes of several entities that may use a single service provider, and establish a pricing structure that takes into account these combined volumes.
- Establish a relationship or relationships with a service provider under the master agreement that will enable the Office of the State Controller to enhance and expand the program to new areas, as well as implement new technologies and state financial applications.

The vendor (Payment Processing Vendor) selection will be governed by a set of guiding principles:

- The State desires the lowest price available. The lowest price is defined as no other North Carolina state or local governmental entity can receive a lower price from the selected vendor for any reason in the future. The State expects that the consolidated volume of all state and local government entities should provide optimal pricing. (SB 222 also amended G.S. 159-32.1 to allow a local government, public hospital or public authority to accept electronic payments.)
- The State desires an experienced, reliable partner to provide credit/ debit card services.
- As part of its enterprise approach to electronic commerce, the State desires a single point of contact for contract management and as few as possible processing interfaces.
- The State desires flexibility in contract term.

Master Service Agreement

As a result of the RFP, the successful bidder(s) will be approved to provide credit/debit card acceptance and processing services for individual state departments/agencies under a Master Service Agreement (MSA) with OSC. The MSA is the formal governing contract between the Payment Processing Vendor (PPV) and the State of North Carolina covering all aspects, responsibilities, terms and conditions related to credit/debit card payment processing. The selected PPV(s) will execute the MSA with OSC (with the concurrence of the State Treasurer) for the processing of payments accepted by credit and debit cards.

Agency Participation Agreement

Participation in the Credit/Debit Card Project by a state agency/institution will be subject to the execution of an Agency Participation Agreement (APA) to be executed between OSC, the PPV, and the individual agency. The APA sets forth the terms and conditions of the merchant department's or agency's participation in the MSA between OSC and the selected PPV for credit and debit card services. OSC will ensure that all participating departments and agencies execute an APA. The cost structure charged by the PPV will apply to all participating State departments and agencies and shall only vary according to the type of interface (e.g. point of sale, web, interactive voice recognition, etc.) installed at the individual participating department or agency merchant location. The APA will also document the individual agency/institution procedures for payment of fees associated with credit/debit card processing and the utilization of convenience fees if applicable. The OSC will publish policies, procedures and guidelines for agency payment of fees and utilization of convenience fees where applicable. It is anticipated that agencies/institutions with current payment processing contracts will migrate to the statewide MSA as those contracts are completed. Agencies/institutions that wish to operate through contractual agreements outside of the statewide MSA will be required to submit a justification to the OSC.

Legislative Reporting

The OSC, OST and ITS presented a report to the Joint Legislative Commission on Government Operations on February 15, 2000. G.S. 146-86.22, as amended by Senate Bill 222, requires the State Controller and the State Treasurer to consult with this Commission before establishing policies that allow accounts receivable to be payable by electronic payment and before authorizing fees associated with electronic payment to be paid out of the General Fund and Highway Fund. The report was intended to provide the Commission with a current status of activities and issues associated with acceptance of electronic payments by credit/debit cards. A follow-up report will be made to this Commission on March 21, 2000. The project team will continue to provide periodic status reports concerning the implementation of credit/debit card acceptance of payments

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to this Commission. Subsequent reports will be provided prior to the PPV contract award, once the initial agencies have been implemented and tested, and periodically thereafter as required. The status reports will contain information related to each agency implementation to include usage of General/Highway Fund for fee payment and convenience fee utilization.

An issue that will be discussed further on March 21, 2000 relates to the current legislative language. G.S. 146-86.22 as amended by Senate Bill 222 requires each state agency to consult with the Joint Legislative Commission on Government Operations before implementing any program to accept payment under the policies pursuant to this subsection. In order to expedite the statewide implementation of credit/debit card acceptance, the OSC, OST and ITS suggest the Commission consider accepting the periodic status reports in lieu of this requirement. The results of this discussion will be forwarded to you as soon as possible.

Policy and Procedure Issues to be Documented

The State Controller will develop policies and procedures that allow accounts receivable to be payable under certain conditions by electronic payment. These will be established with the concurrence of State Treasurer and the Administrative Officer of the Courts where applicable. Policies and procedures will be developed utilizing a statewide approach in order to provide a consistent processing approach to citizens through a single statewide method for processing credit/debit cards payments by all state agencies. Initial credit/debit card acceptance policy and procedure issues are reflected below.

Policies Issues

- Which agency applications will participate?
- Which credit cards will be accepted?
- How will agencies pay credit card fee?
- When can General/Highway Funds be use to pay related credit card fees?
- When will convenience fees be used?
- When do agencies certify that funds are realized?
- What are implications if accounts reconciled at agency level verses centrally?
- How to assure non-disclosure and privacy of credit/debit card information?

Process Flow Procedures

- How do agencies communicate with acquirer?
- What is the process for handling rejected credit card payments?
- What is the process for providing confirmation (receipt of payment) to customers?
- What is the process for handling customer-billing disputes?
- How do credit card funds flow from acquirer to Treasurer?
- How do credit card funds flow through applicable accounting entries?
- How do credit card fee payments flow through applicable accounting entries?

Reconciliation Process Procedures

- How will the Account Summary Report be received?
- How will data from the Account Summary Report be entered into agency systems?
- How will each organization complete the reconciliation process?
- How will each organization handle credit card exceptions?

Next Steps

The project team anticipates credit card processing services will be available for use by all agencies this summer. Key work tasks and timeframes for meeting this schedule are summarized as follows:

1. In January and February, the business and architectural requirements were documented and the RFP was published. The RFP responses are due to the OSC on March 31, 2000 and a vendor should be selected by mid-April.

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2. From March to the end of April, the state's common credit card infrastructure will be built. This work includes: installing the hardware and software necessary to establish the links to the payment processor's system, building back-end processes or systems to handle new financial reporting requirements, and implementing a common payment authorization service.
3. During April, May and June, a few agencies will be selected to verify that the new infrastructure works. This testing phase will involve a full business cycle (authorization-settlement-reconciliation) and is anticipated to have two test cases – one for converting existing users of a swiping system, and another for handling payment in an Internet application. The initial agencies selected for testing are Secretary of State, DOT-Division of Motor Vehicles, Department of Environment & Natural Resources, and UNC-Greensboro.
4. Beginning in late June, additional agencies will be implemented, as the process is put into practice statewide.

In conclusion, OSC, OST and ITS anticipate that a statewide enterprise approach to credit/debit card acceptance of payments will improve customer service, reduce accounts receivable, reduce credit card fees (per transaction), enable electronic commerce, and integrate credit card acceptance into current business processes. The project team is in the process of obtaining an appropriate Payment Processing Vendor to handle the multitude of transactions that are sure to follow. As the project progresses towards implementation and testing of the initial agencies the project team will focus its attention on documenting policies and procedures in support of all required processes and establishing the State's common credit card infrastructure. Beginning in late June, additional agencies will be implemented, as the process is put into practice statewide. Status reports will continue to be provided to you on a periodic basis.

If additional information is required, please contact Don Waugh (981-5465) or Amber Young (981-5481).