



State of North Carolina

Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

October 14, 2005

MEMORANDUM

TO: The Honorable Michael F. Easley, Governor
The Honorable Marc Basnight, Senate President Pro Tempore
The Honorable James B. Black, Speaker of the House of Representatives
Joint Legislative Commission on Governmental Operations

FROM: Robert L. Powell
State Controller

SUBJECT: Status Report – Electronic Commerce Initiatives

Since the passage of Senate Bill 222 in 1999, the Office of the State Controller (OSC) has taken the lead in expanding the State's electronic commerce program, specifically as it pertains to payments. The program has two primary components – Electronic Funds Transfer (EFT) Services and Merchant Card Services (credit and debit cards). The utilization of E-commerce has allowed the State to continue toward its goal of shifting away from a paper-based environment, for both outbound and inbound payments.

Since 1999, joint efforts of the Office of the State Controller, the Office of Information Technology Services (ITS), and the Department of State Treasurer (DST) have resulted in statewide enterprise approach solutions that have provided growth in the two programs. They include the establishment of:

- Common Payment Service – A gateway service through ITS for agencies to use to route transactions, if needed.
- Master Services Agreement for Merchant Cards – A master contract with a single financial institution for agencies to acquire services, allowing for leveraging of volume pricing.
- Master Services Agreement for Electronic Funds Transfer Services – A master contract with a single financial institution to allow agencies to acquire services, allowing for leveraging of volume pricing.

While the EFT and Merchant Card programs have been successful, we recognize that the State has not achieved the success level of private industry in the area of E-commerce in recent years. A study released by the Federal Reserve in December 2004 confirmed that electronic payment transactions in the United States have exceeded check payments for the first time. By contrast, during FY 2004-05, the State issued 14.7 million paper warrants, compared to approximately 6.3 million transactions electronically (30%).

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The good news is that the State's percentage of total disbursements electronically has been steadily growing over the past several years. The number of paper State checks issued in FY 2004-05 decreased by 11%. However, in recognition of the State's need to catch up with the private industry trends, in the spring of 2005, OSC took steps to devote more resources to its E-commerce program. These steps included the addition of a fulltime staff member to head the expansion effort, a move that was supported by the legislative leadership.

The first major accomplishment of the increased effort has resulted in the establishment of a new Master Services Agreement for EFT Financial Services, which became effective October 1, 2005. The enhanced terms of the new contract will be the impetus for making it easier for agencies to take advantage of the EFT program available to them. The primary enhancement is that the fees associated with the services will be less than half of what they were under the old arrangements. Although the same vendor was selected (Wachovia Bank), the competitive procurement process conducted by OSC resulted in the 5-year total costs under a new contract being approximately \$600,000, compared to the former costs of approximately \$1.5 million. The bank fee for processing an electronic disbursement is now less than a penny.

The program's second initiative will be the procurement process for the selection of a Merchant Card Services provider as the current contract is expiring as well. This process will start shortly. The use of merchant cards has been one area that has steadily increased over the past several years, primarily due to the expansion of agencies' Web portals.

In the spirit of keeping you informed, OSC has also updated various E-Commerce policies, with the intended purpose of providing guidelines and encouraging agencies to maximize the utilization of electronic payments. The policies may be viewed at the State Controller's site, http://www.ncosc.net/SECP/EPP_Index.html.

Working in conjunction with ITS and the State Treasurer it is our goal, to the extent possible, to move North Carolina government closer to a paperless environment. We appreciate your continued support as we move forward.

cc: The Honorable Richard H. Moore, State Treasurer
George Bakolia, State Chief Information Officer