OVERSIGHT OF THE IMPLEMENTATION OF THE ELECTRONIC FUNDS TRANSFER PROVISIONS OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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WEDNESDAY, JUNE 18, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher and John L. Hynes, professional staff members; Andrea Miller, clerk; David McMillen, minority professional staff member; and Ellen Rayner, minority chief clerk.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order.

The Debt Collection Improvement Act of 1996, passed by Congress last April, included a provision to move the Federal Government toward direct deposit and electronic payments. This will reduce dramatically the problems of lost, stolen, counterfeit, and forged checks. It will also provide an opportunity for Federal agencies to reengineer their functions by taking advantage of electronic technology.

The new law requires Federal payments to be made electronically by 1999, unless the beneficiary falls under an exemption available for hardships. Congress gave the Department of the Treasury flexibility in implementing a sensible payment system. We look forward with great interest to the release of the Department's proposed rule on implementation.

I'm somewhat concerned, however, that this rule is not yet available for public comment. The rule will affect millions of people. It will require complex changes by citizens, the financial sector, and the Government. For these reasons I'm concerned that the delays may endanger public support and acceptance. I urge the Secretary of the Treasury to publish the proposed rule without delay. It needs to be done right, but part of doing it right is doing it quickly.

The Department of the Treasury and other Federal agencies will need to conduct an aggressive public education campaign throughout 1998. They will need to provide information on how recipients can receive payments electronically. Without a rule, agencies cannot undertake this education campaign, answer the public's questions, and take the necessary steps to ensure that the transition to electronic payments is complete on January 1, 1999.

Thorny questions remain, especially regarding individuals without bank accounts. The Secretary of the Treasury has broad discretion in resolving such questions. We are fortunate today to have the Honorable Jerry Hawke, Under Secretary of the Treasury, be the point man on the electronic funds transfer for the Secretary.

The proposed rule is not the only major project in electronic payments. The General Services Administration recently issued a draft solicitation and request for comments for the next generation of fleet, travel, and purchase card programs. These programs will be merged into one single card. This may be the best vehicle the Federal Government has to promote wider use of so-called smart cards, where data are stored on the card itself rather than in a central computer that must be accessed.

Electronic payments are just one aspect of electronic commerce. In the finance office of the future, we will need to coordinate the Government's technological improvements with private sector standards to ensure compatibility and interoperability.

Recently the Department of Agriculture showed what can be accomplished. It found that processing the paper transaction for an average order worth $185 cost $85 in administrative expenses. By contrast, processing the same order with the purchase card cost only $32. The purchase card also provided opportunities to reduce processing costs further to $17.

In the private sector, General Electric has been able to re-engineer its procurement systems by putting them on the Internet, thus ensuring wider vendor participation. Costs have gone down, and the procurement process has been compressed. General Electric has found that small businesses benefit the most. We would like to see Federal agencies obtain similar success in flattening organizational hierarchies, reducing costs, and engendering greater competition in the future.

This scale of change will be difficult. We're fortunate to have a well-regarded expert here with us to discuss this issue of electronic commerce, Marty Wagner of the General Services Administration.

Mark Catlett of the Department of Veterans' Affairs has been a leader of pushing that agency toward electronic payments. His position in the Chief Financial Officers' Council can be very helpful in sharing experiences with other Chief Financial Officers who have been less successful with their agency payment system.

We are also fortunate to have with us today representatives of business organizations for our second panel, and representatives of consumer organizations for our third panel. These witnesses can discuss intelligently the issues surrounding the new electronic funds transfer law. We welcome all these witnesses, and we look forward to their testimony.

[The prepared statement of Hon. Stephen Horn follows:]

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

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"Implementation of Electronic Funds Transfer"

June 18, 1997

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management,
Information, and Technology

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Mr. HORN. We will now begin with the first panel, the Honorable John D. Hawke, Under Secretary for Domestic Finance. Is he here yet? He'll be here at 10.

So, Mr. Wagner, Associate Administrator, General Services Administration, will begin. Welcome, Mr. Wagner. And as you know the routine, raise your right hands.

[Witness sworn.]

Mr. HORN. Thank you very much. The gentleman has affirmed the oath and may begin.

STATEMENT OF G. MARTIN WAGNER, ASSOCIATE ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. WAGNER. Mr. Chairman, we do appreciate your interest because we think making electronic commerce work in the Federal Government is going to depend in part on both the support and guidance of the legislative branch. I was particularly impressed by your remarks at the beginning, because it showed that you understood how important business process re-engineering and not simply using it as a new way of using, you know, with electrons to replace with atoms.

I did make a prepared statement. Rather than read it, if I can submit it to the record?

Mr. HORN. Right. It automatically with all witnesses goes in when I introduce you and then summarize any way you would like.

Mr. WAGNER. OK. If I might summarize very quickly. We see electronic commerce is the technology of electronic commerce as a great enabler. It facilitates change, but should not be used for its own sake. That would be one of our first premises. Our second is that in order to be successful, we have to ride commercial systems. The Government, big as it is, is a small tail on a fairly large dog, and we need to recognize that following the lead of the commercial sector is, in fact, the way to go. The third premise is that we're trying to follow a unitary vision, a single face to industry, at the same time recognizing that individual agencies and individual firms have unique requirements that they need to do themselves. So there is, in fact, a balancing between the single face goal and then recognizing the diversity across the economy.

Now, we have made some progress, but I have to say there is a great deal still to do. We have had a great deal of success so far in the use of commercial cards using magnetic stripes, but we're only beginning to use the smart cards. In the new RFP that the Federal Supply Service of GSA has out as a draft for comment that you alluded to earlier, we are consciously embracing this unitary integrated vision. It's not simply viewed as a device to do business as usual.

The second area that I think we've been fairly successful in is the use of the Internet and the WorldWide Web. For example, the catalogs, like GSA Advantage! and many other catalogs fielded by government agencies, seem to be a pretty effective tool for connecting government customers. At least for small purchases where you need a warehouse and to see what you need in the overall system. Finally, electronic benefits transfer, where we're moving from a paper-based world to card delivery systems, which may—and I'm sure the Treasury Department will be dealing with these issues—may also deal with concerns of the unbanked.

On the electronic benefits transfer, if I could point out, this is not a normal role for GSA, but we are working with the actual agencies, which is the Agriculture Department, and Health and Human Services. They, in fact, make the policies. We are a coordination function, a single point of contact.

And I have to confess, we do have in our own area certain things we view as mightily important. For example, we do not want the EBT card vision to actually take us backward from where we have been in paper. Right now a food stamp, for example, is good anywhere in the United States. We've embraced a unitary vision with EBT, with commercial systems. There's something called the Quest Mark, which follows commercial operating rules. To the extent we all—all States and the Federal Government-use this commercial system. We will then build something that is national in scope rather than creating new stovepipes.

If I could make one question, we have, I believe, in section 30 in the DOD authorization bill on the Senate side, a recommendation for repeal of what was called FACNET provisions passed a few years ago before the Congress. It, in fact, illustrates how quickly this technology moves. It was a good idea for the time. GAO has now recommended, as are we, that it be—it be repealed because it is pushing the Government toward what is a good solution, but not "the" good solution. So we would urge you to consider whether you might embrace that approach.

And with that quick summary of my testimony, I would be happy to answer any questions you might have.

[The prepared statement of Mr. Wagner follows:]

Mr. Chairman and Members of the Subcommittee, let me express my appreciation to you for allowing me the privilege to appear before this Subcommittee.

The General Services Administration (GSA) supports the implementation of the electronic funds transfer (EFT) provisions contained in the Debt Collection Improvement Act. While we recognize that there are some concerns, EFT is another step toward our goal of implementing electronic commerce in the Federal Government. Electronic commerce is a term that has been defined in a variety of ways. We define electronic commerce as the use of information technology to improve commerce. Electronic commerce works by using technology to improve, eliminate, or create new and better ways to do business.

Over the past several years, the Federal Government has been engaged in a major effort to use electronic commerce to reengineer a number of functional areas. Today I'd like to talk to you about several of our major initiatives and where we are going.

One of the key electronic commerce tools that we see having a major impact on Government operations is card technology. With the advent of the Internet and intranet access to Government and industry information and services, smart card technologies have emerged as the key mechanism for identification, purchase of supplies and services and access control. Industry has presented smart card systems as the vehicle for portable access control. Smart cards represent the ideal platform for Government to use these market changes in its reinvention and reengineering for the future. Card services and systems can provide secure transactions and unique personal identification. Our vision is for every Federal employee to carry one card and be able to use it for multiple purposes -- travel, purchases, identification, and other financial and administrative purposes. For the near term, we expect that hybrid cards, combining magnetic stripe and integrated circuit chip technologies, will be a critical tool in the reengineering for electronic business processes. Card systems and, in particular, smart cards are an extremely effective and efficient tool to identify the system users. The portability of smart cards enables the user to gain access to systems applications and conduct business in any location where network connections can be made. Already this capability of connecting is virtually guaranteed through the worldwide web. Through the use of standard ID identifiers such as a minimum ID data set or use of standard digital certificates, card access interoperability can be simply and efficiently accomplished for a wide range of applications.

In order to effectively implement smart card technology, the Government must consult its customers and build its services for the future on customer needs. To illustrate, the Federal Supply Service (FSS) has actively pursued the input and advice of Federal agencies and industry in order to plan for the new card service contracts for the fleet, travel, and purchase card programs. FSS heard the need for Federal agencies to modernize and take advantage of smart card technology and other commercial industry tools for reinvention. FSS first issued a draft statement of work for the new programs in December 1996. At the same time it encouraged Government users and industry suppliers to take a critical view at the plans and requirements for the new programs. To make sure that all views were heard and considered, FSS issued a draft request for proposal (RFP) in May 1997 with additional public forums to discuss these services. The final RFP will be released in July 1997 with award expected in January 1998. By issuing the RFP, FSS seeks industry input for solutions to integrate multiple business applications on a single card platform. The RFP will also reflect the requirement for intra-governmental transfers compliant with the Department of the Treasury's (Treasury's) cash flow requirements.

Similar efforts to establish partnerships within Government and with industry are necessary to carry out this ambitious plan to migrate to smart card technology to support the Government's card programs and electronic commerce initiatives. Another example of partnering to implement electronic commerce is with electronic benefits transfer (EBT). Three years ago Vice President Al Gore established the Federal EBT Task Force, consisting of key policy officials from the Departments of Agriculture (USDA), Health and Human Services (HHS), Treasury, Social Security Administration (SSA) and Office of Management and Budget (OMB), to work with states and industry to implement a nationwide EBT program by 1999. Today, three years later, virtually every state in the country is operating an EBT system or has contracted with a service vendor to begin EBT operations by 1999.

Government service delivery through smart card systems is already a reality in Ohio. In partnership with USDA, Ohio has launched a statewide EBT system using smart cards. EBT will be just the beginning as Ohio explores how best to include other forms of Government services, such as public transportation, health information and licensing, through smart card service delivery.

We believe what we have already accomplished in EBT is just the beginning. In the follow-up report to the National Performance Review, *Access America,* Vice

President Gore has called for an intergovernmental pilot test of common benefit and service delivery across multiple Federal and state agencies. We are forming an interagency effort to explore how best to build access to all forms of Government benefits, from education loans to Veterans benefits, through common, inter-operable EBT systems. We plan to pilot such expanded service delivery through smart card systems next year to provide customers with secure "one-stop" shopping for all levels of Government benefits and services, regardless of the mode of access.

While card technology is an important part of electronic commerce, other technologies are also pushing the effort. In particular, web technologies, taking advantage of the communications technology of the Internet, are promising to revolutionize how Federal agencies procure and pay for products and services. The growth of electronic catalogs and electronic malls will allow buyers to rapidly find products that provide the best value for taxpayer dollars. The General Services Administration has been a pioneer in electronic catalogs. *GSA Advantage!*, launched in the fall of 1995, provides buyers the capability of searching across multiple GSA catalogs to compare and purchase a wide variety of products. By the end of fiscal year 1997, GSA expects to have all GSA schedules available through *GSA Advantage!*. *GSA Advantage!* allows buyers to search for products using multiple criteria and buy using a purchase card instead of going through the paper procurement process.

Other Federal agencies are following GSA's lead and putting their contracts on the Internet. Over the next few years we expect that the Federal Government will have a "virtual mall" where buyers will be able to search across multiple catalogs from both Federal and other sources to buy products.

To take advantage of these new technologies and a broadened vision for electronic commerce, the Federal Government has created a new electronic commerce management structure. Last summer, John Koskinen, OMB's Deputy Director for Management, sent a letter to GSA requesting that the agency take a broader role in implementing electronic commerce across the Government. In response, GSA and OMB, working with the Department of Defense (DoD), Treasury, and other agencies, formed the Electronic Processes Initiatives Committee (EPIC). The EPIC is a subcommittee of the President's Management Council and is chaired by John Koskinen. Other members include senior managers from Defense, Treasury, and David Barram, GSA's Administrator. The EPIC, formed to provide high-level vision and direction to the Federal electronic commerce program, began meeting in January 1997. Two EPIC task forces have been formed: one on card technology and another dealing with buying and paying. The task forces will be developing strategies, launching pilots, and working actively with Federal agencies, state and local governments, and the private sector to enable the Federal Government to quickly take advantage of the latest commercial technology and practices.

In addition to the EPIC, GSA has formed an Electronic Commerce Customer Advisory Board and co-chairs an Electronic Program Office with DoD. These two groups help provide a broader buy-in and focus to help support the work of the EPIC.

Before I close, I would like to bring to your attention one other area where your leadership and support would be helpful. Several years ago, Congress passed the Federal Acquisition Streamlining Act (FASA), which brought many needed reforms to the Government's acquisition processes. One part of FASA was the Federal Acquisition Computer Network (FACNET). FACNET was envisioned as a virtual network where public broadcasts of requests for quotations and vendor responses could be achieved through a single face with common standards and commercial technologies. It was felt that FACNET would be a panacea to small businesses because they could go to a single place to obtain information on Federal procurement opportunities in the simplified range ($2,500-$100,000). Because of a variety of reasons, not the least of which is newer technologies, FACNET has fallen short of its intended vision. Recognizing this, we have worked with OMB and DoD to develop new legislation that will modify the FACNET provisions of FASA and allow agencies more flexibility in achieving electronic commerce while retaining critical single face and interoperability needs. This new legislation was recently sent to the Senate Armed Services Committee as part of the Defense Authorization. We recognize that this is currently a Senate bill but we ask for your support for this provision when the House and Senate get together on the final DoD bill.

Thank you for the opportunity to speak on electronic commerce. As you know, electronic commerce is a dynamic area that promises to provide numerous benefits to the Federal Government, and its citizens and business partners in the years to come. GSA will keep you informed on developments in the Federal electronic commerce implementation and we thank you for your continued support.

Mr. HORN. Well. It's an excellent summary, and we appreciate all you're doing in this area.

In terms of FACNET, have you and the administrator sent a letter to the various Members of the committee?

Mr. WAGNER. I do not know the exact process. There has been certainly some process between the Office of Federal Procurement Policy and the Congress. If I could submit that for the record later on, the process.

Mr. HORN. Yes, we would like to. And we'll be glad to followup on that. I assume it has the clearance of OMB that's in accord with the program of the President.

Mr. WAGNER. Yes, sir, it does.

Mr. HORN. OK. Let me just ask a few questions here. There are going to be some questions we also ask Under Secretary Hawke.

Your testimony asks for our support for new legislation that you say will provide more flexibility for electronic commerce. How will it do so?

Mr. WAGNER. Well, primarily this is the FACNET point I just mentioned. By pushing agencies toward a specific solution that basically is an electronic data interchange hub-based system, that tends to take energy away from the more recently developed Internet web-based approaches. So it gives us more flexibility to pursue where the technology is going rather than where the technology looked like it was going 3 years ago.

Mr. HORN. Your testimony identified the potential of smart cards. What are the barriers in implementing smart cards all across Federal agencies?

Mr. WAGNER. The barriers to smart cards, I think there are really two. There is the one I think that all agencies are aware of: It's new and it's hard to do. There are issues of you can't just decide you're going to get smart cards. You have to worry about readers. So you have to find a cluster of a need for smart cards and deploy both the infrastructure and the cards themselves. That's the issue that all agencies are currently working on.

Where we become concerned, it's back to my earlier point of a single face to industry. We're really quite worried that if we just do smart cards wherever they make sense, and that's a good idea, we run the risk of creating whole new stovepipes and separate domains. And you alluded in your remarks to the need to reengineer. So we're worried that the way smart cards might be done in an EPA where I once worked or a Treasury Department where that I once worked, if they're too different, we're going to end up having compatibility problems later on. We're, in fact, working with the agencies on some degree of commonality and how smart cards would work.

Mr. HORN. How much infrastructure is already in place on the smart cards?

Mr. WAGNER. I do not have any good figures, but it's scattered and spotty in there. It's starting to appear to be there's a lot more than we might have realized. The Department of Defense has done a fair amount of work. It's—but I would—if I could submit to you a more—what I would do off the top of my head would be anecdotal.

Mr. HORN. Well, I don't want to cause you a lot of trouble. I just want to see the job done, but I was curious if you had a sense of that and the places where we're really lagging?

Mr. WAGNER. Where we're really lagging? I think we're all feeling our way forward. And there is, in fact, some dance when you're going through a new technology where what is new is always proprietary and unique to specific companies and specific requirements. As we move through those, we want those new services and features, but we don't want to lock ourselves in. So that's the process we're going through. There's a danger of crystallizing too soon on the wrong technology.

Mr. HORN. Your testimony described a vision for the future where smart card systems are used as an integral part of the Government's internal business process. Can you describe how distant this future vision really is, and what is your timeframe for achieving that vision?

Mr. WAGNER. OK. My timeframe is basically to achieve a lot within the next 2 years, with a time horizon of about 5 years, and part of a time horizon of 5 years with a technology that moves as quickly as this, it's quite dangerous to speculate too far in the future.

In the very near term we have the FSS card RFP, which will be hopefully awarded in the early part of the next calendar year. That would be a good vehicle for implementing smart card technologies and integrated solutions. We're also working with piloting, the planning model. Pure planning doesn't work, you have to do experiments. There is, for example, work with the Treasury Department on intragovernmental transfers where we're moving money within the Federal Government, but currently using cards to do it is more costly than it should be. We're working with—there's a Treasury pilot, a GSA pilot, and then we'll be trying to have a framework for learning through them.

But the basic time horizon is within 2 years to see substantial penetration of smart cards. By that I mean you can see them, you can count them, you know what they're doing, to be using them to some degree in a standard way. Recognizing that what the world looks like in 2 years is going to be different from what we think it is. We'll have to reset for our next 2 years and then 5 years.

Mr. HORN. In the last Congress, the House introduced smart identification cards. Employees were told that locked doors would open when important staff approached, and all sorts of new capabilities would be added on to this smart card. The new Congress brings new ID cards. Now they're of the cheap plastic variety again, and those new features were never implemented. Does GSA risk getting ahead of the private sector and bringing out a smart card when this contract is awarded or of procuring a card that we do not need?

Mr. WAGNER. I do not think we're actually running the risk. In the original draft that went out for industry comment, we, in fact, had a requirement for hybrid cards, which is another term for smart cards. It has the chip on it. We removed that as a mandatory requirement, but have that as value added. The approach we take embraces the current mag stripe infrastructure, but looks for migration paths as you move into a smart card future. We think it is very important to do experiments to pilot and learn from those pilots and then adjust accordingly.

The, if we get—in fact, there's a good, perhaps a standard, phrase. We like to be on the "leading edge, but not the bleeding edge." We plan to be sitting there just behind the innovative commercial leaders, not so far behind as to be left behind, but not so close up as to get our own blood on those edges. Sorry for that.

Mr. HORN. I sympathize with that observation from long experience.

Your testimony describes some of the accomplishments in implementing electronic benefit transfer systems. What goals are you trying to achieve for the electronic benefits transfer program, and what is GSA's role in the mission?

Mr. WAGNER. Well, our main role is to coordinate and facilitate the move toward this unitary vision. We are working actively with the involved agencies as well as the States to facilitate that move to that common vision. I think that what we see as the most important thing that GSA does, as distinguished from major policy calls by other agencies, is that, when you use that EBT card, that it may be different contracts and different States, but it's in accordance with the uniform infrastructure using the Quest Mark and the standard operating rules; that it's as nationwide and is more effective than the current, for example, paper food stamp-based program.

Mr. HORN. Let me ask you the question, as I mentioned earlier, that I will also be asking Under Secretary Hawke.

We will swear in our other two witnesses, and you are right on time, gentlemen. Thank you very much.

But, Mr. Wagner, let me ask you, in April, the Subcommittee on Government Management, Information, and Technology held a hearing on the Debt Collection Improvement Act of 1996. I asked Jerry Murphy to examine with the General Services Administration whether an administrative offset feature could be incorporated into Federal credit card systems to offset Federal payments to deadbeat vendors who are delinquent on Federal debts. These cards will be accepted by millions of vendors, some of whom will owe money to the Federal Government. These payments will represent $30 billion in disbursements over 5 years. Is there any progress on that front?

Mr. WAGNER. Yes, there is some progress. I should emphasize you've hit on a very key issue in how to implement the act. In current RFP, the act applies to the prime contract vendors, and we have that covered, and any payments to them will go through the offset process.

The question you allude to is agency action, purchases of 50 or 100 or some small item from vendor A, and it goes into the credit card system, and it's settled according to the operating rules followed by millions of businesses.

We do not yet have a good answer on that question. What we have done is we have solicited input from the industry on how best to address this concern. We're working with the Treasury Department on how to do that. But when I mentioned—it's important to keep in mind, as you yourself have pointed out, that when you are in the commercial system, you have to recognize they're following commercial rules. Working through that process with the Treasury Department is likely to take some time, but we want to begin now because this contract is a multiple award contract, likely to last for many, many years. And the fact that we may not be able to do something today, according to the banking system rules, doesn't mean that over the life of the contract that it will not be possible later on. We'll be working toward coming up with a solution. We'd also appreciate any guidance you may have to give us on this issue.

Mr. HORN. Well, Mr. Wagner, you've done an outstanding job. Can you stay with us a little bit——

Mr. WAGNER. Yes.

Mr. HORN [continuing]. In case questions come up when the Under Secretary testifies and Mr. Catlett?

Gentleman, if the two latecomers are here—or early arrivals, I should say.

[Witnesses sworn.]

Mr. HORN. Thank you, gentlemen.

Both witnesses have affirmed.

Let's start with Under Secretary Hawke. I know you're in a tight schedule this morning. You've already delivered one major address to change Federal policy. This is your next appearance. So, thank you for coming.

STATEMENTS OF JOHN D. HAWKE, UNDER SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY; AND MARK D. CATLETT, CHIEF FINANCIAL OFFICER, DEPARTMENT OF VETERANS' AFFAIRS

Mr. HAWKE. Mr. Chairman, this is my most important appearance today, and I appreciate the opportunity to be here. We're shooting for the 10 o'clock schedule that we understood was the timing.

Mr. HORN. You're right. You're ahead of time. So please proceed with your testimony any way you would like to give it. As you know, it's automatically included and if you would please like to summarize.

Mr. HAWKE. Thank you. I will truncate my prepared statement, Mr. Chairman, and we appreciate the opportunity to appear before you today to discuss the implementation of the new EFT 1999 mandate. This law, which as you know, excludes only tax refunds, is going to have far-reaching implications for millions of Americans.

The electronic transfer initiative includes four distinct elements. After July 26, 1996, all Federal payments, except tax refunds, to newly eligible recipients who have bank accounts must be made by EFT. And that is proceeding well, Mr. Chairman. We understand that 85 percent or more of new recipients are coming onstream with electronic payments.

Starting January 1, 1999, all Federal payments, with the exception of tax refunds, must be made by EFT. Treasury is mandated to ensure that all recipients who are required to receive payments electronically have access to an account at a financial institution at a reasonable cost and with the same protections as other account holders at that financial institution. And finally, the Secretary is authorized to grant waivers based on recipient hardship, for classes of checks, or where otherwise necessary.

Our goal, Mr. Chairman, is to issue payments by a method that will provide the best service to recipients at the lowest possible cost to taxpayers and with the greatest degree of transaction security. Attached to my written statement is a chart that shows the benefits of EFT. As the chart shows, EFT will save taxpayers money. The Government's cost for an EFT payment is only 2 cents—this is right at the back of my statement—while check payments cost the Government 43 cents each. We estimate that full implementation of EFT 1999 will save taxpayers approximately $500 million over 5 years in postage and check production costs alone.

This chart also shows a drastic decrease in payment inquiries and claims under EFT as compared to the paper check environment. The chart further shows that EFT increases transaction security and significantly reduces opportunities for crime.

Mr. Chairman, I would like to share with you now the principles that Treasury has formulated to guide it in the implementation of EFT 1999. First, the transition from a paper-based system to an electronics system should be accomplished with the interests of recipients ranking of paramount importance. We should maximize private sector competition for the business of handling Federal payments so recipients not only have a broad range of choice of payment services and service providers, but also that they receive their payments at a reasonable cost with substantial consumer protections and with the greatest possible convenience, efficiency, and security. All recipients, and especially those having special needs like the elderly individuals with physical, mental, or language barriers and those living in remote or rural communities, should not be disadvantaged by the transition to electronic payments.

Finally, the EFT 1999 program should, to the maximum extent possible, seek to bring into the mainstream of our financial system those millions of Americans for whom the system is as a practical matter not presently available. And I should say, Mr. Chairman, that overarching these principals is the major objective of reducing the costs to the government and taxpayers of the whole payments process.

Since the passage of the Debt Collection Improvement Act in April of last year, we've made significant progress in our implementation efforts. In July of last year, we released an interim rule implementing the first phase of the conversion from check to EFT. That is the phase relating to new recipients who come onstream and who have bank accounts.

In addition to reviewing the comments received in response to the interim rule, Treasury has undertaken extensive outreach efforts. These include meetings with various interest groups, including consumer groups, vendors, financial trade associations, and financial services providers, including bank and nonbank entities. Our outreach efforts to consumer organizations began in earnest with a meeting that I convened last November. Treasury representatives have met with 11 different consumer groups over the 9 months since July 1966. We also held an EFT 1999 consumer briefing session in April that was attended by over 30 consumer groups.

Our representatives have met with 17 financial services providers since the publication of the interim rule. These providers include financial institutions as well as nonbank entities, such as check cashers, automatic bill payers, and other financial services providers.

In addition, we held an EFT 1999 briefing session that was attended by a number of financial trade associations. In partnership with the Federal Reserve Banks and the American Bankers Associations, we've reached over 1,000 financial institutions in nationwide seminars held since October 1996, and these seminars will continue through this fall.

Part of our objective here, Mr. Chairman, has been to raise the level of awareness of the financial services industry to what's coming down the pike in respect to EFT 1999. In April of this year, we met with a group of Government vendors to discuss their concerns regarding EFT 1999. And since the passage of the legislation, we've worked closely with Federal agencies, the Federal Reserve, and financial institutions.

We've seen tremendous momentum in converting benefit check payments to EFT. The Social Security Administration, for example, has seen its direct deposit enrollment rate nearly triple since its legislation went into effect July 26th of last year. This results from the laws requiring that all newly entitled recipients with bank accounts receive payments by EFT. From fiscal year 1996 year-end to mid-fiscal 1997, the percentage of all Treasury-disbursed EFT payments has increased 4 percentage points, from 53 to 57 percent of total Treasury disbursements.

The immediate challenge that we're facing is publishing a proposed rule to implement the second phase of EFT 1999. Our goal in this rulemaking process is to develop policies that are simple, clear, and most importantly, effective in dealing with the difficult issues associated with mandatory EFT. We anticipate a mid-July 1997 release date for the proposed regulation, with a 90-day comment period, after which we'll put out a rule in final form.

By far the most complex and controversial policy issue confronting us in our efforts to implement EFT 1999 is how to meet the needs of recipients without bank accounts. Under the existing Federal payment system, electronic payments may only be deposited into accounts at financial institutions that are members of automated clearinghouses. As a result, the population of Federal payment recipients without bank accounts is currently precluded from receiving the benefits of direct deposit.

Secretary Rubin has made it one of his high priorities to encourage people without bank accounts to move into the financial services mainstream. And financial services providers offer many services that are critically important, if not essential, to virtually all American families. These may include access to federally insured deposits, the opportunity to earn interest on deposits, the availability of personal credit, and access to home mortgages. Some 40 million American households with incomes under $25,000 need these services.

Many payments recipients without bank accounts have told us that the lack of reasonably priced financial services currently prevents them from moving into the financial mainstream. As a result, Treasury has devoted significant efforts to increasing the availability of low-cost banking services. Our Direct Deposit Too program encourages banks to offer a reasonably priced direct deposit account. Direct Deposit Too is based on a model account, based on debit card access with no minimum account requirement. And we've suggested this to banks as a low-cost alternative to traditional checking accounts. For recipients who are unable to obtain low-cost financial services through the private sector, Treasury is also developing a nationwide electronic benefits transfer system.

We recognize that some recipients of checks will be unable to receive payments electronically because of their personal circumstances. In the proposed regulation, Treasury will solicit comments on the circumstances under which a recipient should be granted a waiver from receiving payment electronically. We will take into account not only geographic, physical, financial, and mental barriers, but other compelling circumstances.

A major issue associated with implementing the mandatory EFT requirement is how we convert vendor payments to electronic funds transfer. Although vendor payments comprise only 2 percent of total Federal payments, they represent a much larger percentage of nonbenefit agency payments, between 10 and 30 percent depending on the agency.

Vendor EFT enrollment has increased approximately 60 percent from fiscal year 1996 year-end to mid-fiscal 1997. However, the total percentage of vendor participation is still only 26 percent. Historically, vendors have been slow to enroll voluntarily in the EFT program, partly because of obstacles associated with disbursing electronic payments to vendors. One major challenge is that many vendors are not able to access the remittance information that's transmitted along with electronic payments. As a result, when payments are credited to their accounts, it may be difficult for them to reconcile their accounts receivable. This problem occurs because many small to medium-sized banks do not have the special software that's needed to translate to readable form the information that's transmitted with electronic payments.

It's estimated that there are approximately 11,000 banks capable of accepting an electronic payment. Fewer than 1,000 can translate the remittance data into a readable form for their customers. We're presently working with other Federal agencies, financial institutions, and vendors to address these problems and develop low-cost solutions.

I would like to discuss briefly one of the most significant aspects of our plan to implement EFT 1999. Aside from our other implementation efforts, we plan to conduct a comprehensive public education campaign to ensure that there's sufficient information available to stakeholder groups and the public about the requirements of the mandatory EFT legislation and about the benefits of electronic transfers.

In fiscal 1997, we'll provide informational services to financial institutions to ensure they're operationally prepared for handling the increased demand for EFT services. In addition, we will continue our interaction with consumer groups, government vendors, financial trade associations, and other government agencies to ensure they're aware of the implications of the EFT legislation. We'll also roll out a nationwide public awareness campaign that will encourage check recipients to convert voluntarily to electronic fund transfer in advance of the January 1, 1999 deadline.

In summary, the objectives of this campaign will be to partner with the private sector and other Federal agencies, to educate consumers to make good choices, and to minimize disruption to recipients while adding value to the way they conduct their finances.

In conclusion, Mr. Chairman, the Treasury Department believes that this legislative mandate provides an important opportunity for us to provide the high quality of service that our customers want and need and at the same time to lower the cost to taxpayers. Benefit recipients have told us that they want to be able to receive their payments at points that are easily accessible and increase their safety and security if this can be done at a reasonable cost. Our proposed regulations will attempt to address these needs. We welcome, encourage, and look forward to the public comments that we will receive on our forthcoming proposal, and we look forward to working with the committee as we move forward on this initiative. Thank you, Mr. Chairman.

Mr. HORN. Well, we thank for you that very full statement.

[The prepared statement of Mr. Hawke follows:]

EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
June 18, 1997

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE
JOHN D. HAWKE, JR.
HOUSE GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss implementation of the law that requires the Federal government to issue payments electronically starting January 1, 1999. This new law, which excludes only tax refunds, has far reaching implications for millions of Americans. I commend the Subcommittee for the interest it has shown in improving government operations and your concern that this law be carried out in a manner that truly benefits all Federal payment recipients. We share these interests.

This electronic funds transfer initiative -- what we refer to as "EFT '99" -- includes four distinct elements:

- After July 26, 1996, all Federal payments (except tax refunds) to newly eligible recipients who have bank accounts, must be made by EFT.
- Starting January 1, 1999, all Federal payments, with the exception of tax refunds, must be made by EFT.
- Treasury is directed to ensure that all recipients who are required to receive payments electronically will have access to an account at a financial institution at a reasonable cost, and with the same consumer protections as other account holders at that financial institution.
- The Secretary is authorized to grant waivers based on recipient hardship; for classes of checks; or where otherwise necessary.

RR-1769

Treasury was given these responsibilities because of its role as the government's chief disburser. Last year, Treasury's Financial Management Service (FMS) issued over 850 million payments on behalf of non-defense agencies, including various types of benefits, Federal salaries, tax refunds, vendor payments, grants and loans.

The goal of the Department of Treasury is to issue payments by a method that will provide the best service to recipients, the lowest possible cost to taxpayers, and the greatest degree of transaction security. Treasury has been issuing electronic payments for over two decades, and our experience is that EFT is substantially more convenient, cost-effective, and secure than paper checks. Attached to my written statement is a chart that shows the benefits of EFT.

As the chart shows, EFT payments will save taxpayers money. The Government's cost for an EFT payment is only $.02, while check payments cost the Government $.43 each. We estimate that full implementation of EFT '99 will save taxpayers approximately $500 million over 5 years in postage and check production costs alone. The chart also shows a drastic decrease in payment inquiries and claims under EFT. Recipients are twenty times more likely to have a problem with a paper check than with an EFT transaction. Each year Treasury replaces over 800,000 checks that are lost, stolen, delayed or damaged during delivery. Waiting days for a replacement check is an inconvenience and burden on recipients, especially those living on low incomes. Misrouted EFT payments are never lost, and are typically routed to the correct bank account within 24 hours. In addition, the chart shows that EFT increases transaction security and significantly reduces opportunities for crime. On average, over 75,000 Treasury checks per year are forged and fraudulently negotiated. Forgeries, counterfeiting, and check alteration are non-existent with EFT payments.

Mr. Chairman, I would now like to share with you the principles that Treasury is following in implementing EFT '99.

TREASURY PRINCIPLES

In implementing the provisions of the statute, we believe the following principles should be observed:

- The transition from a paper-based system to an electronic transfer system should be accomplished with the interests of recipients ranking of paramount importance.
- Our objective should be to assure that we maximize private sector competition for the business of handling Federal payments, so recipients not only have a broad range of choice of payment services and service providers, but also that they receive their payments at a reasonable cost, with substantial consumer protections, and with the greatest possible convenience, efficiency, and security.
- All recipients, and especially those recipients having special needs -- the elderly, individuals with physical, mental or language barriers, those living in remote or rural communities -- should not be disadvantaged by the transition to electronic payments.

- The EFT '99 program should, to the maximum extent possible, seek to bring into the mainstream of our financial system, those millions of Americans for whom the system is as a practical matter not presently available.

These principles serve as our guideposts as we move through the implementation process.

ACCOMPLISHMENTS

Since the passage of the Debt Collection Improvement Act in April of 1996, Treasury has made significant progress in our implementation efforts. We released an interim rule on July 26, 1996, implementing the first phase of the conversion from check to EFT-- that applying to newly eligible recipients. This interim rule requested comment on the issues related to January 1999 EFT mandate. Treasury received a total of 29 comment letters from various stakeholders, such as consumer groups, government vendors, financial institutions and other Federal agencies. Stakeholder comments were generally very supportive of the mandatory EFT initiative and its implications for their constituents.

In addition to receiving comments in response to the interim rule, Treasury has undertaken extensive outreach efforts. These efforts include meetings with various interest groups, including consumer groups, vendors, financial trade associations, and financial services providers (including bank and non-bank entities.) Our outreach efforts to consumer organizations began in earnest with a meeting that I convened last November. Treasury representatives have met with 11 different consumer groups over the nine months since July 1996. Treasury also held an EFT '99 consumer briefing session in April attended by over 30 consumer groups.

Treasury representatives have met with 17 financial services providers since the publication of the interim rule. These providers include financial institutions as well as non-bank entities, such as check cashers, automatic bill payers, and other financial services providers. In addition, Treasury held an EFT '99 briefing session that was attended by a number of financial trade associations. In partnership with the Federal Reserve Banks and the American Bankers Association, we have reached over a thousand financial institutions in nationwide seminars held since October 1996. These seminars will continue through September 1997.

Treasury has also been meeting with Federal agencies to develop EFT implementation plans. These meetings have enabled us to educate agencies on the provisions of the Act and also have provided a forum for agencies to inform us of any potential challenges to EFT implementation. We obtained additional feedback from interagency policy workgroups that were formed to address major EFT conversion issues, such as international payments, disaster payments, and vendor payments.

In April of this year, we met with a group of government vendors to discuss their concerns regarding the EFT '99 initiative. Since the passage of the EFT legislation, we have also worked closely with Federal agencies, the Federal Reserve, and financial institutions to identify and address issues associated with converting vendor payments to EFT. I will discuss these issues further in just a moment.

Treasury obtained further insight into the issues associated with implementing the EFT '99 initiative by contracting for two research studies. The studies were used primarily to obtain information regarding the characteristics of Federal check recipients and to better understand the needs of those recipients, including how best to educate this population on the advantages of electronic payments.

We have seen tremendous momentum in converting benefit check payments to EFT. The Social Security Administration, for example, has seen its Direct Deposit enrollment rate nearly triple since the legislation went into effect on July 26, 1996. This is the result of the required use of Direct Deposit by newly entitled beneficiaries, as well as an aggressive marketing campaign SSA has developed with financial institutions to encourage the conversion to EFT. In addition, the EFT enrollment rate for other types of Federal payments has increased as well. From FY96 year-end to mid FY97, the percentage of all Treasury disbursed EFT payments has increased four percent from 53 to 57 percent of total Treasury disbursements. Clearly, more and more people are seeing the benefits of receiving payments by electronic means. However, we realize that we have much more to do to reach our goals.

MAJOR ISSUES & CHALLENGES

The immediate challenge we are facing is publishing a proposed rule to implement the second phase of EFT '99. Due to the far reaching implications of this rule and the many complex issues involved, Treasury is considering all factors before publishing the proposed rule. Our goal in this rulemaking process is to develop policies that are simple, clear, and, most importantly, effective in dealing with the difficult issues associated with mandatory EFT. We anticipate a July 1997 release date with a 90-day comment period for the proposed rule.

By far, the most complex and controversial policy issue confronting us in our efforts to implement EFT '99 is how to meet the needs of recipients without bank accounts. Under the existing Federal payment system, electronic payments may only be deposited into accounts at financial institutions. As a result, the population of Federal payment recipients without bank accounts is currently precluded from receiving the benefits of Direct Deposit.

Secretary Rubin has made it one of his highest priorities to encourage people without bank accounts to move into the financial services mainstream. Financial services providers offer many services that are critically important, if not essential, to virtually all American families. These may include access to federally insured deposits, the opportunity to earn interest on deposits, the availability of personal credit, and access to home mortgages. Some 40 million American households with incomes under $25,000 need these services.

Many payment recipients without bank accounts have told us that the lack of reasonably priced financial services currently prevents them from moving into the financial mainstream. As a result, Treasury has devoted significant effort to increasing the availability of low cost banking services. Treasury's Direct Deposit Too program encourages banks to offer a reasonably priced basic account. Direct Deposit Too is a model account, based on debit card access with no minimum balance requirement, that has been suggested to banks as a low cost alternative to traditional checking accounts. For recipients who are unable to obtain low cost financial services through the private sector, Treasury is also developing a nation-wide electronic benefits transfer system.

We recognize that some recipients of checks will be unable to receive payments electronically because of their personal circumstances. In the proposed regulation, Treasury will solicit comments on the circumstances under which a recipient may be waived from receiving payment electronically. We will take into consideration not only geographic, physical, financial and mental barriers, but other compelling circumstances.

A major issue associated with implementing the mandatory EFT requirement is how we convert vendor payments to electronic funds transfer. Although vendor payments comprise only 2% of total Federal payments, they represent a much larger percentage of non-benefit agency payments -- between 10 and 30 percent, depending on the agency.

Vendor EFT enrollment has increased approximately 60% from FY96 year-end to mid FY1997. However, the total percentage of vendor EFT participation is still only 26%. Historically, vendors have been slow to enroll voluntarily in the electronic funds transfer program. This is partially attributable to obstacles associated with disbursing electronic payments to vendors. One major challenge is that many vendors are not able to access the remittance information that is transmitted along with electronic payments. As a result, when payments are credited to their accounts, it may be difficult for them to reconcile their accounts receivable.

This problem occurs because many small to medium sized banks do not have the special software that is needed to translate to readable form the information that is transmitted with electronic payments. It is estimated that of the approximately 11,000 banks capable of accepting an electronic payment, fewer than a thousand can translate the remittance data into a readable form for their customers.

Treasury is currently working with other Federal agencies, financial institutions, and vendors to address these problems and develop low cost solutions. For example, we are talking with NASA and their vendors on a developing a pilot that will allow NASA's vendors to access remittance data through an FMS web site. The substantial increase in the Government's use of the IMPAC card, expansion of programs like the GSA Advantage program and publication of the EDI Handbook and the Agency Implementation Guide for CTX payments will further facilitate conversion to electronic payments. We believe initiatives such as these and others being done by other agencies will raise the level of awareness of options available to vendors, thereby spurring a movement by vendors to EFT. In addition, Treasury is reviewing current laws, such as the Prompt Payment Act, with the intention of removing disincentives to using EFT.

PUBLIC EDUCATION

Now I would like to discuss one of the most significant aspects of our plan to implement EFT '99. Aside from our other implementation efforts, we plan to conduct a comprehensive public education campaign to ensure that there is sufficient information available to stakeholder groups and the public about the requirements of the mandatory EFT legislation.

In FY 1997, Treasury will provide informational services to financial institutions to ensure that they are operationally prepared for handling the increased demand for EFT services. In addition, we will continue our interaction with consumer groups, government vendors, financial trade associations, and other government agencies to ensure that they are aware of the implications of the EFT legislation, and that they are given ample opportunity to express their concerns.

We will also roll out a nationwide public awareness campaign that will encourage check recipients to convert voluntarily to electronic funds transfer in advance of the January 1, 1999 deadline.

Components of this campaign include messages to current check recipients about the law, about the safety and convenience of EFT, and about the way to sign up for Direct Deposit. Another key aspect of this campaign is educating those check recipients without bank accounts on how to maintain a bank account, including instruction on basic finances to help them make the best informed choices.

A grassroots public outreach effort will involve identifying hundreds of local community organizations that will assist our efforts in reaching current check recipients. I believe this grassroots effort is critical to the success of converting current check recipients (both banked and unbanked) to electronic payments.

The public education campaign will use a variety of communications vehicles to reach recipients, including television, radio, direct mail, and check inserts. Treasury included Direct Deposit inserts in all Federal benefit checks mailed in April of this year.

In summary, the objectives of this campaign will be to partner with the private sector and other Federal agencies; to educate consumers to make good choices; and to minimize disruption to recipients while adding value to the way they conduct their finances. Seamless coordination is a necessity if the public education campaign is going to succeed. Each governmental entity must work in collaboration with the other, providing reinforcement, assistance and a shared set of objectives.

CONCLUSION

In conclusion, Mr. Chairman, the Treasury Department believes that this legislative mandate provides an important opportunity for us to provide the high quality of service that our customers want and need, and at the same time to lower the cost to taxpayers. Benefit recipients have told us that they want to be able to receive their payments at points that are easily accessible and that increase their safety and security if this can be done at a reasonable cost. Our proposed regulations will attempt to address these needs. We welcome, encourage, and look forward to the public comments that we will receive on our proposal.

We look forward to working with the Committee as we move forward on this initiative.

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Electronic Funds Transfer 99

EFT: Reduces Cost and Payment Risk

	EFT	Check
Cost per transaction	2 cents	43 cents
Inquiries	76 thousand	1.7 million
Claims	10 thousand	600 thousand
Forgeries	none	$60 million
Counterfeit	none	$1.8 million
Altered	none	$3.3 million
Resolution of Payment Inquiries	24 hours (best)	14 days (best)

Mr. HORN. Now we welcome Mr. Catlett. Mark Catlett is the Chief Financial Officer of the Department of Veterans' Affairs, and we're glad to see you here again.

Mr. CATLETT. Thank you, Mr. Chairman.

Mr. HORN. And the statement, you don't have to read it. It is in the record. If you would like to summarize it.

Mr. CATLETT. Yes, sir, I would.

Mr. HORN. And we can get to questions.

Mr. CATLETT. Mr. Chairman, it is my pleasure to be here today on behalf of the VA to testify on the Debt Collection Improvement Act of 1996. I'm here today to provide you some insight into our electronic commerce activities with the thousands of vendors that we do business with daily that are vital to accomplishing our VA mission.

The VA realized some time ago that EFT, electronic data interchange [EDI], and electronic commerce [EC] were the business solution to streamlining procurement and payment processes. As early as 1995, VA developed an electronic commerce strategic plan. I have a copy here. I will be happy to submit it to you for your information.

Mr. HORN. Right. Without objection it will be in the record at this point.

[The information referred to follows:]

Department of Veterans Affairs

Strategic Plan

For

FY 1995 - FY 1996

Status Update

Electronic

Commerce

Office of Management

April 1996

Publication Notes

Status Update
April 1996

This publication is the first in a series of periodic updates to the Department of Veterans Affairs 1995 - 1996 Strategic Plan for Electronic Commerce initiatives. Updated information to actual 1995 statistics, revised milestones and status reports are annotated in red. Completed initiatives are indicated in the Table of Contents. Additional updates, when published, will include new assigned or suggested initiatives.

Executive Summary

The Office of Management is actively reengineering business processes and financial systems that are utilized on a daily basis within the VA in order to enhance the NPR requirements for streamlining and rightsizing. Within the next two years, the Department will have in place a logistics and financial configuration that will rely on a unique blend of technology and contracting strategies. These enhancements will allow traditional business processes to be completed electronically and will virtually eliminate most of the workload associated with our purchases and payments. FACNET, the Government-wide computer network, will support purchase actions through Electronic Commerce (EC). EC is the automated paperless process used to accomplish business transactions. The potential savings from reengineering and automating the Federal procurement and finance systems utilizing EC is enormous considering the number of transactions and dollars expended each year. Efficiencies that are provided through EC will enable managers to reduce paperwork and increase competition among vendors. We expect to virtually eliminate late fees to vendors and eliminate lost discounts. We will also enhance our contract leverage to gain more favorable pricing and discounts.

The I.M.P.A.C. VISA Purchase Card will dramatically streamline administrative costs for the acquisition of supplies and services and improves cash management procedures. This program allows operational managers to have an active role in the acquisition process and provides them convenience and just-in-time service. As numerous external studies have determined that the Purchase Card saves an estimated $54.00 per transaction over traditional paper-based procedures, savings to the Department will be enormous. The Purchase Card, an invaluable tool for both micro-purchases and procurements within the simplified acquisition threshold, will have a major impact on business practices and services within all VA facilities.

In expanding electronic commerce to other financial arenas, the VA signed a Memorandum of Understanding (MOU) with the Department of Treasury to complete a series of NPR related initiatives. Planned for implementation over the latter months of FY 1995 and early FY 1996, these initiatives will improve existing financial and related disbursing operations by establishing electronic links and new processes to support "Electronic Commerce" related initiatives. We anticipate that these initiatives will reduce VA operating costs and dramatically improve financial operating systems. Included in the MOU is an agreement to develop a "check intercept" system in cooperation with the Federal Reserve. This system will allow VA to request a stop payment on a benefit check when notice of the beneficiary's death is received after release of the check. VA will be the first Department to test this type of stop payment system. Other initiatives include; an enrollment campaign to promote greater use of Electronic Funds Transfer(EFT) and Electronic Benefits Transfer(EBT) for veterans' benefit and employee salary payments, zip plus four and bar-coding of compensation and pensions payments, electronic transmission of all payment data, and other similar electronic commerce improvements.

In addition, the VA is enhancing its internal financial operations by automating and electronically linking internal processes that have been historically manual operations. Two automated travel and time and attendance systems have been tested and will both be expanded shortly to an operational status. The VA is also in the early stages of reviewing the benefits of contracting for all necessary travel management services in lieu of a GSA managed GSA managed program.

All of these initiatives are designed to reduce costs and streamline the acquisition and financial processes throughout the Department of Veterans Affairs. With these and future initiatives, the VA will continue to reinvent the way we do business in light of new technological advances.

TABLE OF CONTENTS

The following Electronic Commerce initiatives comprise a strategy to improve on an existing full business cycle process and on other automated financial systems within the VA in order to enhance the NPR requirements for streamlining and rightsizing:

Office of Acquisition

and

Materiel Management's

Initiatives

VA Network Entry Point (NEP)

Major Focus Area:

Technology Innovation - Facilitate use of technology to integrate best business practices.

Objective:

Implement a VA Network Entry Point (NEP) to support the Electronic Commerce/Electronic Data Interchange (EC/EDI) needs of VA and other participating Federal agencies.

Responsible Person and Organization:

David S. Derr, Associate Deputy Assistant Secretary for Resources

Partner Organization(s):

All organizational elements within the Department of Veterans Affairs plus other Federal Government agencies.

Resources/Implementation Strategy:

The Office of Federal Procurement Policy under OMB has requested VA to establish a Network Entry Point (NEP) to the government virtual network. The NEP will provide value added EC/EDI services such as storing/forwarding of data, communication protocol conversion, and format matching to facilitate the exchange of EC/EDI documents. It is essential for EC/EDI operation. It will also provide electronic transmission of purchases/delivery orders, acknowledgments, shipping notices, receiving reports, and payments between VA and private sector vendors. This initiative will link VA to the Government-wide electronic commerce system, utilizing the architecture defined by the Electronic Commerce Acquisition Team (ECAT).

	FY 95	FY 96	FY 97	FY 98
FTEE	**1**	**5**	**5**	**5**
Costs (000)	**$500**	**$1,525**	**$500**	**$500**
Savings*	*	*	*	*

*Anticipated savings will be realized through implementation of Electronic Commerce throughout the Department. Those savings are projected in the VA Electronic Commerce Acquisition Program.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
Number of Interagency customers	0	0	5	15	30

The VA NEP is a communication initiative that will link VA to the Governmentwide electronic commerce system. Once established for VA use, the VA NEP could also be utilized by other federal agencies through special arrangements.

The Electronic Commerce Acquisition Team (ECAT) projects the total number of agency gateways to be connected to NEPs will be 30. This projection is subject to change as a result of consolidations and realignments under NPR.

BENEFITS TO CUSTOMERS:

- The VA NEP will provide connectivity to external commercial Value Added Networks (VANs) in order to transmit EDI transactions to and from Federal Trading Partners.
- Additionally, the VA NEP will also serve to facilitate internal Federal communications which result from the generation of electronic information while conducting EDI.
- Due to the anticipated high volume of transactions handled at the VA NEP, extensive processing and handling of transactions will be avoided, other than those needed to service the storage and forward functions.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Meet with DoD to discuss VA NEP implementation	5/95	5/95	On-going	
B. Establish connectivity with additional VANs/internal NEP	6/95	6/95	On-going	
C. Develop Economy Act interagency agreement format and obtain concurrence on its use	9/95		On-Hold*	
D. Develop an outreach plan for adding interagency customers	7/95		On-Hold*	
E. Establish connectivity with other government agencies/external NEP	9/95		On-Hold*	

Status:

The VA's efforts to establish a NEP have been put on hold. Discussions are ongoing with the ECA PMO and the OFPP regarding the need for NEP'S and VA's desire to use "VAN interconnects". Dr. Kelman of OFPP has asked for cost study of a connect to the 26 VANS currently certified to do government business.

ELECTRONIC COMMERCE FOR VA PRIME VENDOR

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Implement Electronic Commerce for VA Prime Vendor (PV) contracts, e.g. pharmaceuticals, medical/surgical supplies, and subsistence.

RESPONSIBLE PERSON AND ORGANIZATION:

David S. Derr, Associate Deputy Assistant Secretary for Resources

PARTNER ORGANIZATION(S):

All Veterans Health Administration organizational elements within the Department of Veterans Affairs.

RESOURCES/IMPLEMENTATION STRATEGY:

Prime vendor contracts are commercial distribution arrangements that provide easy ordering provisions, facilitates administrative and financial processing and reduces inventory investment at the local level. Savings for prime vendor contracts are calculated at this time by estimating inventory reductions. Additional savings are anticipated as a result of reeningeering traditional business processes. These savings would be realized at VHA field facilities and the Austin Finance Center.

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**0**	**0**	**0**
Costs (000)*	**0**	**0**	**0**	**0**
Savings (000)				
Pharmaceuticals**	**0**	**0**	**0**	**0**
Medical/Surgical***	**0**	**$3,860**	**$3,860**	**0**
Subsistence***	**0**	**$580**	**$580**	**0**

*None projected at this time.
**Savings have already been realized through previous implementation.
***Based on FY 94 estimated value of $23,397,000 med/surg inventory, and a $3,500,000 subsistence inventory at VAMCs. Savings is predicated on a conservative 1/3 reduction as a result of prime vendor implementation. Inventory reduction would span over a 2 year period.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of participation by VAMCs					
Pharmaceuticals	100%	100% **0%**	100%	100%	100%
Medical/Surgical*	0	0	50%	70%	80%
Subsistence**	0	0	100%	100%	100%

* The contract will not require participation. Until the contract is actually issued, percent of usage is only an estimate.

**Contract requires 100% participation and guarantees 50% procurement based on local Dietetic Service budget

FY 95 Pharmaceutical prime Vendor: Pilot electronic invoices and Electronic Funds Transfer at selected VA health card facilities. Based on successful implementation, transition in FY 96 for national application.

FY 95 Medical/Surgical Prime Vendor: Incorporate Electronic commerce in prime Vendor strategy for FY 96 implementation. Anticipate a majority of VA health card facilities to use contract (in excess of 70%.)

FY 95 Subsistence prime Vendor: Incorporate electronic invoices and Electronic Funds Transfer in Prime Vendor strategy for FY 96 implementation.

BENEFITS TO CUSTOMERS:

- Reduces duplication in ordering process.
- Provides national contract strategies for utilization by medical centers.
- Provides easy and convenient ordering capabilities for program managers at each medical center.
- Facilitates the electronic payment process for vendors.

Milestones:

		START		COMPLETE	
		Planned	Actual	Planned	Actual
A.	VA strategy meeting to determine EC capabilities for medical/surgical. Location in Chicago, IL	04/95	04/95	04/95	04/95
B.	VA strategy meeting to determine EC capabilities for subsistence. Location in Austin, TX	04/95	04/95	04/95	04/95
C.	Pharmaceuticals				
	Pilot electronic invoices at selected VAMCs	04/95	04/95	09/95	09/95
	Based on successful pilot program, national implementation	10/95	10/95	03/96 12/96	
D.	Medical/Surgical Use IFCAP for EDI order placement and electronic invoices. (Based on award of prime vendor contract, milestone dates are subject to change)	10/95	10/95	03/96	
E.	Subsistence				
	Pilot at selected VAMC giving EDI software for electronic invoices. VA will use PV software for order placing	01/96		06/96	
	National implementation will provide PV with software for electronic invoice capability. Vendors will utilize their own software for order placing	01/96		06/96	

Status:

Pharmaceuticals--The AFC established electronic invoicing capabilities with the AmeriSource PV, but at the same time evaluated the potential benefits of PV alternate payment system and that initiative provided greater benefits to PV and VA. AFC's efforts are now focused on developing the PV alternate payment system.

Before the AFC can finalize a pilot program, GSA must amend it's contract with RMBCS to provide this service and that request has been submitted to GSA. AFC staff have already had planning meetings with the AmeriSource PV and RMBCS to develop the specs and procedures for this system. The pilot test site is the Phil Medical Center.

Medical/Surgical--The contract was awarded mandating that the vendors be EDI capable; however, use of the contact by the Medical Centers was not mandated. As a Medical Center begins using the contract, the AFC's EDI staff is notified by the NAC so that we can initiate the process of converting that business to EC. To date only a very small percentage of Medical Centers are using the contract.

Subsistence--The contract has not yet been awarded.

VA ELECTRONIC COMMERCE ACQUISITION PROGRAM

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

The VA Electronic Commerce (EC) acquisition program provides automation support to all Departmental activities in areas of procurement processing. Development and implementation of EC systems provide the capability to electronically exchange requests for quotations, purchase orders, invoices and payments.

RESPONSIBLE PERSON AND ORGANIZATION:

David S. Derr, Associate Deputy Assistant Secretary for Resources

PARTNER ORGANIZATION(S):

All organizational elements within the Department of Veterans Affairs.

RESOURCES/IMPLEMENTATION STRATEGY:

The EC/EDI initiative is a major focus area conceived through a Presidential mandate and will result in further enhancements to our existing EC/EDI capabilities, which were initiated in the 1980s as an Office of Management and Budget pilot. Enhancements to the EC/EDI process will enhance the automation support for all medical centers and VA Central Office in the area of procurement processing. The enhancement of the EC/EDI centralized system, along with implementation of a decentralized request for quotation system, will provide the capability to electronically exchange standardized requests for quotations, quotes, notice of awards, and supporting documents.

	FY 95	FY 96	FY 97	FY 98
FTEE	**7**	**10**	**15**	**15**
Costs (000)	**$2,000**	**$13,170**	**$3,925**	**$3,250**
Savings	**0**	**$3,627****	**$4,650****	**$4,650****

Savings are based on a conservative projection of .5% of total dollars spent on small purchases (under $25,000) as shown in the FY 1994 Federal Procurement Data System (FPDS) ($929,943,000). It takes into account the number of facilities utilizing EC that is depicted in the Baseline and Performance Indicator Section.

**Annualized. It should be understood that implementation of the sites will be staggered and that the total estimated savings could not be realized at the end of the fiscal year.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
* % of facilities	0	9% **3%**	78%	100%	100%
* # of facilities	0	22 **6**	156	200	200

* Based on implementation at 200 facilities.

BENEFITS TO CUSTOMERS:

The EC/EDI initiative depicted as a major focus area was conceived through a Presidential mandate and will result in further enhancements to our existing EC/EDI capabilities, which were initiated in the 1980s as an Office of Management and Budget (OMB) Pilot. Following is a list of benefits:

- Enhancements to the EC/EDI process will enhance the automation support for all medical centers and VA Central Office. in the area of procurement processing.
- The enhancement of the EC/EDI centralized system, along with implementation of a decentralized request for quotation system, will provide the capability to electronically exchange standardized requests for quotations, quotes, notice of awards and purchase orders.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Implement 3 RFQ Pilot sites	01/95	02/95	05/95	12/95
B. Implement 2 additional RFQ Pilot sites	04/95	04/95	06/95	12/95
C. Implement RFQ capability at 18 additional sites	05/95	05/95	07/95 07/96	
D. Implement RFQ capability at 1/4 of remaining sites	09/95	01/96	12/95 08/96	
E. Implement RFQ capability at 1/4 of remaining sites	01/96	01/96	04/96 10/96	
F. Implement RFQ capability at 1/4 of remaining sites	05/96		10/96 12/96	
G. Implement RFQ capability at remaining sites	01/97		01/97	

STATUS:

The VA is currently developing IFCAP enhancements that would provide electronic "Request for Quotations" capability. Programming for this initiative is underway which will integrate with existing financial and procurement processes.

Governmentwide Purchase Card Initiatives

GOVERNMENTWIDE PURCHASE CARD STRATEGIC PLAN

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

OBJECTIVE:

Expand the Governmentwide Purchase Card Program to all facilities within the Department of Veterans Affairs. Increase use of the purchase card in terms of number of facilities participating, dollars spent using the purchase card and number of transactions.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

All organizational elements within the Department of Veterans Affairs

RESOURCES/IMPLEMENTATION STRATEGY:

Continue to promote the purchase card program to VA field facilities in an effort to expand use of the card. Update field supply and fiscal officers of new procurement policies and regulations as the Federal Acquisition Streamlining Act of 1994 is implemented within the federal government. Survey purchase card program coordinators for feedback on the program. Savings to the VA using the Purchase Card in place of the traditional, paper-based procedures is estimated at $54.00 per transaction.

	FY 95	FY 96	FY 97	FY 98
FTEE	**.5**	**1**	**.5**	**.5**
Costs (000)	**$6**	**$7.6**	**$9.3**	**$10.2**
Savings	**$494,424** **$878,500**	**$15,120,000**	**$75,600,000**	**$75,600,000**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of Facilities Participating.	12	100 **159**	311	311	311
% of Total VA Facilities Participating *	4%	32% **51%**	100%	100%	100%

* 100% participation based on issuance of policy from top VA management establishing the Purchase Card as the required method for micro-purchase acquisitions.

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
FY micro-purchase procurement dollars spent using the credit card.	$567,574	$2,700,000 **$4,451,388**	$132,400,000	$662,000,000	$662,000,000
% of total FY micro-purchase procurement dollars spent using the credit card.	.09%	.4% **.71%**	20%	100%	100%
# of Purchase Card Transactions	2486	9,156 **16,270**	280,000	1,400,000	1,400,000
% of Total Micro-Purchase Procurement Transactions	.178%	.7% **1.15%**	20%	100%	100%

BENEFITS TO CUSTOMERS:

How many times have you needed an office supply or service only to be blocked because of our procurement process. The government issued purchase card gives our customers the ability to complete their mission, as expected, in the most efficient and timely manner and eliminates unnecessary paperwork. Following is a list of benefits:

- Streamline payment procedures and reduce administrative costs for Acquisitions of supplies and services with the simplified acquisition threshold, this of course is with the existing federal regulations
- Vastly improve government cash management practices forecasting,, consolidating payments, reducing imprest funds, etc.
- Provide procedural checks and feedback to improve management control and decision making
- Increased flexibility in dealing with vendors
- Improve opportunities for small business concerns and small disadvantaged business concerns to obtain a fair proportion of government contracts

MILESTONES:

		START		COMPLETE	
		Planned	Actual	Planned	Actual
A.	Monthly reporting of facility usage and dollars spent using the purchase card.	10/94	10/94	9/95	*(monthly)*
B.	Prepare and distribute updates on the program to all facilities as necessary.	12/94	12/94	9/95	*(on-going)*
C.	Prepare a joint information letter between the Office of Financial Management (047) and the Office of Acquisition and Materiel Management (90) explaining benefits of the program. Release to all field facilities with Implementation Guide and training materials.	01/95	01/95	02/95	02/95
D.	Joint teleconference broadcast to all facilities outlining the use of the card and current simplified acquisition procedures. 1/2	1/95	1/95	3/95	1/95
E.	Present Purchase Card Program overview at FY 95 VBA Finance Officer Conference and other conferences, seminars as applicable. Attend I..M..P.A.C. National Conference if held.	2/95	2/95	9/95 *(On-going as applic-able)*	(on-going)
F.	Issue guidance from (004) recommending that the Purchase Card be used whenever possible, for all transactions under $2,500, throughout Office of Management organizations.	4/95	4/95	5/95	4/95
G.	Initiate discussion with other organizational elements within VACO regarding using the Purchase Card whenever possible, for all transactions under $2,500. Prepare survey of other organizational response and feedback.	7/95	7/95	9/95	11/95

1/ Completion of this milestone is dependent on availability of travel funds.
2 Ultimately, this milestones was completed without need for travel funds as The Office of Acquisition and Materiel Management determined that procurement subject matter experts would be best able to address the agenda topics, including the purchase card.

	START		COMPLETE	
	Planned	Actual	Planned	Actual
H. Customer satisfaction survey of all facility credit card program coordinators.	7/95	On Hold	8/95	On Hold
I. Prepare management summary of customer satisfaction survey.	8/95	On-Hold	9/95	On-Hold

STATUS:

A. Reports are issued monthly which highlight dollars spent and transactions made by each VA facility using the Credit Card. Charts in Figures A and B represent transactions and dollars spent with Purchase Cards. The chart in Figure C identifies the number of VA facilities which have implemented the Purchase Card program.

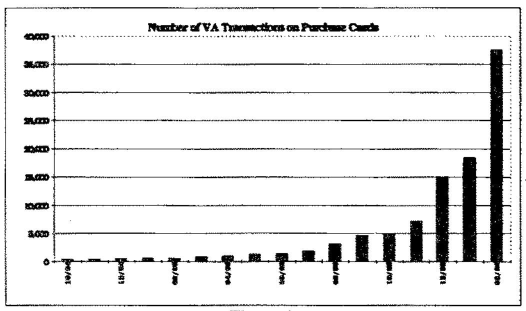


Figure A
VA Transactions on Purchase Cards
October 1994 - February 1996

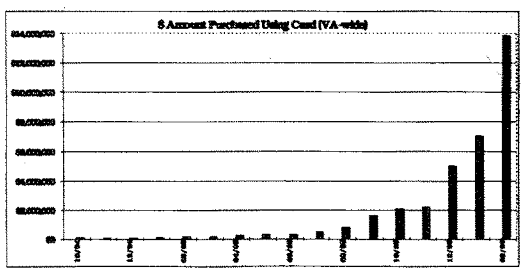


Figure B
VA Dollars Procured on Purchase Cards
October 1994 - February 1996

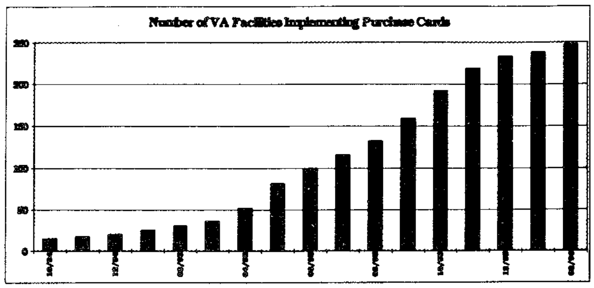


Figure C
Number of Facilities Implementing Purchase Card
Through February 1996, Total Facilities = 248

B. During the first quarter of FY 95, all Fiscal Officers and Supply Officers received the updated Implementation Guide for Purchase Cards.

C. Program Management and Development Staff (047F), working with the Office of Acquisition Policy (95A) have prepared an information letter to be issued jointly between the Office of Financial Management (047) and the Office of Acquisition and Materiel Management (90). The letter, as well as the Implementation Guide and Training materials, will be issued to every Fiscal Officer and Supply Officer nationally.

D. A teleconference was broadcast from the Medical Media Studio at the Milwaukee VAMC on January 11, 1995 describing Alternate Dispute Resolution and the Federal Acquisition Streamlining Act. The portion on the Federal Streamlining Act explained the new simplified acquisition procedures and use of the credit card for procurement of small goods. Although the broadcast focused on procurement issues, the fiscal officers were encouraged to view the broadcast to learn about the new simplified acquisition procedures. All fiscal officers were informed of the event via the January Fiscal Officer Conference call.

E. The FY 95 VBA Finance Officer Conference scheduled for 1st quarter has been rescheduled for FY 95 4th quarter. Therefore, the Purchase Card overview will be presented at that time. Presently Purchase Card overview information is ongoing between the Program Management and Development Staff and VA facilities nationwide via daily telephone conversations and written correspondence. During the period of January 30 through February 1, 1995, (047F) representatives attended GSA's I.M.P.A.C. National Conference in Atlanta, Georgia.

The annual I.M.P.A.C. conference, sponsored by Rocky Mountain BankCard system and GSA, was attended by Office of Financial Operations (OFO) representatives during May 1995. Additionally, OFO participated in the Vocational Rehabilitation and Counseling Services' (VR&C) Voucher Reengineering Task Force, which established the purchase card as the primary micro-purchase acquisition method for procurement of goods and services for veterans programs. Currently, four pilot Regional Offices have established the program in VR&C, in an effort to determine how to use the purchase card to the maximum extent possible.

F. A memorandum was issued to all Office of Management Organizations requiring that the Purchase Card be used for all procurement transactions under the micro-purchase threshold of $2,500. Discussion are being held with all other organizational elements within VACO to make this a required policy for all VACO organizations and field facilities.

G. The following guidance was issued regarding Purchase Card usage:

* October 13, 1995 and November 2, 1995 memorandum issued by VA Under Secretary for Health outlining VHA strategy and goals for Purchase Card usage.

* December 4, 1995 memorandum issued by VA Under Secretary for Benefits outlining VBA strategy for Purchase Card usage.

Both strategies involve use of the purchase card for the majority of micropurchases, those transactions under $2,500. VHA specific goals include reaching 95% of all micro-purchase transactions on purchase cards by June 1996.

H. Due to the rapid expansion of the program, resolution of systems issues has been the primary concern for VA Program Coordinators. Enhancements to IFCAP to accommodate Purchase Card orders and electronic daily invoicing have been identified as solutions to those concerns and are being rapidly implemented. Once the systems are in place, a survey will be prepared and progress summarized.

I. See H.

ELECTRONIC PAYMENTS FOR ALL VA RMBCS INVOICES

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Negotiate with Rocky Mountain National Bank (RMBCS) for a daily, single, electronic payment to them for all cleared VA transactions leading to a higher rebate to VA.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

AAC, VHA, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

The resources required to accomplish this will include staff at the Austin Finance Center (AFC) and the Austin Automation Center (AAC) to access the customer needs and current capabilities and determine what is needed to establish the proper accounting systems and ADP environment. Funds will be needed, based upon the system developed, to procure the necessary software and hardware, if required.

	FY 95	FY 96	FY 97	FY 98
FTEE	.5	.5	.5	.5
Costs (000)	**$72**	**$50**	**$50**	**$50**
Savings *				

* Cannot be determined until the actual RMBCS rebate is determined.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
Total number of VA stations using the purchase card payment system.	12	20 **0**	200 **311**	311	311
% of total field stations using the purchase card payment system.	4%	6% **0%**	66% **100%**	100%	100%

BENEFITS TO CUSTOMERS:

At the present time, the process used to pay for credit card charges and the accompanying offsets is very labor intensive. If RMBCS can supply the necessary information to enable the AFC to do the offsets electronically, there would be an immediate improvement made to our accounting process. Payments would be issued daily with costs being immediately charged back to the appropriate field stations. This would:

- Reduce the labor involved in the manually intensive accounting efforts at the field stations and generate higher rebates for VA.
- Streamline payment procedures and reduce administrative costs for acquisitions of supplies and services with the simplified acquisition threshold.
- Vastly improve government cash management practices by forecasting, consolidating payments and reducing imprest funds.
- Provide procedural checks and feedback to improve management control and decision making.
- Increase flexibility in dealing with vendors.
- Improve opportunities for small business concerns and small disadvantaged business concerns to obtain a fair portion of government contracts.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Determine VA policy and functional specifications for centralization of Purchase Card billings and payments on same day of receipt.	05/95	05/95	06/95	06/95
B. Coordinate with the vendor to finalize Purchase Card functional specifications.	05/95	05/95	06/95	08/95
C. Develop systems specifications and complete programming for receipt of billings and payment processing and recording field stations costs.	07/95	07/95	09/95	09/95
D. Perform software acceptance testing.	10/95	10/95	11/95	11/95
E. Develop and issue operating guidelines to field stations.	10/95	10/95	11/95	11/95
F. Implement daily billing and payment.	11/95	11/95	07/96	

STATUS:

In order to go to daily billing, we must pay all VA accounts on a daily billing cycle. To accomplish that, we must also pay all accounts through our CCS. For the month of February, we paid the accounts for 50 stations through the CCS. For March, we expect the number to increase to 88 stations. To add stations to the CCS without creating additional workload for the field stations, the accounting data associated with their account number in RMBCS records must be correct. Both VHA and VBA field offices have initiated the paperwork to correct their accounts; however, the volume of change requests overwhelmed the RMBCS system resulting in inordinate delays. Based upon these delays, we have had to further delay the scheduled conversion to daily billing. We anticipate implementing daily billing in July 1996.

Electronic Commerce

For Vendors

Initiatives

EXPAND DOCUMENT MANAGEMENT SYSTEM

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

To expand the access to and the use of the Document Management System (DMS) at the Austin Finance Center.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

VHA, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

The resources identified below are projected costs based upon an anticipated request for support by field stations. If the field stations do not request any DMS support (or only minimal support) the costs will decrease or become non-existent. At this time, we are unable to project savings until the field stations can provide their input as to the services they would like provided to them.

	FY 95	FY 96	FY 97	FY 98
FTEE	**2**	**2**	**3**	**1**
Costs (000)	**$286** **$0**	**$200** **$0**	**$1,200** **$0**	**$250** **$0**
Savings *				

* May not be computed until a customer user survey is completed and an evaluation is made on the development of the expansion of the system.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of facilities with access to DMS	0	1 1	* 0	* 0	* 0

* Expansion will depend on the purchase of equipment for the Medical Centers. Therefore, it is not possible, at this point, to project numbers for future fiscal years.

BENEFITS TO CUSTOMERS

- Customers will have direct access to the system.
- Customers will not have to wait for an AFC technician to answer an inquiry.
- Customers will be able to download and manipulate data for internal accounting purposes.
- This method will be more cost effective for customers than telephone contact.
- There may be other capabilities of the DMS environment that can help the field stations. This project will identify those capabilities.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Implement a satellite installation at VACO	02/95	02/95	04/95	04/95
B. Prepare and conduct a needs assessment of AFC customers	06/95	06/95	10/95	Canceled
C. Evaluate results of B. above and develop implementation plan for meeting those needs	10/95	Canceled	12/95	Canceled
D. Prepare memo to appropriate personnel to inform them of the results obtained in Item C. above and solicit their input regarding communication needs	01/96	Canceled	02/96	Canceled
E. Work with customers to implement the plan and monitor the services provided	02/96	Canceled	09/96	Canceled

STATUS:

The use of purchase cards is expected to lead to a major reduction in the need for storage and retrieval of documents processed at the Austin Finance Center for the field stations. Until we can assess the extent of purchase card usage at the field stations, we cannot determine the specifications needed for the features to enhance the Document Management System. As the Austin Finance Center moves toward Franchise Fund operations, opportunities may arise for providing storage and retrieval services. Until we know more about the needs of our customers (both internal and external), we will not proceed with this initiative. However, access by VACO COFS to these documents will still be supported due to the volume of their activity.

EXPAND VENDOR INQUIRY SYSTEM

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Expand the Vendor Inquiry System (VIS) to include FMS queries and vendor download capability.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

None

RESOURCES/IMPLEMENTATION STRATEGY:

Our initial marketing strategy included a mass mailing of VIS information and enrollment packages to 100 of our highest volume vendors. A booth was set up at the ITC and several hundred information and enrollment packages were distributed to VA personnel from the field facilities. Currently, the Vendor Inquiry Section is advertising the availability of the VIS with a recorded message on the Automated Call Distributor (ACD) telephone system. The vendor hears the message whenever they call the Vendor Inquiry phone number for payment assistance. The Vendor Inquiry personnel are also marketing the VIS to vendors who regularly call for payment assistance.

	FY 95	FY 96	FY 97	FY 98
FTEE	**2**	**0**	**0**	**0**
Costs (000)	**$15**	**0**	**0**	**0**
Savings *	**0**	**0**	**0**	**0**

*** We do not project savings to VA but this is a significant customer service initiative in that vendors will be able to access the VIS to obtain information on their accounts.**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of customers who have access to the VIS	12	75 **175**	250	500	800

Benefits to Customers

- Customers will have direct access to the system.
- Customers will not have to wait for an AFC technician to answer an inquiry.
- Customers will be able to download and manipulate data for internal accounting purposes.
- This method will be more cost effective for customers than telephone contact.

Milestones:

	Start		Complete	
	Planned	Actual	Planned	Actual
A. Acceptance test VIS.	09/94	09/94	10/94	10/94
B. Coordinate security access and training material with Alpha Vendors.	10/94	10/94	10/94	10/94
C. Release mass mailouts to inform the Vendor Community of VIS availability.	10/94	10/94	11/94	11/94
D. Support the vendors in establishing their security access to the VIS and assist them as needed in using the VIS.	10/94	10/94	09/95	09/95
E. Incorporate FMS requirements into the VIS.	10/94	10/94	06/95	06/95
F. Expand the VIS to provide customer download capability.	11/94	11/94	09/95	09/95
G. Monitor the VIS to determine types and most frequent functions in order to identify potential vendor problem areas.	12/94	12/94	09/95	09/95
H. Evaluate VIS benefits to AFC customers and impact on AFC workload.	06/95	06/95	09/95	09/95

Status

AFC staff continue to support the vendors in establishing their access to the VIS. Over 800 informational packages were sent to vendors resulting in 175 vendors responding to gain access to the system. AFC will continue on an ongoing basis to support the vendor community in gaining access and providing assistance as needed in using the VIS. A vendor conference emphasizing VIS was held at the AFC in February 1996, and VIS booth with demonstrations is planned for the 1996 Information Technology Conference.

To date, the Austin Automation Center (AAC) reports they have recently installed a new version of the Beta Software (Super IND$FILE for CICS) and have experienced limited successes with vendors being able to download their file. A major drawback is that the software now being tested would require vendors to purchase special software; therefore, this approach is not feasible. Currently, the AAC and AFC are researching an alternative download capability through the Internet. This project has been upgraded to a top priority in VIS enhancements.

- The AFC staff continues to monitor vendor activity on the VIS. One hundred seventy-five vendors currently have access to VIS. Twenty of the large volume vendors regularly query the VIS primarily on a monthly basis for payment status information. Feedback from the vendors indicates that some of the VIS messages do not adequately describe the status of the invoice or purchase order in terms familiar to them. As a result of this feedback and our internal review of the VIS, we are currently in the process of submitting a service change request to enhance some of the VIS messages to more sufficiently convey the payment status. These messages will also further reduce the volume of calls received by our Vendor Inquiry staff.

IMPLEMENTATION OF VA ELECTRONIC COMMERCE TEAM

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Support VA implementation of the Electronic Commerce Team (ECAT) directions and maintain VA as a leader in EDI initiatives.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Office of Acquisition and Material Management

RESOURCES/IMPLEMENTATION STRATEGY:

VA will continue to support the implementation of the financial X.12 EDI transactions as mandated by executive order. The AFC and OA&MM EDI staffs have implemented the X.12 transaction sets to conduct the electronic business cycle and are expanding the trading partner base. Additionally, this staff has begun work with Treasury on the X.12 remittance advice transaction set and will have the first federal implementation of this transaction with Treasury. Resources will be needed as appropriate as expansion of EDI capability begins in other functional areas such as federal payments.

	FY 95	FY 96	FY 97	FY 98
FTEE	**6**	**6**	**8**	**9**
Costs (000)	**$257**	**$30**	**$400**	**$460**
Savings *				

* At this point, we lack good basis for estimating savings which would include reduced FTEE, lost discounts and interest penalties.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of matched invoices.	17%	21% **23%**	30% **30%**	40% **35%**	50% **50%**
# of EDI trading partners	105	160 **153**	250 **200**	325 **275**	400 **300**

Benefits To Customers:

By incorporating EDI methodology, VA customers will:

- Gain the efficiencies brought by electronic processing
- Receive more accurate information.
- Receive more timely accurate payments.
- Receive an enhanced level of support from VA offices.
- Realize reduced operating costs brought by electronic processing.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Migrate current EDI trading partners to new VA EDI software.	08/94	08/94	10/94	10/94
B. Work with Treasury to develop an X.12EDI transaction for Federal agencies' use in transmitting payment information to Treasury. (ECAT initiative)	08/94	08/94	12/94	12/94
C. Work with Treasury to develop an X.12EDI invoice transaction for Federal agencies' use in receiving invoices from commercial vendors. (ECAT initiative)	09/94	09/94	01/95	01/95
D. Test receipt of Federal Prison Industry Electronic invoice through OPAC and implement business agreement.	10/94	10/94	12/94	12/94
E. Assist other VA elements (CHAMPVA, MCCR, Fee Basis, and other Federal agencies) in meeting National Performance Review (NPR) objectives.	10/94	10/94	09/95	09/95
F. Install new EDI software modules to increase translation capability to interact with VA applications.	11/94	11/94	11/94	11/94

STATUS

AFC EDI staff hosted meetings with CHAMPVA, Denver Distribution Center(DDC), and MCCR in Austin to discuss data requirements, needs, and possible approaches toward the incorporation of EDI methodology into appropriate business functions of their programs. Exchanges of ideas, methods, etc. continue as the staff have been called upon to further clarify the implementation of EDI. Additionally, staff have been proactive in establishing a VA EDI Users group to elevate EDI awareness through sharing of information, knowledge and expertise among all VA organizations and promote optimal use of resources. Preliminary discussions concerning the technical support aspects to assist the MCCR effort are underway on a weekly basis with various MCCR, AAC and AFC EDI coordinators. Mark Catlett, Assistant Secretary for Management sent a memorandum to R. J. Vogel, VBA Under Secretary for Benefits, identifying documents now exchanged electronically that have applicability to programs administered by VBA, but are sent to the VBA field offices as paper rather than electronically. Mr. Catlett offered Mr. Vogel the services of the AFC staff to brief the appropriate VBA staff members on the benefits of EDI and how this technology might be incorporated into VBA's day-to-day operations.

INTERACTIVE VOICE RESPONSE

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Implement an interactive voice response (IVR) at the Austin Finance Center.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

None

RESOURCES/IMPLEMENTATION STRATEGY:

Historically, the AFC has experienced a large volume of calls into the Vendor Inquiry Section. Automation of this process began in November 1994 with the Vendor Inquiry System (VIS) that provides vendors direct on-line access to their payment history and download capability. The IVR will further automate the process and make it more cost effective when the vendor is querying about only a few invoices. The VIS would be more practical for larger number of inquiries. The IVR system will allow either an employee or vendor to electronically receive payment status information instantaneously through the use of their 12-key telephone pad. Additionally, the IVR will offer the availability of a menu for directing questions to an appropriate individual for immediate assistance and problem resolution. A future enhancement to VIS will allow VA travelers to query IVR to inquire about the payment status of travel reimbursements.

IVR will eliminate the necessity of VA employees or vendors remaining on a hold status for extended periods, waiting for the availability of an attendant to answer a repetitive, payment-related question, which may take only two or three minutes to resolve.

The total time projected for acquisition and installation of this IVR system is four to six months. Initially the process will involve resolving ongoing issues such as establishing security procedures, scheduling programming support, and identifying AFC staff to work with the vendor. Once the contract is awarded, this staff will work with the vendor to develop functional specifications, establish the connectivity of the system to the VIS, test the software, schedule employee training, perform periodic traffic studies, and conduct user satisfaction surveys.

	FY 95	FY 96	FY 97	FY 98
FTE				
Costs (000)	**109.2**	**1.5**	**15**	**15**
Savings *				

*** We do not project savings to VA but this is a significant customer service initiative in that small vendors will obtain routine information about their payments more quickly by receiving this information electronically rather than by waiting in a queue for the next available attendant.**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY95	FY96	FY97	°FY98
% of inquiry calls answered by the IVR	0%	0%	30%	40%	55%

BENEFITS TO CUSTOMERS:

The IVR will:

- Provide better utilization of resources by allowing the staff to answer more complex questions which require re-audits or time-consuming research of documents.
- Provide more manageable call distribution.
- Provide 12 hour access to payment information thus reducing peaks in calling traffic.
- Provide flexibility to offer other types of financial data on-line in the future.
- Enhance the marketability of AFC services in a Franchise Fund or Cross-Servicing environment.
- Augment our VIS.
- Reduce waiting time and hang ups.
- Further enhance customer service.
- Aid in the implementation of the expected policy direction on use of EFT for travel reimbursements.
- Help overcome past employee concerns regarding difficulty in tracking EFT for travel payments.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Continue the phase in of new Time and Leave Units at VACO (VBA, NCS, etc.)	06/93	06/93	12/95	12/95
B. Continue the ETA Audit Program.	10/94	11/94	12/95	On-going
C. Establish monthly conference calls with VACO offices for timekeepers and supervisors.	10/94	10/94	02/96	02/96
D. Establish Quarterly general ETA training sessions.	10/95	10/95	10/95	On-going
E. Work with 047E and conduct "Customer Satisfaction" survey.	08/95	08/95	10/95	10/95

OVERALL STATUS:

Conversion of VACO to ETA is complete. Training of timekeepers and supervisors continues as will quarterly training sessions and periodic timekeeper audits.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Coordinate security issues associated with the system access by VA travelers and commercial vendors with AFC, Austin Automation Center (AAC), and Central Office (CO) personnel.	10/95	10/95	10/95	10/95
B. Coordinate the request for AAC programming support.	10/95	10/95	11/95	11/95
C. Meet with the contractor, AFC, and AAC staff to develop functional specifications.	11/95	11/95	11/95	11/95
D. Prepare AFC facilities and install the equipment.	11/95	11/95	02/96	02/96
E. Complete the host connection and application development and develop the scripts for the message.	12/95	12/95	02/96	02/96
F. Provide training for the system administrator and AFC staff.	03/96	03/96	03/96	03/96
G. Test the system software.	03/96	03/96	04/96	
H. Prepare and distribute instructions with availability letter to vendors.	04/96		04/96	
I. Accept the system.	04/96		04/96	
J. Contract with AAC to expand VIS to include employee travel payments.	07/96		07/96	

Status:

IVR testing by the software developer has been completed. Preliminary testing efforts are underway. Plans and a format for a larger scale test within the AFC have been developed and will be conducted after completion of a software upgrade to the IVR hardware. The software upgrade for the Centigram IVR hardware will resolve technical "bugs" that were recently identified in all Centigram hardware shipped during or after January 1996. AFC testing will be finalized shortly after installation of the software upgrade.

Department of Treasury/MOU Initiatives

Electronic Receiving of TRACS Transactions

Major Focus Area:

Technology Innovation - Facilitate use of technology to integrate best business practices.

Customer Satisfaction - Join with customers to meet program needs and missions.

Objective:

Currently, recertification TRACS transactions are received on tape from Treasury via overnight express mail. The Hines Finance Center, in conjunction with the Benefits Delivery Center (BDC) and Systems Development Center (SDC), will develop a methodology of electronically receiving recertification TRACS transactions. Electronically receiving TRACS transactions will improve the timeliness of transaction processing, save man-hours and postage for mailing tapes, and reduce the number of erroneous payments. All planning dates for testing and implementing are contingent upon installation of high-speed telecommunication lines between Hines BDC and Treasury RFC (Austin, Texas).

Responsible Person and Organization:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Management.

Partner Organization(s):

Treasury, VBA

Resources/Implementation Strategy:

See Attachment

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**0**	**0**	**0**
Costs (000)	**0**	**0**	**0**	**0**
Savings	**$1,300** **$1,300**	**$5,000**	**$5,000**	**$5,000**

Baseline and Performance Indicators:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of TRACS transmissions	0	75 **75**	252	252	252
% of daily TRACS transmissions	0	30% **30%**	100%	100%	100%

BENEFITS TO CUSTOMERS:

The implementation of this goal will enhance the timeframe for transaction processing into payees' master records. This will decrease the waiting time for updates to the payee master records and issuance of adjustment checks. The mailing costs now being incurred for mailing of tapes under the present system will be eliminated.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Confer with BDC, SDC, and Department of Treasury elements to determine what methodology of receiving TRACS transactions is most feasible.	10/94	10/94	10/94	10/94
B. Determine, in conjunction with BDC and SDC personnel, what file designation and programming alterations are required.	10/94	10/94	11/94	11/94
C. Assist in the development of standardized procedures to ensure secured receipt of TRACS transactions.	10/94	10/94	05/95	05/95
D. Implement the electronic receipt of TRACS transactions.	12/94	12/94	06/95	06/95

STATUS:

Establishment of electronic telecommunication link with Treasury's Austin Regional Finance Center in 1995 enabled VA to request and receive TRACS transactions electronically. VA Hines Finance Center now receives all TRACS transactions electronically.

AUTOMATION OF DEATH NOTIFICATION ENTRY (DNE)

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

The Department of Treasury has mandated the Federal Departments/Agencies to develop a Death Notification Entry (DNE), an automated methodology of notifying the Federal Reserve Bank of beneficiary deaths. The Federal Reserve Bank will, in turn, officially notify private-sector financial institutions. The National Automated Clearing House Association is responsible for coordinating the development of the agency DNE's. The financial community is expected to support the enhancement when proposed in 1995. This is a long-term project because it involves Treasury, VA, the Federal Reserve Bank, and the private-sector community.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations.

PARTNER ORGANIZATION(S):

Treasury, VBA, SSA, Federal Reserve, Private Sector

RESOURCES/IMPLEMENTATION STRATEGY:

Hines SCD will develop extract of NOD transactions processed per cycle and transmit data to SSA to be included with their DNE submission to the Federal reserve. Current telecommunication line exists to transmit data from VA to SSA.

	FY 95	FY 96	FY 97	FY 98
FTEE	**.1**	**.5**	**0**	**0**
Costs (000)	**$5**	**$25**	**0**	**0**
Savings	**0**	**0** **$37,500**	**$50,000 ***	**$50,000***

* Savings associated with reduced administrative burden in debt collection.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of Death Notification Entries	0	0	15,000	21,000	21,000
% of Death Notification Entries	0%	0%	75%	100%	100%

Benefits to Customers:

This initiative will improve the reclamation process and reduce the overall balance of Compensation and Pension receivables that are subject to write off or loss to VA as well as the administrative burden associated with maintaining and collecting accounts receivables.

Milestones:

		START		COMPLETE	
		Planned	Actual	Planned	Actual
A.	Review current submissions to determine the number of ACH reclamation's processed monthly and number of multi-payment items.	12/94	12/94	03/95	03/95
B.	Coordinate with Treasury representatives as to their processing of these transactions. (This involves attending work group sessions.)	03/95	03/95	06/95	06/95
C.	Coordinate with BDC and SDC officials, technicians, and programmers regarding system changes and/or enhancements.	04/95	04/95	06/95	06/95
D.	Develop processing procedures (based on available resources.)	07/95	07/95	10/95	10/95
E.	Implement the new procedures	11/95	11/95	12/95	12/95

Status:

Death Notification Entries (DNE) are now being extracted from Notice of Death (NOD) transactions and transmitted to the SSA for inclusion with their submission to the Federal Reserve for notification to all Financial Institutions.

ELECTRONIC TRANSMITTAL OF VA BENEFIT PAYMENT FILES

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Currently, CP&E benefit payment files are generated on tape and forwarded (along with the certified vouchers) to the Treasury RFC in Austin, Texas, via overnight express mail. These payment files are then processed at Treasury for payment (either by DD/EFT or check). An electronic link will be established between the Hines BDC and Treasury's Austin RFC for transmission of all payment and related data.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Treasury, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

The Finance Center, in conjunction with the Benefits Delivery Center (BDC) and Systems Development Center (SDC), will develop a methodology of electronically transmitting VA benefit program payment files to Treasury. Finance Center personnel will certify corresponding payment vouchers using Treasury's Electronic Certification System (ECS), entailing highly-secured personal computer telecommunications. Electronically transmitting payment files and corresponding vouchers will improve the timeliness of beneficiary payment receipt, save man-hours and postage for mailing tapes, and reduce the number of erroneous payments.

	FY 95	FY 96	FY 97	FY 98
FTEE	**2**	**0**	**0**	**0**
Costs (000)	**$80**	**0**	**0**	**0**
Savings	**$15,000** **$15,000**	**$52,000**	**$52,000**	**$52,000**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of Programs	0	2 **2**	7	7	7
% of Programs	0%	30% **30%**	100%	100%	100%

Benefits To Customers:

Electronic transmission of data eliminates the cost of mailing tapes and tape processing. Electronic processing of pay tapes reduces the number of overpayments to veterans. Electronic processing gives additional production work days and allows Regional Offices the additional time to input death transactions. In turn, VA is able to give Treasury additional time to cancel payments which should not be made.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Confer with BDC, SDC, and Department of Treasury elements to determine the most feasible methodology of transmitting benefit payment files.	11/94	11/94	11/94	11/94
B. Determine, in conjunction with BDC and SDC personnel, what file designation and programming alternations are required.	12/94	12/94	01/95	01/95
C. Assist in the development of standardized procedures to ensure secured transmission of payment files and corresponding vouchers.	01/95	01/95	02/95	02/95
D. Implement the electronic transmission of benefit payment files and certified vouchers.	02/95	02/95	02/95	02/95
E. Expand implementation to all benefit programs.	02/95	02/95	06/96	10/95

Status:

Electronic telecommunications lines established between Hines BDC and Treasury's Austin Regional Finance Center. All benefit payment files are being transmitted electronically.

CHECK INTERCEPTS USING THE FEDERAL RESERVE SYSTEM

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

OBJECTIVE:

Assist Hines Benefits Delivery Center (BDC) and Systems Development Center (SDC) staff in the development of programs and procedures to transmit daily check beneficiary intercepts to the Federal Reserve for all C&P stop payments processed due to the deaths of the beneficiaries.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Treasury, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

The VA is expanding the use of an existing hold check procedure to transmit intercept notices through Treasury to the Federal Reserve. The Federal Reserve will intercept the check. Treasury and the Federal Reserve are providing resources to implement this initiative. VA will use existing capabilities and will incur no additional expense.

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**0**	**0**	**0**
Costs (000)	**0**	**0**	**0**	**0**
Savings*	**$5,000** **$0**	**$19,040** **$14,280**	**$20,400**	**$21,760**

*Savings to Treasury on unnegotiable checks.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Base line	FY 95	FY 96	FY 97	FY 98
# of intercepts	0	900 **0**	7,200 **5,400**	7,200	7,200
Reduced receivables	0	$360,000 **$0**	$1,400,000 **$1,050,000**	$1,500,000	$1,600,000

BENEFITS TO CUSTOMERS:

Reduces the number of overpayments to veterans and veterans' estates. Reduces the burden of collecting overpayments, reclamation's and overpayment write-offs.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Coordinate necessary development of process with BDC, SDC, and Treasury	10/94	10/94	10/94	10/94
B. Test processes developed	05/95	05/95	05/95	12/95
C. Implement DPCI	07/95	01/96	07/95	01/96

STATUS:

Delay in implementation due to Federal Reserve's request for additional time to notify member bank's of new procedure. Implementation of transmission of intercept notices was effective January 1996.

STANDARDIZE EDUCATION BENEFIT PAYMENTS

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Assist Hines Benefit Delivery Center (BDC) and Systems Development Center (SDC) staff in developing programs to convert education benefit payments in a standardized format to improve Treasury processing.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations.

PARTNER ORGANIZATION(S):

Treasury; VBA

RESOURCES/IMPLEMENTATION STRATEGY:

A formal project must be requested because of the recently announced initiative of converting education programs to EBT/EFT. With current emphasis being placed on EBT/EFT, the priority of each must necessarily be established.

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**.1**	**0**	**0**
Costs (000)	**0**	**$20**	**0**	**0**
Savings*	**0**	**0**	**0**	**0**

* No immediate saving. A standardized format will allow ease in future change.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of programs	0	0	4	8	8
% of education programs converted.	0	0	50%	100%	100%

BENEFITS TO CUSTOMERS:

This is an internal processing improvement to standardize pay file formats for ease in processing future changes and improving overall processing applications. Extra steps performed by Treasury will be eliminated, freeing up resources to improve disbursing services to Veterans overall.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Coordinate standard format development between SDC and Treasury.	11/95	On-Hold	09/96	On-Hold
B. Test new file formats	10/96	On-Hold	11/96	On-Hold
C. Convert old Education pay file formats to standard Compensation and Pension file format.	01/97	On-Hold	01/97	On-Hold

STATUS:

Treasury is in the process of mandating new pay formats as a requirement to their Systems 90 "Pacer Project". VA agrees to this requirement. However, these changes will not be required until 1997. In order to save duplication of effort in developing new formats, this project will be postponed until mid-1996. VA is currently awaiting new Pacer formats from Treasury's Pacer Project Team.

IMPLEMENT BENEFIT RETURN CHECK TRANSMISSION

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Coordinate with Hines Benefit Delivery Center (BDC) and Systems Development Center (SDC) staff and Treasury elements the implementation of an electronic means to transmit benefit return check information and recertification database claim disposition data (currently sent via tapes).

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Treasury, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

Continue open discussions with Hyattsville and Austin Treasury regarding projected installation date of electronic high-speed link between the Austin Treasury and the VA Automation Center in Austin. Then coordinate test dates and test procedures with Hines BDC and Treasury components.

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**0**	**0**	**0**
Costs (000)	**0**	**0**	**0**	**0**
Savings	**$0**	**$1,600**	**$1,600**	**$1,600**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of programs converted	0	3 **0**	9	9	9
% of programs converted	0	30% **0%**	100%	100%	100%

BENEFITS TO CUSTOMERS:

Electronic transmission of data eliminates the cost of mailing tapes and tape processing. In addition, faster processing of returned check data will speed processing of reissued checks to veterans.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Coordinate development of procedures with BDC, SDC, and Treasury.	11/94	11/94	01/95	01/95
B. Test electronic transmission of returned check information and claim disposal data from Treasury	06/95	06/95	07/95	07/95
C. Implement system live.	08/95	08/95	08/95	10/95

Status:

Electronic telecommunication lines established between the Hines BDC and Treasury's Austin Regional Finance Center. Electronic transmission of returned check and check claim data implemented.

IMPLEMENT ZIP CODE PLUS FOUR FOR BENEFIT CHECKS

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Assist Hines Benefit Delivery Center (BDC) and Systems Development Center (SDC) staff in implementing the conversion of benefit zip codes into the zip code plus four format.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Treasury, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

Coordinate testing and implementation of pay files between Hines BDC and Austin Treasury. In addition, develop a strategy for correcting approximately 195,000 address records that currently do not produce a nine digit (or zip plus four) zip code.

	FY 95	FY 96	FY 97	FY 98
FTEE	**2**	**0**	**0**	**0**
Costs (000)	**$200**	**0**	**0**	**0**
Savings	**$224,000 $120,000**	**$600,000 $360,000**	**$600,000 $360,000**	**$600,000 $360,000**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of records converted	0	1.4M **1.4M**	1.4M	1.6M	1.6M
% of records converted	0	88% **88%**	92%	100%	100%

BENEFITS TO CUSTOMERS:

This initiative reduces mail costs of check payments and improves delivery of checks to benefit recipients. Delivery expenditures of the postal service are reduced because post offices are able to automate additional steps of mail delivery processes. The savings experienced by the postal service are passed on to their customer (VA) in the form of reduced postage costs. There are currently 1.6M checks mailed each month to compensation and pension recipients.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Coordinate conversion to zip code plus four with BDC, SDC, and Treasury.	12/94	12/94	01/95	01/95
B. Coordinate testing of converted files with BDC, SDC, and Treasury.	04/95	04/95	04/95	04/95
C. Coordinate implementation of zip code plus four system with Treasury.	05/95	05/95	05/95	05/95

Status:

Implementation of ZipPlus Four software completed and updated C&P payment files transmitted to Treasury. A series of address file corrections were developed to correct those addresses that could not be converted. These automated corrections will continue through FY 1996 as new routines are developed. Final tasks will be to manually correct the remaining records at the field stations and to develop address change edits to maintain as clean an address file as can be expected on a current basis.

IMPROVE COMPENSATION, PENSION AND EDUCATION SCHEDULE OF OPERATIONS

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Improve Compensation, Pension and Education Schedule of Operations with Treasury's Austin Regional Finance Center.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Treasury, VBA

RESOURCES/IMPLEMENTATION STRATEGY:

Compensation and pay tapes were converted from overnight mailing to electronic transmission on February 1, 1995. With this electronic linkage, Hines can transmit data later in the month allowing for more check intercepts and holds. These actions prevent receivables that require collection actions. Treasury will continue to maintain the check payment master and VA will continue to update these files with "transaction" files each month.

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**0**	**0**	**0**
Costs (000)	**$80**	**0**	**0**	**0**
Reduced Receivables *	**$2M** **$2M**	**$7.5M**	**$7.5M**	**$7.5M**
Savings **	**	**	**	**

* Represents potential reduction in receivables by preventing the release of ineligible payments.

** Study is being completed to determine administrative savings.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of schedules converted	0	3 **3**	9	9	9
% of schedules converted	0	30% **30%**	100%	100%	100%

BENEFITS TO CUSTOMERS:

Electronic transmission of data eliminates the cost of mailing tapes and tape processing. In addition, faster processing of returned check data will speed processing of reissued checks to veterans. The improved schedule of operations allows VA Regional Offices an additional two days of production time to process deletions, additions and changes to the C&P master record. The improved processing time increases the transaction update timeframes, issues payee payments in the correct amounts and reduces the number of overpayments being established as well as associated collection efforts.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Begin discussions with Treasury to improve production processing dates.	9/94	09/94	10/94	10/94
B. Coordinate discussions among BDC, SDC, and Treasury.	10/94	10/94	12/94	12/94
C. Implement improved Schedule of Operations for C&P	01/95	02/95	03/95	03/95
D. Expand to education and other benefit programs	03/95	03/95	03/96	10/95

STATUS:

Schedules of Operation for Compensation and Pension and Education have been revised to include later delivery dates for submission of payment data to Treasury's Austin Regional Finance Center.

DD/EFT

Initiatives

INCREASE SALARY DD/EFT PARTICIPATION

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Increase participation in the DD/EFT program for salary payments to 95 percent.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations.

PARTNER ORGANIZATION(S):

None.

RESOURCES/IMPLEMENTATION STRATEGY:

As of VA's last payday, March 28, 1995, participation in the DD/EFT program was 89.4 percent. Out of a total of 240,253 employees nationwide, 214,702 employees now receive their salary payments electronically. The AFC has coordinated with local Treasury another mass mail-out to employees receiving a paper salary check. Treasury will insert a form with every check encouraging them to sign up for direct deposit. The AFC has also made some changes in the payroll system which allow employees separating to receive their final pay by DD/EFT.

	FY 95	FY 96	FY 97	FY 98
FTEE	**.1**	**.1**	**.1**	**.1**
Costs (000)	**$1**	**$1**	**$1**	**$1**
Savings *	*	*	*	*
Cost Avoidance **	**$41,000** **$51,500**	**$137,000**	**$157,000**	**$176,000**

* Study is being completed to determine administrative savings.
** Mailing costs.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of employees using DD/EFT	EOY FY94 87%	90% **90.6%**	95%	96%	97%

Benefits To Customers:

- Eliminates the possibility of lost checks
- Eliminated depositing check
- The time and work involved in replacing a lost check is eliminated.
- There is guaranteed availability of funds through DD/EFT.
- There is savings to the government by using DD/EFT.
- There is no danger of forged checks which may not be replaced.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Collaborate with OPM Payroll Policy on development of policy to mandate DD/EFT for new employees and employees changing jobs.	09/94	09/94	10/94	10/94
B. Issue quarterly letters to field station directors whose level of participation in DD/EFT is less than 85%.	10/94	10/94	09/95	09/95
C. Coordinate with Treasury to insert DD/EFT sign-up forms for employees receiving salary checks. This will be done twice during this period.	10/94	10/94	04/95	04/95

Status:

As of the end of March 1996, only 8 Medical Centers, out of 172 Medical Centers nationwide, have participation below 85% for the DD/EFT Program. The AFC will continue to monitor stations below the 90% participation rate and provide any assistance needed to reach the Department's overall goal.
As of March 1996, the participation rate for DD/EFT was 92% with over 222,000 of our 240,000 employees receiving their salary via DD/EFT.

INCREASE COMPENSATION AND PENSION EFT

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

OBJECTIVE:

Implement an electronic funds transfer campaign designed to increase Compensation and Pension EFT participation.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

VBA, Treasury Department

RESOURCES/IMPLEMENTATION STRATEGY:

The VA will be enclosing inserts with all monthly Compensation and Pension checks that advise payees of the easy enrollment method and the advantages when receiving their benefits via Direct Deposit. Additionally, a message will be included on each check envelope to promote the Direct Deposit Program. A promotional campaign strategy and field office workbook has been developed to promote enrollment via a call-in procedure using VA's nation-wide 1-800 number.

	FY 95	FY 96	FY 97	FY 98
FTEE	1	0	0	0
Costs (000)	$150 $32	$150	$150	$150
Savings *	*	*	*	*
Cost Avoidance **	$80,000 $134,000	$336,000	$384,000	$384,000

* Study is being completed to determine administrative savings.
** Mail costs.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of veterans participating	50%	52% 53.2%	62% 60%	72%	80%

BENEFITS TO CUSTOMERS:

The increase in Direct Deposit participation reduces check mailing costs, number of lost checks and the administrative burden in Regional Offices of servicing the problems associated with check payments.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Request change of C&P Award Letters to incorporate a paragraph about EFT.	09/94	09/94	09/94	10/94
B. Request a Master Record System change to allow for EFT information to be entered on a pending file.	09/94	09/94	10/94	10/94
C. Submit EFT Strategies and FY 95 Campaign plans for formal concurrence.	09/94	09/94	10/94	10/94
D. Develop EFT training Package	10/94	11/94	11/94	11/94
E. Design the VA short form application for EFT	10/94	10/94	11/94	11/94
F. Design an EFT insert for EFT checks.	10/94	10/94	11/94	11/94
G. Design an EFT direct mailout form.	10/94	10/94	11/94	11/94
H. Develop a replacement check (340) cover letter.	10/94	10/94	10/94	10/94
I. Contact the Austin Finance Center and coordinate the DoD Match Mailout.	10/94	10/94	11/94	11/94
J. Run a test of the check insert at selected sites.	03/95	03/95	05/95	03/95
K. Train VA contact employees on new EFT policies.	04/95	04/95	05/95	04/95
L. Solicit enrollments in all cases of non-receipt.	04/95	04/95	On-going	
M. Regional Office's advise county service offices and Service Organization Representatives.	04/95	04/95	On-going	
N. Encourage Regional Offices to change the message on wait lines to include information about EFT benefits.	04/95	04/95	04/95	04/95
O. Initiate a program of Presumed Enrollment nationwide.	04/95	04/95	On-going	
P. Bring the 1-800 number on-line nationwide for EFT enrollment.	06/95	06/95	06/95	06/95
Q. Publish new mailout materials.	10/94	12/94	05/95	05/95

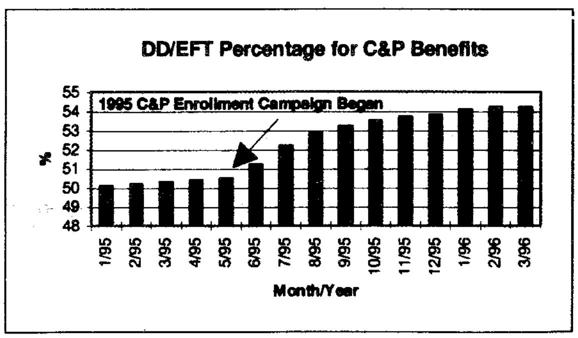
(MILESTONES CON:)

		START		COMPLETE	
		Planned	Actual	Planned	Actual
R.	Develop an internal employee recognition program for advances and innovation in EFT enrollment.	07/95	07/95	09/95	09/95
S.	Mailout first C&P check insert.	05/95	05/95	05/95	05/95
T.	Mailout second C&P check insert.	07/95	07/95	07/95	07/95
U.	Solicit award nominations for EFT advances and innovations.	09/95	09/95	10/95	10/95
V.	Mailout third C&P Check Insert	09/95	09/95	09/95	09/95
W.	Mailout first check envelop messages.	07/95	07/95	07/95	07/95
X.	Mailout second check envelope messages.	09/95	09/95	09/95	09/95

(Completion of a 1996 Campaign Strategy Plan is to be finalized in April 1996.)

STATUS:

The 1995 Compensation and Pension Enrollment Campaign strategy initiatives were completed with the last enrollment insert in the September 1, 1995 recurring payment. This initial campaign and related initiatives provided evidence that communicating with check recipients about the program does result in a higher rate of increase in DD/EFT payments. During the short campaign timeframe, participation increased by over 3%. A more positive effort over an extended period would result in a proportionately higher enrollment rate and increased savings in mail costs. A FY 1996 Campaign Director has been selected and a campaign strategy is being developed. These plans include mailing 50,000 short form applications on July 1 and 50,000 on August 1 to determine the response rate of a direct mail method. Pilots indicate we should receive a response rate of approximately 6 percent. The mailing will be expanded to the entire database in FY 97 if the test proves to be productive. Check stuffers will be mailed on June 1 and September 1.



Incorporate National EBT Initiative into VA Salary and Benefits Program

Major Focus Area:

Customer Satisfaction - Join with customers to meet program needs and missions.

Objective:

Incorporate the national "Electronic Benefits Transfer" (EBT) initiative into the VA salary and benefit programs. Expand the program to education payments in FY 1996. Currently, the program is limited to recipients in Texas. The program will expand nationwide in FY 1997.

Responsible Person and Organization:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

Partner Organization(s):

Treasury, VBA

Resources/Implementation Strategy:

The Department of Treasury has contracted Citicorp Bank Services, Inc., Tampa, Florida to conduct a pilot test in Texas. The VA is not required to commit resources to this initiative. In 1996, VA will expand the initiative to include education payments. In 1997, the EBT program is scheduled for expansion to all states through a National EBT contract with multiple financial institutions.

	FY 95	FY 96	FY 97	FY 98
FTEE	**0**	**0**	**0**	**0**
Costs (000)	**0**	**0**	**0**	**0**
Savings *	*	*	*	*
Cost Avoidance **	**** $3,600** **** $3,024**	**** $4,500**	**** $18,090**	**** $18,800**

* Study is being completed to determine administrative savings.
** Mail costs.

Baseline and Performance Indicators:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
# of participants **(March 1,1996)**	0	*1,100 **973**	*1,500	**48,000	**50,000
% of participants **(March 1,1996)**	0	* 2.9% **2.3%**	* 4.3%	** 9.6%	** 10%

* Based on Texas only.
**Based on U.S. expansion.

Benefits To Customers:

Increases the number of Direct Deposit accounts and reduces the administrative burden associated with check payments. It will provide for a private cash card account for electronic deposit of monthly benefits for those beneficiaries who do have a bank checking or savings account. Furthermore, it decreases the incidence of lost and/or stolen checks and greater reliability of timely receipt of monthly benefits.

Milestones:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Participate on NPR (EBT) committee.	06/94	06/94	On-going	
B. Begin EBT pilot in FT. Worth and Houston, Texas.	06/94	06/94	06/94	06/94
C. Expand EBT in Texas	02/95	02/95	02/95	02/95
D. Expand to include education payments	08/96		08/96	
E. Expand nationwide (based on National EBT Plan.)	01/97		01/97	

Status:

The nationwide expansion of EBT from the Texas pilot is scheduled for the Southern Alliance States in early 1997. Some individual states (Florida) may begin a joint state/federal EBT initiative in late FY 1996. No definite plans have been finalized as of March 1, 1996. Treasury has agreed to include Education payments during the first state expansion in late FY 96 when Education System is capable of producing a DD/EFT payment now scheduled for August 1996.

Electronic

Travel

Initiatives

TRAVEL DOCUMENT PROCESSING SYSTEMS

MAJOR FOCUS AREA:

Customer Satisfaction - Join with customers to meet program needs and missions.

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Conduct pilot test of PerDiemazing and other off-the-shelf employee TDY travel document processing systems.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

VBA, VHA, NCS and the Office of Administration Travel Policy

RESOURCES/IMPLEMENTATION STRATEGY:

The Austin Finance Center has procured and is testing a PC-based travel management system called PerDiemazing. The system will be used by all travelers at the AFC and at the Austin Automation Center (AAC). A second PerDiemazing license was purchased to conduct another test at Central Office (VACO). There is at least one other PC-based system, Travel Manager, performing similar functions. It is currently operating at several VA Medical Centers. The AFC plans to go live on PerDiemazing in April 1995, including downloading from PerDiemazing to generate obligations and to process payments to travelers.

	FY 95	FY 96	FY 97	FY 98
FTEE	2	*	*	*
Costs (000)	$106	*	*	*
Savings**	**	**	**	**

***Resources cannot be determined until the evaluation and approval of a recommendation is made.**
**** The savings may not be determined until travelers have had adequate time to use the system and appropriately respond to a user satisfaction survey that will be used as a basis for recommendation to expand the system. Until a decision is made regarding use of this system, savings cannot be determined.**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of facilities using the software.	0%	1% **1%**	50%	100%	100%

Benefits To Customers:

Normally, processing travel authorities and vouchers is a frustrating, time consuming process at best. Authorities and vouchers must be typed by hand and then hand carried or mailed to the appropriate offices for approval. Many times they are lost or misplaced during this process and there is no way to find out what happened to them or who may have them. To simplify the process, save time and paper, and give the traveler and authorizing officials the ability to know where there authority or voucher is at all times in the review process, it is necessary to automate this process. Following is a list of benefits to our customers once it is automated:

- Electronically generates travel orders/authorizations
- Electronically generates travel vouchers
- Electronically generates local expense vouchers
- Automatically calculates travel advances
- On-line access to GSA travel rates and airline schedules
- Electronically routes travel documents to approving officials
- Applies electronic signatures of approving officials
- Provides hardcopy & on-line management reports
- Interfaces with Financial Accounting Control Systems
- Runs in MS/DOS, MS/Windows, OS/2, UNIX, Novell

MILESTONES:

	START Planned	START Actual	COMPLETE Planned	COMPLETE Actual
A. Purchase software.	08/94	08/94	09/94	09/94
B. Compile and load organizational and traveler profile data for AFC and AAC employees.	08/94	08/94	09/94	09/94
C. Conduct user acceptance testing of PerDiemazing.	08/94	08/94	09/94	09/94
D. Conduct training of potential users.	08/94	08/94	09/94	09/94
E. Use system and conduct user satisfaction survey as basis for recommendation to expand system.	10/94	10/94	07/95	07/95
F. As other software systems become available, conduct review and evaluate.	10/94	10/94	09/95	09/95

STATUS:

The AFC staff completed an evaluation of PerDiemazing with a recommendation for distribution of the highlights of the study throughout the VA. The Windows version of PerDiemazing has been acquired for use locally. Although the AFC has not obtained any additional software applications to review or evaluate, staff continue to work closely with VACO staff on this issue.

OVERALL STATUS:

Since converting to FMS in October 1995, travel obligations and payments have been manually input into FMS. Financial Operations staff have been working with the vendor to convert the PerDiemazing output from CALM to FMS format. The Financial Operations and AFC staff just recently received the first release of the modifications which will translate PerDiemazing outputs into FMS formatted transactions.

Before a formal policy statement may be issued, the following items must be completed:

1. The testing of the modifications that established the output from PerDiemazing to FMS formatted transactions must be completed.

2. An FMS system change request must be completed that will establish a queue that the AAC will bleed on a regular cycle to pick up all FMS transactions that have been batched to the queue.

Once these items are completed, field stations will be allowed to make their own determination whether or not they use PerDiemazing and utilize the queue established in Item 2 above to feed transactions into FMS.

In addition before VACO expansion, communication links (LANs) must be established that will provide Station 101 offices access to the PerDiemazing server.

ELECTRONIC PAYMENTS TO TRAVEL MANAGEMENT CENTER

MAJOR FOCUS AREA:

Technology Innovation - Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Explore the possibility of daily electronic payments to the Travel Management Center (TMC) and possible benefits of a new TMC.

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

Office of Administration Travel Policy, Users forum group, Procurement

RESOURCES/IMPLEMENTATION STRATEGY:

GSA is allowing the TMC contracts to expire, which makes it necessary for agencies to develop their own sources for making travel arrangement. To minimize the costs of contract services and maximize the benefits of technology that is utilized elsewhere in VA, we will work with the organizations that replace TMC to facilitate daily payments.

	FY 95	FY 96	FY 97	FY 98
FTEE	**.1**	**0**	**0**	**0**
Costs (000)	**$10**	**0**	**0**	**0**
Savings *	*****	*****	*****	*****

* Until a method for obtaining travel management services is established, savings cannot be determined.

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of rebate	1% to 1.8%	1% to 1.8%	2% to 2.8%	2% to 2.8%	2% to 2.8%
Dollar amount of rebate	$43,000*	$43,000* **$43,663**	$86,000*	$86,000*	$86,000*

* VACO rebate only. The amount of the rebate for all of VA cannot be determined at this time.

BENEFITS TO CUSTOMERS:

Making payments for airline tickets and charging them to the appropriate subsidiary records is a tedious, time consuming process. By asking the Travel Management Center to supply us billing information in a format that can be fed into our financial systems, payments and offsets will be made electronically. There should be FTEE savings along with accompanying benefits of better funds control. Many times it is difficult, at best, to get through to the Travel Management Center and make airline reservations and other needed reservations. With our own contract, we can better control the service that we receive and are entitled to.

MILESTONES:

	START		COMPLETE	
	Planned	Actual	Planned	Actual
A. Develop a white paper describing the features in a VA contract for TMC services.	04/95	04/95	04/95	04/95
B. OFO representative will participate in meeting with the Office of Administration and users forum group to determine the best method for VA to obtain future travel services.	04/95	04/95	04/95	03/96
C. Should a consensus be reached that our Travel Management Center should be replaced when their contract expires, a new contractor will be sought.	04/95	03/96	01/96 04/96	

STATUS

The Delegation of Authority with regard to certain travel management functions was received by the Assistant Secretary for Management (004) on March 7, 1996. A Statement of Work is being reviewed to be included with a proposed contract. Immediate action is being taken to seek a new TMC contractor.

Miscellaneous Electronic Commerce Initiatives

IMPLEMENTATION OF ENHANCED TIME AND ATTENDANCE

MAJOR FOCUS AREA:

Technology Innovation: Facilitate use of technology to integrate best business practices.

OBJECTIVE:

Complete the station-wide implementation of the Enhanced Time and Attendance System (ETA).

RESPONSIBLE PERSON AND ORGANIZATION:

William L. Shelton, Associate Deputy Assistant Secretary for Financial Operations

PARTNER ORGANIZATION(S):

All elements within Central Office

RESOURCES/IMPLEMENTATION STRATEGY:

To upgrade telecommunication equipment and systems to run concurrent with conversion of T&L units. Plans include converting approximately 50 T&L units per month until fully implemented in December 1995.

	FY 95	FY 96	FY 97	FY 98
FTEE	**1**	**0**	**0**	**0**
Costs (000)	**$30**	**0**	**0**	**0**
Savings	**$5,000** **$5,000**	**$20,000**	**$36,000**	**$38,000**

BASELINE AND PERFORMANCE INDICATORS:

Indicator	Baseline	FY 95	FY 96	FY 97	FY 98
% of VACO units converted.	5%	75% **75%**	100%	100%	100%

BENEFITS TO CUSTOMERS:

Timekeepers and approving officials have never had the capability to obtain information about their employees time and attendance records without obtaining assistance from Central Office Finance Service. ETA will eliminate this dependence and provide FTEE savings as well as reduced paper consumption. There are 400 Time and Leave Units in Central Office. Following is a list of benefits:

- Elimination of excess paper
- Faster and more accurate method of recording time and attendance
- Elimination of delivery of timecards to COFS
- Immediate availability of employee accounts by timekeeper or supervisor
- Historical data immediately available

Mr. CATLETT. In this strategic plan we identified a series of activities and improvements we sought to implement in order to bring about EDI and electronic commerce. With the completion of these improvements, the VA has met its goals as outlined in this plan. The VA now provides a number of alternative solutions for EC and EDI processing, including the use of the IMPAC card for micropurchases, and a prime vendor payment system for purchases of pharmaceutical and hospital supplies. In combination, EDI and EC alternative solutions have led VA to be one of the leading agencies in promoting EC solutions for acquisition, finance, and payment-related processes.

Currently, VA processes 30 percent of its invoices, 99.6 percent of its receiving reports, and 49 percent of its vendor payments electronically. Through development of EFT payment capabilities and enthusiastic promotional efforts, VA has been highly successful in significantly increasing the number of payees receiving salary, travel, and benefit payments.

Through the EC and EDI processes, programs currently in place, and the significant enhancements scheduled for the immediate future, VA offers a comprehensive EC/EDI/EPT program. All of these electronic commerce activities have resulted in a reduction of close to 10 million paper transactions annually for the VA. In 1990, we were transactioning paper mostly at our finance center in Austin and at our medical centers primarily over 11 million pieces of paper. We hope by the end of 1997 to be at about 1.3 million pieces of paper.

This has obviously benefited the VA. We believe it has also benefited our trading partners and the various payment recipients. We are in a position to implement, essentially meet the mandatory requirements of the act of all electronic payments by January 1999.

I will just add a few other updates and highlights of our activities to give you some sense of the activities that we have underway. In EDI, the VA utilizes a full EDI cycle for the procurement and payment process. At the end of April 1997, VA had 485 trading partner relationships, primarily our largest trading partners, established with vendors wishing to receive electronic requests for proposals to submit their offers. During fiscal year 1996, the VA received 180,060 EDI invoices, not including our credit card activity.

Our Austin Finance Center staff worked closely with Treasury's Austin Regional Finance staff to implement the first application of the American National Standard Institutes X–12 820 payment instruction and remittance advice. By the end of fiscal year 1996, over 40 percent of VA payments were issued as EDI payments. To promote and enhance EFT participation in May 1997, the VA mailed letters to over 50,060 of our 200,060 vendors currently receiving paper checks. To date, we have had positive responses from almost 11,060 of those vendors. In June 1997, this month, VA will contact a second group of 50,060 vendors. The process will continue until all vendors have been contacted and enrolled.

The IMPAC Visa purchase card is used almost exclusively now in the Department for micropurchases, those purchases under $2,500. We have had great expansion in this past year. At the beginning of fiscal year 1996, less than 1 percent of our micropurchases were done on purchase cards. As of April 1997, we're over

90 percent. This is due largely to VA's internally developed credit card system which has made it convenient for our employees as well as for the vendors. This system electronically processes all VA's Visa transactions. In the month of April, 140,060. The transactions are posted to our accounting system automatically, and, of course, electronically remits payments to the bank card contractor. VA has received $2.7 million in rebates, and has been recognized for this credit card system, with the Hammer Award by Vice President Gore.

Further, Mr. Chairman, we intend and have begun to expand this activity to our Prime Vendor Alternative Payment Program, which will streamline VA's multibillion-dollar prime vendor payment process. Using a payment system based on the credit card system I have just mentioned, VA can now accept an electronic transfer file for prime vendor transactions, post those transactions to our accounting system, and, again remit the electronic payment to the contract bank.

Thank you for this opportunity to share our views and innovative initiatives on electronic commerce as it relates to the Debt Collection Act.

Mr. HORN. Well thank you very much Mr. Catlett.

[The prepared statement of Mr. Catlett follows:]

STATEMENT BY
THE HONORABLE D. MARK CATLETT
ASSISTANT SECRETARY FOR MANAGEMENT AND
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT
MANAGEMENT, INFORMATION, AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

JUNE 18, 1997

INTRODUCTION

Mr. Chairman, members of the Subcommittee, it is my pleasure to testify on behalf of the Department of Veterans Affairs (VA) concerning the Debt Collection Improvement Act (DCIA) of 1996 and the provision for mandatory electronic funds transfer (EFT) for all payments effective January 1, 1999. I am here today to provide you some insight into our electronic commerce activities with the thousands of vendors we do business with daily that are vital to our accomplishing the VA mission.

OVERVIEW

The VA realized some time ago that EFT, electronic data interchange (EDI) and electronic commerce (EC) was the business solution to streamlining procurement and payment processes. VA developed as early as 1995 an Electronic Commerce Strategic Plan for the completion of a series of EDI/EC improvements to every major processing system within VA. With the completion of these improvements, VA met its goals as outlined in the EC Strategic Plan. VA now provides a number of alternative solutions for EC/EDI and EFT processing including use of the International Merchant Purchase Authorization Card (IMPAC) for micro purchases and a prime vendor payment system for purchases for pharmaceutical and hospital supplies. In combination, EDI and EC alternative solutions have led VA to be one of the leading agencies in promoting EC solutions to acquisition, finance, and payment related processes.

While VA has successfully enhanced its Electronic/EDI Request for Quotation capability through Value Added Networks (VANs), emphasis is being placed on developing full use of transmitting both requests for proposals (RFPs) and Requests for Quotations (RFQs) on the Internet. The Internet can serve both as an inexpensive transport vehicle and as an alternative ordering method to eliminate the manual ordering process.

VA continues to be a lead agency in successfully processing invoices and related payment data electronically. Currently, VA processes 30% of its invoices, 99.6% of its receiving reports, and 49% of its vendor payments electronically.

Through development of EFT payment capabilities and enthusiastic promotional efforts, VA has been highly successful in significantly increasing the number of payees receiving salary, travel, and benefit payments.

Through the EC/EDI/EFT processes, programs currently in place, and the significant enhancements scheduled for implementation in the immediate future, VA offers a comprehensive EC/EDI/EFT program. All of these electronic commerce initiatives have resulted in a reduction of close to 10 million paper transactions. This has benefited VA, its trading partners, and the various payment recipients. VA has positioned itself strongly in being able to provide mandatory electronic payment services effective January 1, 1999, as mandated by the Debt Collection Improvement Act of 1996.

UPDATE

The following is an update to some of the more important EC initiatives currently being promoted:

EDI

VA utilizes a full EDI cycle for the procurement and payment process. At the end of April 1997, VA had 485 trading partner relationships established with vendors wishing to receive electronic Requests for Proposals (RFP) to submit offers. During FY 1996, VA received 180,000 EDI invoices (not including credit card transactions).

VA's Austin Finance Center (AFC) staff worked closely with Treasury's Austin Regional Finance staff to implement the first application of the American National Standard Institutes (ANSI) X-12 820 payment instruction/remittance advice. By the end of FY 1996, over 40% of VA's payments were issued as EDI EFT payments. To promote EFT participation, in May 1997 VA mailed letters to over 50,000 of VA's 200,000 vendors receiving paper checks, requesting that they convert to EFT. To-date, we have had responses from almost 11,000 vendors. In June 1997, VA will mail to a second group of 50,000 vendors and will continue this process until all vendors have been contacted and enrolled.

We are also expanding the use of EDI to improve other business practices. For example, VA now uses the ANSI X-12 820 transaction set to transmit to State taxing authorities taxes withheld from employees' salaries, along with other detailed information required to post the amounts withheld. Based on the success of the pilot, VA has expanded this project and is currently working with the Federation of Taxing Authorities to encourage local taxing authorities to accept EDI/EFT payments. VA was the first Federal agency to interact electronically with all State taxing authorities for withholding tax.

VA medical centers provide medical care that may be covered by veterans' personal health insurance. VA has initiated a pilot test to transmit this billing information in an ANSI X-12 837 format, called a Health Care Claim. In addition, some veterans are authorized to receive health care services at facilities outside of the VA system. A pilot test is in place to receive these billings electronically as an ANSI X-12 837 transaction as well.

We are currently working on a pilot with VA's Veterans Benefits Administration to utilize EDI processes to send and receive inquiries and responses from banks holding VA guaranteed loans.

PURCHASE CARD

The IMPAC Visa Purchase Card is used almost exclusively in the Department for micro-purchase transactions (those under $2,500). The program has seen unprecedented expansion during the past year, growing from less than 1% of micro-purchases on purchase cards during FY 1995, to over 90% in April 1997. This is due largely to VA's internally developed Credit Card System (CCS). This system electronically processes all VA's Visa transactions (over 140,000 in April 97, representing $74 million), posts them to VA's accounting system, and electronically remits payment to the bank card contractor. VA has also received $2.7 Million in IMPAC rebates and was awarded Vice President Gore's prestigious Hammer Award for development and implementation of the CCS.

PRIME VENDOR

A related initiative, the Prime Vendor Alternative Payment Program, is streamlining VA's multi-billion dollar Prime Vendor payment processing. Using a payment system based on the Credit Card System (CCS), VA can now accept an electronic transaction file for Prime Vendor transactions, post those transactions to VA's accounting system, and remit an electronic payment to the contract bank for all processed transactions.

I thank you for this opportunity to share our views and innovative initiatives on electronic commerce as it relates to the Debt Collection Improvement Act of 1996.

Mr. HORN. Could you tell us, is there any experience we have in terms of auditing where electronic data interchanges are more difficult to audit than paper ones? What do we know about that when it gets—have you had any chance to even look at possible fraud, that kind of thing?

Mr. CATLETT. Mr. Chairman, I'll get that for the record. In general, I know our Inspector General has begun to look at this issue as we have expanded greatly, particularly in the credit card area. The general information that I have for you today is that there is less fraud and less chance for abuse in that program. I don't believe we have an official report from the IG, but they have done some preliminary investigative work, and I'll be glad to provide that for the record.

[The information referred to follows:]

Department of
Veterans Affairs

Office of Inspector General

EVALUATION OF ELECTRONIC DATA INTERCHANGE (EDI) IMPLEMENTATION IN VA

VA's implementation and use of EDI holds significant potential to streamline key Department business functions.

REPORT NO. 5D2-G07-096
DATE: SEPTEMBER 22, 1995

Office of Inspector General
Washington DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Assistant Secretary for Management (004)

Evaluation of Electronic Data Interchange (EDI) Implementation in VA

1. The purpose of the project was to evaluate the Department of Veterans Affairs (VA) Electronic Data Interchange (EDI) implementation efforts and identify opportunities for enhancements in system operations and controls. The project focused on current EDI implementation initiatives in the acquisition and finance program areas and future Departmental expansion opportunities.

2. EDI is a fundamental change to VA purchasing which results in paperless procurements that use computers to facilitate the electronic exchange of business documents between VA and trading partners (vendors). The Office of Management and Budget has recognized VA as a leader in developing EDI within the Federal Government. VA was one of the first agencies to comply with the President's mandate to have an initial capability to issue Request for Quotations (RFQ) electronically by the end of Fiscal Year 1994. VA has established an EDI processing center at the Austin Automation Center (AAC) that can electronically transmit purchase orders, and receive purchase order acknowledgments and invoices with participating trading partners. Also, implementation of electronic RFQs is in process. The Department's EDI implementation effort is in the initial stages of expansion and the current operating environment involves a relatively small number of trading partners and associated transactions. However, significant potential exists for use of EDI in a number of VA program areas. A VA consultant estimated that efficiencies of $499 million over a 5-year period could be achieved by replacing commonly used business documents with their electronic equivalents.

3. Since the Department is in the initial stages of EDI implementation, our evaluation focused on providing an early assessment of implementation and identifying opportunities to enhance VA's efforts. We concluded that the EDI processing center's facilitation of the electronic processing of purchases with trading partners has the potential for significant expansion beyond current transaction processing levels. There are adequate controls over system operations at the AAC and our system processing tests found that information being transmitted by VA facilities and trading partners is reliable and processed accurately. The establishment of this processing capability represents a significant achievement for the Department and holds future promise to streamline key VA business functions in a number of areas. This streamlining has the potential to reduce operating costs, improve productivity, provide more effective exchange of information between VA and its business partners, and improve service to beneficiaries.

4. As the Department moves beyond its current initial implementation efforts in the acquisition and finance program areas, we believe that attention now needs to focus on assessing implementation results, identifying impact on program operations, and preparing a strategic marketing plan to facilitate and encourage the significant expansion opportunities that potentially could be achieved. This focus will help assure that the results of EDI implementation are effectively tracked, actual impact on program operations identified, and implementation efforts are appropriately directed and adequately supported. While our review of the EDI initiatives in the acquisition and finance program areas identified examples of program operating efficiencies and benefits from using EDI, we also found varied acceptance and use by field facilities which needs to be considered in focusing the Department's marketing strategy to expand EDI use in these program areas. Our evaluation identified opportunities to enhance VA's expansion efforts and use of EDI in these program areas through (i) improved tracking of field facility transaction information to measure and assess EDI usage and provide Department-wide procurement oversight over these purchases, (ii) system modifications, (iii) improved contingency planning, and (iv) security controls over field facility staff access to key automated acquisition and financial information.

5. The Department also needs to begin developing a strategic plan to facilitate and guide future expansion initiatives that builds upon the EDI processing capabilities that have been established at the AAC. This plan should consider use of the processing center as an EDI gateway to VA as well as a source for technical assistance and operational support to individual program offices involved with implementation efforts. This should help assure that the Department will effectively address the significant potential efficiencies of using EDI Department-wide and make effective use of the processing center that has been established.

6. The report includes a multi-faceted recommendation to address the issues which are discussed above. The Assistant Secretary for Management concurred with the report recommendation and provided acceptable implementation actions. We consider the report resolved and will follow up on planned actions until they are completed.

Michael G. Sullivan

MICHAEL G. SULLIVAN
Assistant Inspector General
for Auditing

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RESULTS AND RECOMMENDATION

1. VA Should Assure Effective Implementation and Use of Electronic Data Interchange Technology to Streamline Key Department Business Functions

The Department is in the initial stages of Electronic Data Interchange (EDI) implementation. Our evaluation focused on providing an early assessment of implementation and identifying opportunities to enhance VA's efforts. We concluded that the Austin Automation Center (AAC) EDI processing system's facilitation of the electronic processing of purchases with trading partners has the potential for significant expansion beyond current transaction processing levels. *(Description of the EDI transaction processing system is presented on pages 27-30.)* There are adequate controls over system operations at the AAC and our system processing tests found that information being transmitted by VA facilities and trading partners is reliable and processed accurately. *(Key EDI system security controls are discussed on page 31.)* While the Department's EDI implementation efforts are in the initial stages of expansion, significant potential exists for use of EDI in a number of VA program areas with estimated efficiencies of $499 million over a 5-year period.

As the Department moves beyond its current initial implementation efforts in the acquisition and finance program areas, we believe that attention now needs to focus on assessing implementation results, identifying impact on program operations, and preparing a strategic marketing plan to facilitate the significant expansion opportunities that potentially could be achieved in these program areas. While our review did identify examples of operating efficiencies and benefits from using EDI in the acquisition and finance program areas, we also found varied acceptance and use by field facilities which needs to be considered in focusing the Department's marketing strategy to expand EDI use. Our evaluation identified opportunities to enhance VA's expansion efforts and use of EDI in these program areas through (i) improved tracking of field facility transaction information to measure and assess EDI usage and provide Department-wide procurement oversight over these purchases, (ii) system modifications, (iii) improved contingency planning, and (iv) security controls over field facility staff access to key automated acquisition and financial information.

The Department also needs to begin developing a strategic plan to facilitate and guide future expansion initiatives that builds upon the EDI processing capabilities that have been established at the AAC. This should help assure that the Department will make effective use of the processing center and address the significant potential efficiencies of using EDI Department-wide to streamline key VA business functions in a number of program areas.

Impact of EDI Implementation Initiatives in the Acquisition and Finance Program Areas Needs to be Assessed

As the Department moves beyond its current initial EDI implementation efforts in the acquisition and finance program areas, we believe that attention now needs to focus on assessing implementation results and identifying impact on program operations. This focus will help assure that the results of these EDI initiatives are effectively tracked, actual impact on program operations are identified, and implementation efforts are appropriately directed and adequately supported. The amount of VA's implementation costs and efficiencies associated with the EDI initiatives in these program areas could not be identified. Development of cost/benefit information associated with these EDI initiatives would provide a means to measure and assess the financial impact on the affected program operations. The potential financial impact to the Department from using EDI in these program areas is significant, and has been estimated in a consultant study to total $104 million, over a 5-year period. This represents about 21 percent of the $499 million in estimated Department-wide efficiencies associated with using EDI in a number of VA program areas. (*A summary of potential Department-wide EDI efficiencies is discussed on page 33.*)

Our discussions with VA program officials disclosed that there is a belief that the use of EDI is cost effective, but no Department-wide figures are available that would show this at the current time. Our review did identify some excellent examples of operating benefits associated with using EDI to accomplish the purchasing and invoicing business functions in the acquisition and finance program areas that include the following:

- Facility purchasing agents (PA) do not have to spend time calling vendors for price and quantity quotes. This information is returned by the vendors within 4 days and matched to the information in the purchase order.
- Data entered by the PA is only entered once and agreed to by the vendor. This has simplified the receiving and invoicing processes and made them more accurate and efficient.
- The purchase order information is maintained in automated records, eliminating the need for paper processing by acquisition and finance staff.
- The purchase orders get to the vendor on the same day and an acknowledgment is received versus no acknowledgment if the order is mailed.
- The Austin Finance Center (AFC) has been able to reduce the number of data input clerks by eight.
- One facility has been able to absorb a 20 percent cut in purchasing agent staff, from 5 to 4, through EDI efficiencies and still maintain the needed flow of goods and services to customers.

While our review has clearly shown that the use of EDI has provided selected operating benefits to VA in the acquisition and finance program areas, a more comprehensive Department-wide assessment of implementation results and efficiencies being achieved should be completed. This would provide VA with the information needed to adequately measure and track the Department-wide impact of using EDI in these program areas, to encourage others in the Department to use EDI, and to help guide and facilitate the significant expansion opportunities that remain to be achieved.

Strategic Marketing Plan Should be Prepared to Guide and Facilitate EDI Expansion Efforts

Key to the successful expansion of the Department's EDI initiatives is effective recruitment of trading partners and user acceptance of this technology by program elements. While finance center staff at Austin, Texas have been engaged in recruiting trading partners since 1987, this has been a slow process with limited staff resources. A significant effort remains to add necessary trading partners to reach the much higher potential transaction processing levels that can be achieved. While additional staff resources have been recently provided, no strategic marketing plan has been developed on how this significant effort will be accomplished.

VA's current EDI operating environment involves a relatively small number of trading partners and associated transactions, but significant potential exists for expansion. As of June 1995, the Department was electronically ordering supplies from 81 vendors and receiving invoices from 153 vendors. In the third quarter of fiscal year 1995, the Department completed 11,499 purchase order transactions valued at about $10 million and 96,360 invoice transactions valued at about $110 million. The potential number of vendors is 189,000 with approximately 250 that represent 50 percent of VA's procurement workload. The potential exists for annual EDI processing of about 1.5 million purchase orders and 1.4 million invoice transactions valued at $1.6 billion.

Given the significant potential for expansion of EDI use and its benefits to the Department, we believe that VA's opportunity to effectively achieve these expanded processing levels would be enhanced with development and execution of a strategic marketing plan. Such a plan could help guide and facilitate VA's substantial remaining EDI expansion efforts and should include identification of goals and objectives to be achieved and an implementation schedule. The plan should also include the marketing of EDI use within the Department concerning what EDI is, how it works, and its benefits to program operations. Our evaluation identified varied levels of acceptance and use of EDI at the facilities visited, which is a key implementation issue that should be addressed as a part of a strategic marketing plan. At the Houston, Texas VA Medical Center, purchasing staff were using the manual steps associated with needed Integrated Funds Distribution Control Point Activity Accounting and Procurement (IFCAP) system modifications as an excuse not to use EDI. (*Needed modifications are discussed on page 5.*) In contrast, purchasing staff at the Olin Teague Veterans Center at Temple, Texas believed in the effectiveness of EDI and were using it when ever possible.

EDI Processing Center Transaction Data Can be Used to Assess Implementation Efforts and Enhance Department-wide Procurement Oversight

Since all EDI transactions go through a central processing center, VA has an opportunity to capture key information on individual facility EDI usage and on Department-wide procurement activity. While the Department has not been capturing this information, our review found that EDI transaction data could be used to assess facility implementation efforts and provide enhanced Department-wide procurement oversight.

As part of our review, our OIG Technical Support Staff at Austin, Texas prepared a program to extract nationwide statistics, by facility, to identify the number and dollar value of EDI processed transactions through the Austin EDI processing center. Our analysis of quarterly data from calendar years 1993, 1994 and the first half of 1995 disclosed a significant variance in the number of EDI transactions being processed by individual facilities. The number of purchase order transactions recently processed by facility ranged from 0 to a high of 282. Our discussions with acquisition officials disclosed that this information would be of value both for tracking the progress of EDI implementation at individual facilities as well as in providing statistics for Department reporting. Acquisition program officials indicated a desire to use the automated extract programs that we prepared to establish data base files on individual facilities. In response, we provided the program officials with the EDI transaction data extracted, the statistics we developed, and the automated programs used to analyze the data. (*A summary of the highest and lowest number of EDI transactions processed by facility is on page 23.*)

We also collected and analyzed EDI transaction records containing key item and vendor purchasing data that can be obtained from the Austin EDI processing center files. We utilized this data to develop statistics on the number of transactions processed by facility and the dollar value of the transactions, which was discussed earlier in the report. Key procurement information that can be obtained from EDI transaction records include:

- Vendor name and address.
- National stock number.
- Manufacturer part number.
- Quantity ordered.
- Unit of measure.
- Unit cost.
- Contract number.
- Item expanded description.

With the significant potential for future EDI processing of $1.6 billion in annual purchases, VA should consider using EDI transaction records to enhance Department-wide procurement oversight. This information would provide a central repository of national procurement data that could be used to identify and evaluate procurement sources and prices paid. We believe that use of EDI transaction data will be helpful to the Department both in assessing facility implementation efforts and in providing an opportunity for enhanced Department-wide procurement oversight.

System Modifications Need To Be Completed To Enhance EDI Procurement Transaction Processing

Completion of key modifications to VA's Integrated Funds Distribution Control Point Activity Accounting and Procurement (IFCAP) system can streamline EDI transaction processing and expand transaction processing capabilities. Needed modifications to IFCAP were requested in 1993, but implementation dates have not yet been established. These delays have occurred because implementation of the Financial Management System (FMS) has taken precedence over all but emergency changes to IFCAP. Now that the Department-wide implementation of FMS is nearing completion, we believe priorities should be established to complete these needed modifications. We have been advised that a new IFCAP Oversight Group has been established and will be involved with setting priorities for implementation of IFCAP system modifications in the future.

The key modifications to IFCAP that would result in greater EDI operational efficiencies include the following:

- A modification is needed to speed up the release of purchase orders to the EDI system. Currently, IFCAP delays the release of EDI purchase orders until fiscal service obligates the funds for the purchase. This can delay purchases several days. A requested modification to IFCAP would allow the release of purchase orders into the EDI system prior to obligation in fiscal so long as the control point has not exceeded its ceiling for the quarter. A modification to IFCAP to accomplish this task should include controls to prohibit the over obligation of any control point.

- A modification is needed to assure that purchase orders have been processed through the EDI processing center to the vendor. A modification to perform an internal match of purchase orders sent to those accepted is pending. Currently, this match requires a manual procedure to be performed by facility acquisition staff. This modification would allow for more efficient use of acquisition staff resources and assure that all purchase orders have been processed correctly to the vendors.

- A modification is needed to allow EDI to process certified invoices. Currently, Pharmacy Prime Vendor purchase orders and invoices are not processed through the

Austin EDI operation. Pharmacy Prime Vendor purchase orders are submitted through proprietary software to the Prime Vendor with whom the facility has contracted. In addition, IFCAP cannot process certified invoices resulting from the delivery of pharmaceuticals from a purchase order not initiated in IFCAP. A requested modification to IFCAP to allow for processing of certified invoices would alleviate this inability to process Pharmacy Prime Vendor invoices. Processing these invoices using EDI could add approximately 13,000 procurement transactions per month totaling $57 million. The Department is now contracting to obtain medical and surgical supplies (med/surg) and subsistence goods using Prime Vendors. Specifications in the med/surg contract include the requirement that contractors have the capability to process both purchase orders and invoices through EDI, and for invoices for subsistence contractors.

Operating Contingency Plans Need to be Completed and Tested to Ensure EDI Processes Can Continue in the Event of a Disaster

Our review found that Department EDI contingency planning needs to be enhanced to ensure continuity of operations in the event of a disaster. The Austin Automation Center has a contingency plan in place that includes the EDI processing center, and has performed annual tests of the plan. However, the Austin Finance Center needs to complete and test an operating contingency plan that covers its activities associated with EDI transaction processing to resolve those EDI invoices that do not match the receiving and obligation reports. At the field facilities we visited, operating contingency plans had been prepared, but not tested. Appropriate testing of these plans will help assure that the ordering and invoicing functions associated with EDI processing will be carried out, should existing access to the computer systems becomes unavailable. Completion and testing of EDI operating contingency plans will help provide assurance that VA can continue to carry out these key business functions in the event of a disaster or other events that cause a disruption of operations.

Security Controls at Field Facilities Need to be Enhanced to Prevent Unauthorized Access, and Manipulation of Procurement and Financial Data

Our review found that appropriate separation of duties needs to be assured for field facility staff with broad access to automated acquisition and financial information associated with processing of EDI transactions. At one medical center visited an individual had unlimited access to the financial, procurement, and security systems giving him the ability to initiate, pay and remove any audit trail of these transactions. This individual was both the IFCAP coordinator and the Information Security Officer, so no one else was monitoring his access capability. At both medical centers we visited, the majority of Information Resources Management system analysts and programmers had access to all the acquisition and finance files and systems giving them the ability to add, change, or destroy any of the information maintained without leaving an audit trail. Appropriate separation of duties needs to be assured to provide adequate controls over staff access and use of key automated facility acquisition and financial information.

A Strategic Plan Needs To Be Developed To Facilitate And Guide Future Department EDI Initiatives

Our review found that the Department needs to begin developing a strategic plan to facilitate and guide future EDI expansion initiatives that builds upon the processing capabilities that have already been established at the Austin EDI processing center. With establishment of this processing center, we believe the Department should consider use of this capability to expand EDI processing to other Departmental program areas. Our review identified areas where VA program offices are independently considering or are pursuing EDI implementation initiatives which could result in unnecessary duplication of effort and investment costs that have already been made to establish the existing EDI processing center. Department preparation of appropriate EDI strategic implementation plans would help assure that expansion efforts are properly directed and coordinated and help avoid potential duplication of effort and limit "stovepiping" of systems.

As part of our evaluation, we discussed potential future EDI initiatives with program officials in the Civilian Health and Medical Program of VA (CHAMPVA), Veterans Benefits Administration's (VBA) Education Service, and the Medical Care Cost Recovery (MCCR) program areas.

Our discussions with members of the CHAMPVA staff determined that they are currently only doing file transfers of pharmacy data that is not transmitted in a national standard format, and therefore is not considered EDI. However, they have received budgetary authority for an additional seven employees to perform a feasibility study of implementing EDI to assist in processing claims. We also found that VBA is currently transmitting files electronically, but not in a standard format. Stage III of the VBA Modernization effort contains a functional requirement to perform EDI. Our contact with MCCR staff found that they plan to develop an application using EDI to collect copayments.

In our discussions with Central Office Information Resources Management program officials, we were advised that an EDI Coordinator had been appointed and there had been an EDI task force. However, there has been very limited contact between the EDI Coordinator and prospective EDI users. Also, an EDI task force has not been meeting. We believe that the EDI Coordinator and a task force should be key elements and actively involved in any Department EDI strategic planning, coordination, and implementation activities.

With the establishment of the Austin EDI processing center, the Department should consider use of this capability to expand EDI processing to other Departmental program areas. We believe that, as other VA elements move toward use of EDI, the Department should ensure appropriate coordination and use of the technical experience and operational support available at the Austin EDI processing center. The Austin staff has gained experience and knowledge that could be invaluable in ensuring that appropriate controls and security are in place for all applications brought on line in the future. The EDI processing center should be utilized as the single EDI gateway for VA and serve as a source for technical assistance and operational support to other program offices. This approach could result in:

- Reduction of capital investment for equipment.
- Reduced start up time.
- Minimized delays in full scale processing capability.
- Minimized time spent identifying and resolving inter-business problems.

Lastly, use of a single VA entry point for all EDI data processing could result in certain economies of scale by negotiating uniform agreements and having a single face with trading partners; Value Added Networks (VANs) which VA uses to transmit data to, and receive data from vendors; and other government agencies. In addition to serving the needs of VA, the Austin EDI processing center has begun plans to institute a Network Entry Point (NEP) for other government agencies to transmit EDI data to VAN's. We believe that completion of this NEP will allow VA to continue its current position as a government leader in the areas of purchasing and invoicing through EDI.

<u>Conclusion</u>

EDI Holds Significant Potential to Streamline Key Department Business Functions

Our review found that the Department's EDI implementation efforts are in the initial stages of expansion, but significant potential exists to use EDI to streamline key Department business functions. As the Department moves to expand EDI use in the acquisition and finance program areas, attention now needs to focus on assessing implementation results, identifying impact on operations, and preparing a strategic marketing plan to facilitate and guide implementation efforts. Our review identified opportunities to enhance VA's expansion efforts and use of EDI in these program areas through (i) improved tracking of field facility transaction information to measure and assess EDI usage and provide Department-wide procurement oversight over these purchases, (ii) system modifications, (iii) improved contingency planning, and (iv) security controls over field facility staff access to key automated acquisition and financial information. The Department also needs to begin developing a strategic plan to facilitate and guide future expansion initiatives for streamlining other business functions that builds upon the processing capabilities that have been established at the Austin EDI processing center.

For More Information

- *A summary of individual facility EDI transaction processing levels is included in Appendix III on pages 17-23.*
- *A comparison of procurement and finance EDI use to the potential is included in Appendix IV on pages 25-26.*
- *A description of EDI system transaction processing is included in Appendix V on pages 27-30.*
- *A description of key EDI system security controls is included in Appendix VI on page 31.*
- *A summary of potential efficiencies associated with using EDI is included in Appendix VII on page 33.*

Recommendation 1

We recommend that the Assistant Secretary for Management take the following actions that can enhance current EDI implementation initiatives in the acquisition and finance program areas and assure the adequacy of future planning, implementation, and oversight of VA's use of this technology by:

a. Developing cost/benefit information and assessing current implementation results and impact on operations in the acquisition and finance program areas.

b. Preparing a strategic marketing plan to guide, encourage, and facilitate the significant expansion opportunities that remain to be achieved in the acquisition and finance program areas.

c. Completing necessary system modifications at the Austin EDI processing center that will provide nationwide statistics, by facility, on EDI usage and purchases to help facilitate implementation assessment and also enhance Department-wide procurement oversight.

d. Assuring that appropriate priorities are established and an implementation schedule prepared to complete IFCAP system modifications that can help streamline current EDI transaction processing at field facilities and facilitate expansion of transaction processing levels.

e. Requiring completion and testing of EDI operating contingency plans at the Austin Finance Center and at field facilities to assure continuity of operations should access to computer systems becomes unavailable in the event of a disaster or other events that disrupt operations.

f. Assuring that appropriate separation of duties is established for field facility staff who have broad access to automated acquisition and financial information that is used in EDI transaction processing.

g. Developing a strategic plan for the Department to facilitate and guide future expansion initiatives that builds upon the processing capabilities that have been established at the Austin EDI processing center.

Assistant Secretary for Management Comments

The Assistant Secretary for Management concurred with the recommendation. The comments indicated that action will be taken to complete an impact assessment of EDI implementation results using an independent contractor to accomplish the study. Work is also in process to complete a strategic EDI marketing plan. Development of a strategic plan for the Department to facilitate and guide future expansion initiatives will be addressed at a September 1995 meeting of key Department program officials involved with the current EDI implementation efforts. Plans are also being prepared to implement statistical gathering of EDI transaction information to provide nationwide information on EDI usage and purchases. The comments also indicate that appropriate actions will be taken to complete and test EDI operating contingency plans at the Austin Finance Center and accomplish system modifications to enhance EDI transaction processing involving VA's Integrated Funds Distribution Control Point Activity Accounting and Procurement System.

Implementation Plan

The Assistant Secretary provided appropriate implementation actions that address the EDI enhancement opportunities discussed in the report. The planned actions along with target completion dates are discussed on pages 36 to 38.

(See Appendix VIII on page 35 for the full text of the Assistant Secretary's comments

Office of Inspector General Comments

The Assistant Secretary's comments and planned actions are responsive to the recommendation. We consider the recommendation resolved and will follow up on the planned actions until they are completed.

The comments provided an explanation of the current VA policy concerning assignment of facility information security duties. We believe that this policy if followed, should provide facility management with the guidance needed to assure that appropriate separation of duties is established for field facility staff who have broad access to automated acquisition and financial information that is used in EDI transaction processing. At the one facility where we found a problem with separation of information security duties, facility management agreed to take appropriate action to correct the situation. Also, during our field visits we were advised by facility management that required testing of their EDI contingency plans, as discussed in the report, would be completed to assure that the ordering and invoicing functions associated with EDI processing will be carried out.

APPENDIX I

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The evaluation was conducted to identify the current status of VA's efforts to utilize EDI and to examine plans for future expansion of EDI use. We also evaluated the impact of EDI initiatives in the acquisition and finance programs that already make use of the technology. Lastly, we reviewed EDI system operations, controls, security measures and opportunities for enhancements.

Scope and Methodology

Our evaluation of EDI operations considered current Federal Information Processing Standards (FIPS), VA ADP Policy, Federal government ADP guidance, Federal procurement standards, American National Standards Institutes (ANSI) standards, and public laws defining requirements for security protection of information maintained in government ADP systems.

During the evaluation we assessed the current implementation of EDI, the planned expansion of EDI usage, current operating procedures, physical and electronic controls, and disaster recovery and contingency plans. We also reviewed the results of a consultant study on potential Department-wide efficiencies from using EDI.

Assessments of current implementation plans and planned expansion include contacts with officials in: VA's Office of Acquisition and Materiel Management; Information Resources Management; Veterans Health Administration Office of Medical Care Cost Recovery (MCCR) and Civilian Health and Medical Program for VA (CHAMPVA); Veterans Benefits Administration Office of Information Technology, Education Service and Loan Guaranty Service; and, the Office of Management and Budget Office of Federal Procurement Policy.

Assessments were conducted by interviewing appropriate program officials in Central Office and at selected field locations to obtain necessary documentation, observe operations, and analyze EDI transaction processing. Field visits were completed at the Austin Automation Center, Austin Finance Center, VA Medical Center Houston, Texas, and the Olin E. Teague Veterans Center, Temple, Texas. We also reviewed information contained in the Trading Partner Agreement governing transactions with the vendors.

The evaluation was conducted in accordance with the standards for evaluation practice published by the Evaluation Research Society.

BACKGROUND

The Federal Government's future use of Electronic Data Interchange (EDI) was mandated by the President in an Executive Order dated October 26, 1993. EDI is a fundamental change to VA purchasing which results in paperless procurements. It is an electronic transmission of information between VA and a vendor without the use of the familiar paper documents with dates, signatures, stamps, etc. to assure that purchases and payments have been properly reviewed, authorized, and accounted for. The net result is the need for reliance on controls in all EDI programs and operating environments involved in the transaction.

While the use of EDI in the Federal Government is now an expanding initiative, EDI has been in use by private industry since the late 1960's when the transportation industries developed EDI to help alleviate delivery delays that resulted from large volumes of paper documentation. Today, approximately 50 industries worldwide use EDI.

EDI transactions are formatted following predetermined standards which facilitate the exchange of structured business data in a standard format from the computer system of one organization to the computer system of another, via a telecommunications network. The data is routinely exchanged electronically between buyers and sellers without human intervention. The standard format that must be followed by the Federal Government, and is used in the VA, is the American National Standards Institute (ANSI) X12.

VA is a member of a Government-wide Electronic Commerce Acquisition Team (ECAT) which was formed in January 1994. This is an inter-agency group of information systems, acquisition, and finance program representatives that have been tasked to produce the architecture that will be implemented Government-wide. The goal is to establish a single electronic method of exchanging procurement information between the private sector and the Federal Government as mandated by the President. By January 1997, the Government-wide implementation of Electronic Commerce (EC) is to be effected to the maximum extent possible. EC is the automated conduct of business processes using a comprehensive, end-to-end exchange of documents and monetary transfers that are in electronic form. EC is carried out using EDI, electronic mail (E-mail), electronic bulletin boards, electronic funds transfer (EFT), and other similar technologies.

VA is currently in the process of establishing the necessary telecommunications hardware and software at the Austin Automation Center (AAC) to enable the Department to serve as a civilian agency network entry point (NEP) for the Government-wide architecture. Initially, the Department of Defense will provide the network entry points for data flowing between government agencies and those Value Added Networks (these are third-party networks that store and forward EDI documents for trading partners) and trading partners supporting the Government-wide architecture.

Prior to this recently initiated Government-wide effort, VA began implementing automated processing of invoices in 1987. By 1992, VA began processing purchase orders and purchase order acknowledgments. VA has taken the lead in developing EDI within the Federal Government and was one of the first agencies to comply with the President's mandate to have an initial capability to issue request for quotations (RFQs) electronically by September 30, 1994.

VA's EDI program operations and development are managed jointly by financial and acquisition staff with systems support from the AAC. VA's EDI system can electronically transmit purchase orders, purchase order acknowledgments, and invoices with participating trading partners. VA has also successfully pilot tested electronic RFQ processing and is proceeding with Department-wide implementation.

VA currently processes two types of purchase orders using EDI: delivery orders against contracts which were negotiated using normal paper trails and small purchase orders under $25,000. VA's EDI operating environment involves a relatively small number of trading partners (vendors). Acquisitions can electronically order supplies from 81 vendors while finance can electronically process payments to 153 vendors. The potential number of vendors is 189,000 with approximately 250 that represent 50 percent of VA's procurement workload.

SUMMARY OF INDIVIDUAL FACILITY EDI PROCESSING LEVELS

Facility Transactions for the Period January 1, 1993 to June 30, 1995

Facility Number	Facility Name	CY93 Quarter 1	CY93 Quarter 2	CY93 Quarter 3	CY93 Quarter 4	CY94 Quarter 1	CY94 Quarter 2	CY94 Quarter 3	CY94 Quarter 4	CY95 Quarter 1	CY95 Quarter 2	Facility Totals
101	VACO	9	0	25	186	74	59	53	227	91	26	750
200	AAC AUSTIN	0	0	0	0	0	0	0	0	0	2	2
313	BALTIMORE RO	0	0	0	0	0	0	0	0	0	1	1
314	ROANOKE RO	0	0	0	0	0	0	0	2	2	1	5
323	JACKSON RO	0	0	0	0	0	0	0	1	0	1	2
335	ST. PAUL RO&IC	0	0	0	0	0	0	0	4	0	1	5
343	SAN FRANCISCO RO	0	0	0	0	0	0	0	0	5	2	7
345	PHOENIX RO	0	0	0	0	0	0	0	0	0	2	2
350	LITTLE ROCK RO	0	0	0	0	0	0	0	0	1	2	3
393	JACKSON VBAO	0	0	0	0	0	0	0	1	0	0	1
402	TOGUS M&ROC	0	0	6	26	40	38	39	99	102	80	430
405	WHITE RIVER JUNCTION	0	0	3	17	38	56	50	91	118	99	472
436	FORT HARRISON M&ROC	0	0	0	0	15	37	27	50	58	60	247
437	FARGO M&ROC	0	0	0	24	28	32	33	82	124	98	421
438	SIOUX FALLS M&ROC	0	0	0	19	39	59	35	59	88	51	350
442	CHEYENNE M&ROC	0	0	0	4	21	20	18	45	50	25	183
452	WICHITA M&ROC	0	0	0	19	40	48	37	60	54	68	326
459	HONOLULU	0	0	0	0	0	0	0	0	0	0	0
460	WILMINGTON M&ROC	0	7	12	29	37	31	26	65	88	75	370
463	ANCHORAGE OPC/RO	0	0	0	9	11	9	5	4	8	26	72
500	ALBANY	0	0	0	22	26	38	39	64	91	45	325
501	ALBUQUERQUE	40	22	15	24	81	121	92	185	282	194	1056
502	ALEXANDRIA	0	0	7	12	28	54	36	98	123	87	445
503	ALTOONA	0	1	8	22	28	38	28	66	96	58	345
504	AMARILLO	0	0	3	17	28	39	28	32	60	63	270
505	AMERICAN LAKE	0	0	0	0	17	23	24	49	76	63	252
506	ANN ARBOR	0	0	0	18	48	65	45	122	98	54	450
508	DECATUR	0	0	0	25	51	81	51	97	94	83	482
509	AUGUSTA	0	0	0	0	27	40	60	101	145	79	452
512	BALTIMORE	0	3	16	24	43	43	53	148	136	86	552
513	BATAVIA	0	0	0	25	27	34	17	74	76	48	301
514	BATH	13	12	8	10	19	17	20	46	60	45	250
515	BATTLE CREEK	0	0	1	13	12	17	27	45	78	48	241
516	BAY PINES	0	0	0	6	38	41	25	76	90	85	361

Facility Number	Facility Name	CY93 Quarter 1	2	3	4	CY94 Quarter 1	2	3	4	CY95 Quarter 1	2	Facility Totals
517	BECKLEY	0	3	7	11	17	28	25	80	84	75	330
518	BEDFORD	0	0	2	11	9	19	6	23	52	27	149
519	BIG SPRING	0	0	1	11	18	26	22	52	75	59	264
520	BILOXI	0	0	1	6	7	8	10	51	95	114	292
521	BIRMINGHAM	0	0	5	11	48	92	49	126	179	107	617
522	BONHAM	0	0	3	6	15	12	13	48	66	51	214
523	BOSTON	0	0	0	0	0	0	8	37	74	106	225
525	BROCKTON/WEST ROXBUR	0	0	5	21	36	31	26	70	177	129	495
526	BRONX	0	0	1	14	10	21	8	47	120	90	311
527	BROOKLYN	0	0	0	0	0	0	0	0	59	71	130
528	BUFFALO	0	0	9	24	34	40	26	83	75	44	335
529	BUTLER	0	3	14	8	13	12	7	48	57	45	207
531	BOISE	0	0	0	30	26	33	25	55	89	85	343
532	CANANDAIGUA	0	0	2	8	10	22	19	38	65	29	193
533	CASTLE POINT	0	0	0	0	0	32	51	87	129	112	411
534	CHARLESTON	0	0	4	16	43	75	58	121	164	125	606
535	CHICAGO LS	0	0	0	2	13	22	15	48	88	100	288
537	CHICAGO WS	0	0	0	0	0	0	0	10	54	40	104
538	CHILICOTHE	0	0	0	12	14	14	5	44	81	63	233
539	CINCINNATI	0	0	1	11	38	53	43	102	148	98	494
540	CLARKSBURG	0	5	19	14	29	46	31	86	129	74	433
541	CLEVELAND	0	0	0	0	58	70	48	118	194	108	596
542	COATESVILLE	0	7	7	13	15	29	19	33	49	47	219
543	COLUMBIA MO	0	0	1	24	40	46	24	66	95	67	363
544	COLUMBIA SC	0	0	0	8	21	22	16	27	24	11	129
546	MIAMI	0	0	5	17	46	66	62	126	183	108	613
548	PALM BEACH COUNTY	0	0	0	0	0	0	0	40	49	70	159
549	DALLAS	0	0	13	16	32	41	29	102	93	81	407
550	DANVILLE	0	0	0	12	20	39	33	68	84	22	278
552	DAYTON	0	0	0	10	13	19	17	55	68	50	232
553	ALLEN PARK	0	0	0	0	0	16	55	147	160	120	498
554	DENVER	0	0	0	21	36	40	20	40	72	28	257
555	DES MOINES	0	0	0	19	18	64	54	137	157	111	560
556	NORTH CHICAGO	0	0	0	0	1	1	6	42	66	47	163

Facility Number	Facility Name	CY93 Quarter 1	CY93 Quarter 2	CY93 Quarter 3	CY93 Quarter 4	CY94 Quarter 1	CY94 Quarter 2	CY94 Quarter 3	CY94 Quarter 4	CY95 Quarter 1	CY95 Quarter 2	Facility Totals
557	DUBLIN	0	0	0	3	13	32	27	55	98	57	285
558	DURHAM	0	0	0	17	41	40	30	113	105	74	420
561	EAST ORANGE	0	9	13	14	39	40	27	88	84	88	402
562	ERIE	0	1	10	16	26	28	14	41	62	50	248
564	FAYETTEVILLE,ARK	0	0	11	26	32	32	26	79	94	65	365
565	FAYETTEVILLE,NC	0	0	1	15	23	42	34	85	171	128	499
566	FORT HOWARD	0	0	0	0	3	14	7	31	32	31	118
567	FORT LYON	0	0	0	0	5	9	7	20	24	28	93
568	FORT MEADE	0	0	0	10	17	32	15	56	68	54	252
569	FORT WAYNE	0	0	0	0	24	35	25	63	63	46	256
570	FRESNO	0	0	0	13	28	36	33	68	76	75	329
573	GAINESVILLE	0	0	3	28	37	45	22	118	163	121	537
574	GRAND ISLAND	0	0	0	11	23	19	14	32	57	32	188
575	GRAND JUNCTION	0	0	0	8	27	23	15	34	48	35	190
578	HINES	0	0	0	17	16	31	26	71	112	82	355
579	HOT SPRINGS	0	0	0	5	16	13	19	53	44	35	185
580	HOUSTON	0	6	8	22	75	99	76	101	133	106	626
581	HUNTINGTON	0	6	10	13	32	55	44	94	113	71	438
583	INDIANAPOLIS	0	0	0	10	34	51	23	69	57	73	317
584	IOWA CITY	0	0	1	23	39	66	50	102	160	105	546
585	IRON MOUNTAIN	0	0	0	9	15	22	12	51	90	34	233
586	JACKSON	0	0	14	29	51	51	38	84	139	101	507
589	KANSAS CITY,MO	0	0	0	0	0	0	0	0	0	1	1
590	HAMPTON	0	9	18	39	62	79	40	131	133	90	601
591	KERRVILLE	0	0	0	10	42	52	50	155	253	203	765
592	KNOXVILLE	0	0	0	12	17	34	20	62	94	71	310
594	LAKE CITY	0	0	4	25	38	44	36	95	129	98	469
595	LEBANON	0	6	10	12	24	45	41	77	116	86	417
596	LEXINGTON	14	31	20	22	42	76	56	104	131	75	571
597	LINCOLN	0	0	0	39	37	54	45	70	98	41	384
598	LITTLE ROCK	0	0	22	25	48	99	88	187	219	178	866
599	LIVERMORE	0	0	0	0	0	0	0	39	20	0	59
600	LONG BEACH	0	0	0	0	0	0	0	0	0	0	0
603	LOUISVILLE	0	0	0	15	23	34	20	38	65	43	238

Facility Number	Facility Name	CY93 Quarter 1	CY93 Quarter 2	CY93 Quarter 3	CY93 Quarter 4	CY94 Quarter 1	CY94 Quarter 2	CY94 Quarter 3	CY94 Quarter 4	CY95 Quarter 1	CY95 Quarter 2	Facility Totals
604	LYONS	0	7	19	17	30	32	33	48	66	42	294
605	LOMA LINDA	0	0	0	29	37	46	41	68	122	69	412
607	MADISON	0	0	1	14	33	52	26	70	90	54	340
608	MANCHESTER	0	0	3	19	29	52	40	69	115	71	398
609	MARION ILL	0	0	2	10	21	10	15	56	52	41	207
610	MARION IND	0	0	1	9	11	9	11	26	39	33	139
611	MARLIN	0	0	2	3	7	16	11	20	35	32	134
612	MARTINEZ	0	0	0	7	12	26	11	62	90	59	267
613	MARTINSBURG	0	10	12	17	26	57	43	121	131	98	515
614	MEMPHIS	0	0	4	16	25	27	34	75	92	58	331
617	MILES CITY	0	0	0	0	0	0	0	0	0	0	0
618	MINNEAPOLIS	0	0	0	0	0	13	63	140	80	85	381
619	MONTGOMERY	0	0	4	9	16	27	28	71	93	66	314
620	MONTROSE	0	0	5	1	3	7	7	20	32	37	112
621	MOUNTAIN HOME	0	0	0	4	7	8	10	33	31	5	98
622	MURFREESBORO	0	0	1	31	21	75	63	144	143	139	617
623	MUSKOGEE	0	0	0	0	0	44	32	78	78	52	284
626	NASHVILLE	0	0	0	7	6	4	2	17	67	48	151
627	NEWINGTON	0	0	4	17	31	19	11	18	65	46	211
629	NEW ORLEANS	0	0	0	0	0	0	16	51	49	44	160
630	NEW YORK	0	0	6	30	37	33	36	79	119	74	414
631	NORTHAMPTON	0	0	4	12	13	31	30	59	79	56	284
632	NORTHPORT	0	0	7	19	19	23	22	59	99	103	351
635	OKLAHOMA CITY	0	0	14	35	45	62	49	91	98	54	448
636	OMAHA	0	0	0	19	26	89	62	122	135	80	533
637	ASHEVILLE	0	0	0	0	34	61	51	107	129	92	474
640	PALO ALTO	0	0	0	6	43	45	40	65	113	110	422
641	PERRY POINT	0	2	13	19	23	21	20	55	95	64	312
642	PHILADELPHIA	0	3	17	24	54	62	68	109	155	148	640
644	PHOENIX	0	0	0	12	19	45	29	69	78	74	326
645	PITTSBURGH HD	0	2	1	2	2	3	7	8	18	11	54
646	PITTSBURGH UD	0	3	17	24	52	58	42	87	94	114	491
647	POPLAR BLUFF	0	0	0	4	16	23	31	39	66	41	220
648	PORTLAND	26	24	18	43	54	0	0	0	0	0	165

Facility Number	Facility Name	CY93 Quarter 1	2	3	4	CY94 Quarter 1	2	3	4	CY95 Quarter 1	2	Facility Totals
649	PRESCOTT	0	0	0	8	18	21	12	57	39	56	211
650	PROVIDENCE	0	0	11	28	27	26	17	59	79	39	286
652	RICHMOND	0	16	25	47	85	117	94	180	159	106	829
653	ROSEBURG	0	0	0	18	33	42	27	56	111	91	378
654	RENO	0	0	0	12	28	26	32	62	97	61	318
655	SAGINAW	0	0	0	0	10	10	9	14	31	29	103
656	ST. CLOUD	0	0	0	20	21	27	25	67	77	62	299
657	ST LOUIS	0	0	0	15	62	55	39	101	133	149	554
658	SALEM	0	14	21	31	28	31	22	54	91	96	388
659	SALISBURY	0	0	0	0	22	41	46	93	88	94	384
660	SALT LAKE CITY	0	0	0	0	26	60	79	113	79	38	395
662	SAN FRANCISCO	0	0	2	47	45	35	39	82	110	133	493
663	SEATTLE	0	0	0	22	54	76	63	110	119	110	554
664	SAN DIEGO	0	0	0	0	16	27	25	56	90	62	276
665	SEPULVEDA	0	0	0	0	0	0	0	0	56	49	105
666	SHERIDAN	0	0	0	3	11	8	14	21	24	23	104
667	SHREVEPORT	0	0	11	26	38	84	73	142	184	87	645
668	SPOKANE	0	0	0	8	49	65	47	101	136	76	482
670	SYRACUSE	0	0	0	0	0	0	0	69	113	79	261
671	SAN ANTONIO	0	0	18	39	51	70	57	145	125	83	588
672	SAN JUAN	0	0	0	2	8	6	7	35	31	22	111
673	TAMPA	0	0	11	92	128	145	118	215	253	156	1118
674	TEMPLE	67	31	15	23	50	70	61	135	133	102	687
676	TOMAH	0	0	0	10	14	19	15	48	56	52	214
677	TOPEKA	0	0	0	29	29	52	35	65	102	89	401
678	TUCSON	0	0	0	11	48	61	36	84	161	66	467
679	TUSCALOOSA	0	0	4	22	41	41	43	108	142	77	478
680	TUSKEGEE	0	0	2	9	14	19	16	30	41	33	164
685	WACO	0	0	14	37	43	64	55	92	123	76	504
686	LEAVENWORTH	0	0	0	21	20	38	40	93	70	43	325
687	WALLA WALLA	0	0	0	9	16	33	29	53	75	40	255
688	WASHINGTON	0	0	22	34	45	85	56	98	151	142	633
689	WEST HAVEN	0	0	0	9	36	65	59	105	114	65	453
691	WEST L A	0	0	0	0	28	73	54	82	87	69	393

Facility Number	Facility Name	CY93 Quarter 1	CY93 Quarter 2	CY93 Quarter 3	CY93 Quarter 4	CY94 Quarter 1	CY94 Quarter 2	CY94 Quarter 3	CY94 Quarter 4	CY95 Quarter 1	CY95 Quarter 2	Facility Totals
692	WHITE CITY	0	0	0	0	0	0	0	0	30	21	51
693	WILKES-BARRE	0	5	18	26	19	45	34	76	142	60	425
695	MILWAUKEE DOM	0	0	0	51	65	70	44	151	156	118	655
752	LOS ANGLES OPC	0	0	0	0	2	9	19	42	40	22	134
756	EL PASO OPC	0	0	0	0	6	8	8	16	20	12	70
757	COLUMBUS OPC	0	0	0	7	11	28	9	16	16	20	107
760	LEAVENWORTH CHOP	0	0	0	0	0	0	0	16	36	36	88
761	BEDFORD CHOP	0	0	0	0	0	0	0	0	1	2	3
762	WEST LA CHOP	0	0	0	0	0	0	0	1	14	4	19
763	DALLAS CHOP	0	0	0	0	0	0	0	1	1	0	2
797	HINES VA NAC	267	306	211	293	134	65	1	0	0	0	1277
	TOTALS BY QUARTER	436	554	889	2863	4578	6308	5121	12004	15583	11499	59835

Facilities with Highest and Lowest Number of Transactions in Calendar Year 1995

	FACILITY NAME	QUARTER 1	QUARTER 2	Total Transactions
HIGHEST 20	ALBUQUERQUE	282	194	476
	KERRVILLE	253	203	456
	TAMPA	253	156	409
	LITTLE ROCK	219	178	397
	BROCKTON/WEST ROXBURY	177	129	306
	PHILADELPHIA	155	148	303
	CLEVELAND	194	108	302
	FAYETTEVILLE, NC	171	128	299
	WASHINGTON	151	142	293
	MIAMI	183	108	291
	CHARLESTON	164	125	289
	BIRMINGHAM	179	107	286
	GAINESVILLE	163	121	284
	MURFREESBORO	143	139	282
	ST. LOUIS	133	149	282
	ALLEN PARK	160	120	280
	MILWAUKEE DOM	156	118	274
	SHREVEPORT	184	87	271
	DES MOINES	157	111	268
	IOWA CITY	160	105	265
LOWEST 20	ANCHORAGE OPC/RO	8	26	34
	EL PASO OPC	20	12	32
	PITTSBURGH HD	18	11	29
	LIVERMORE	20	0	20
	WEST LA CMOP	14	4	18
	SAN FRANCISCO RO	5	2	7
	ROANOKE RO	2	1	3
	LITTLE ROCK RO	1	2	3
	BEDFORD CMOP	1	2	3
	AAC AUSTIN	0	2	2
	PHOENIX RO	0	2	2
	BALTIMORE RO	0	1	1
	JACKSON RO	0	1	1
	ST. PAUL RO&IC	0	1	1
	KANSAS CITY, MO	0	1	1
	DALLAS CMOP	1	0	1
	HONOLULU	0	0	0
	LONG BEACH	0	0	0
	MILES CITY	0	0	0
	PORTLAND	0	0	0

DOM - Domiciliary
RO - Regional Office
OPC - Outpatient Clinic
CMOP - Centralized Mail Out Pharmacy

RO&IC - Regional Office and Insurance Center
AAC - Austin Automation Center
All other facilities are VA Medical Centers

APPENDIX IV
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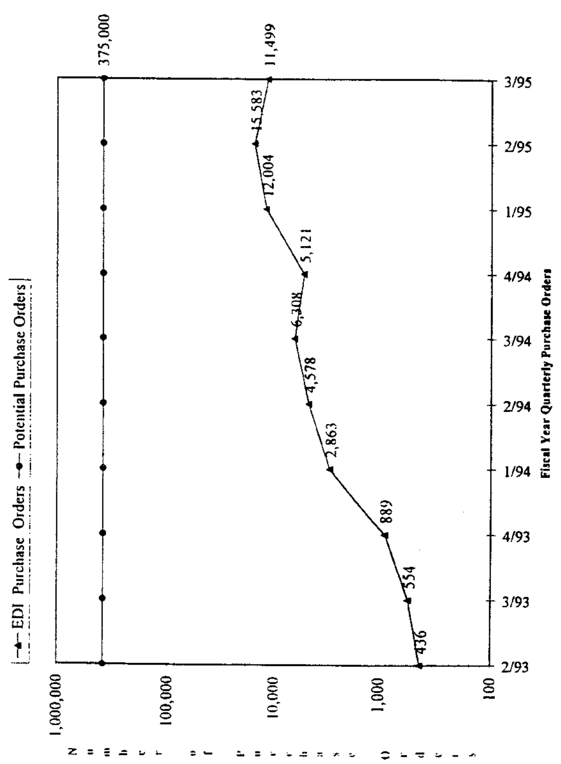
COMPARISON OF EDI USE TO THE POTENTIAL IN THE ACQUISITION AND FINANCE PROGRAM AREAS

Purchase Orders



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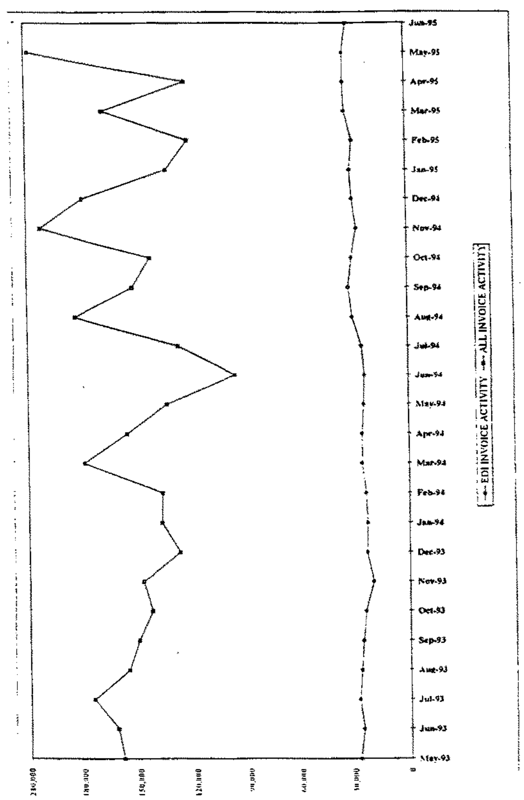
Invoices



APPENDIX V
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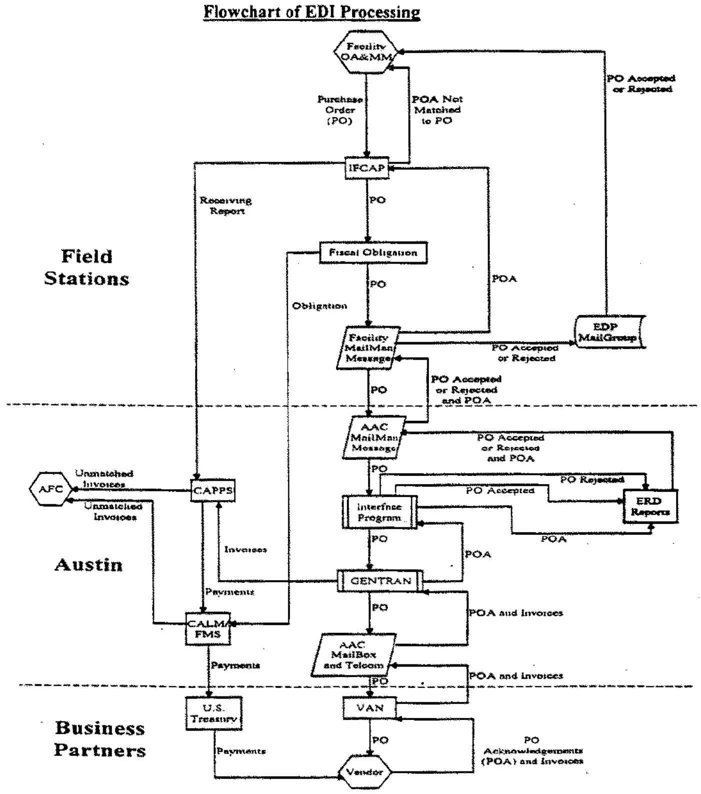
DESCRIPTION OF EDI SYSTEM TRANSACTION PROCESSING

Flowchart of EDI Processing



(Narrative description of EDI data flow is on page 28)

Narrative Description of EDI Data Flow

Flow from Facility to Vendor

Facility Office of Acquisition and Materiel Management (OA&MM): A purchasing agent (PA) enters a purchase order (PO) into Integrated Funds Distribution Control Point Activity Accounting and Procurement (IFCAP) for needed items from an Electronic Data Interchange (EDI) vendor. The PO is then transmitted to Fiscal Service. When items are received, a receiving report is entered into IFCAP and transmitted to Computer Assisted Payment Processing System (CAPPS).

Facility Fiscal Service: Verifies that the requesting control point has sufficient funds to cover the purchase and obligates the funds. The obligation is processed in IFCAP, and transmitted to Austin Automation Center (AAC) for use by Centralized Accounting for Local Management/Financial Management System (CALM/FMS). After the PO has been obligated, it is forwarded to the facility MailMan.

Facility Decentralized Hospital Computer Program (DHCP) MailMan: Converts the PO to a DHCP MailMan message and transmits it to the AAC MailMan Message Center. The MailMan facility also generates a report to the facility Electronic Data Processing (EDP) MailGroup notifying the MailGroup that the POs have been transmitted to AAC.

Facility EDP MailGroup: Stores notification of POs transmitted to Austin for later review by PAs. The facility EDP MailGroup also receives and stores POs accepted and rejected by Austin.

AAC DHCP MailMan: Receives facility MailMan messages and forwards EDI POs to the Interface Program and sends messages to the Facility DHCP MailMan Facility listing POs accepted and rejected.

Interface: Examines the PO electronically for adherence to specified formats and content. If the PO is not in the required format or does not contain required fields, it is returned electronically to the facility through Extended Reports Distribution (ERD) and MailMan as a reject for correction. If the PO is in the required format and contains the required fields, a notice is returned to the facility through ERD and MailMan accepting the PO and the PO is forwarded to GENTRAN.

GENTRAN: The software program that translates the VA format POs into the ANSI ASC X12 format required for transmission to vendors.

AAC MailBox and Telecommunications: Stores and transmits the formatted POs to the VANs.

Value Added Network (VAN): These are third-party networks that store POs in the Vendor's MailBox for pickup by the vendor.

Vendor: Trading Partner from whom purchase is made, picks up the POs from the MailBox and decides whether to accept the order.

Flow from Vendor to Facility

Vendor: Verifies the item count, item cost and total of order. Updates pricing and quantity information if needed. Sends Purchase Order Acknowledgments (POA) in ANSI ASC X12 format to the VAN. The POA contains the agreed upon or changed PO information.

VAN: Stores POAs in VA MailBox for pickup by VA.

AAC MailBox and Telecommunications: Retrieves and stores POAs from the VAN for scheduled processing through GENTRAN.

GENTRAN: Translates ANSI ASC X12 formatted POAs into VA format and sends them to the Interface Program.

Interface Program: Sends POAs, and accepted and rejected POs to ERD.

ERD: Formats POAs and the accepted and rejected POs, into a report that is sent to AAC MailMan.

AAC MailMan: Sends the report on POAs and POs, and POA transaction to appropriate facility MailMan.

Facility MailMan: Accepted and rejected POs, and POAs are sent to the facility EDP Mail Group for review by the PAs. The POAs transaction are sent to IFCAP for matching with the original PO Documents.

IFCAP: If the POAs and the POs match, there is no further action required. If they do not match, the PAs have to reconcile the differences with the vendor, submit an amended PO and update the vendor's pricing and quantity data if necessary.

Flow from Vendor to CALM/FMS

Vendor: Prepares invoice for items shipped to VA. Transmits ANSI ASC X12 formatted invoice to VAN.

VAN: Stores invoice in VA MailBox for pickup by VA.

AAC MailBox and Telecommunications: Retrieves and stores invoices from the VAN for scheduled processing through GENTRAN.

GENTRAN: Translates ANSI ASC X12 formatted invoices to VA format and sends them to CAPPS.

CAPPS: Matches invoice and receiving report. Send matches to CALM/FMS. Sends unmatched invoices to Austin Finance Center (AFC).

CALM: Matches invoice, receiving report and obligation. Authorizes US Treasury to pay vendor for partial shipments which do not exceed the total obligation and complete matches. Sends unmatched invoices to AFC.

AFC: Reconciles unmatched invoices with vendor.

APPENDIX VI

DESCRIPTION OF KEY EDI SYSTEM SECURITY CONTROLS

Our review found adequate physical and electronic access controls over EDI system operations at the Austin EDI processing center, and our tests of system processing of transactions found that information being transmitted by VA facilities and trading partners is received and processed accurately.

Key EDI processing procedures include system edits and control totals that ensure all transactions are processed with rejects identified. The edits identify facility purchase orders to be rejected because of unacceptable data to the EDI translator or not enough data. These rejects are returned to the submitting facility with explanations and notifications of the orders accepted for translation and processing to the vendors. We verified that for every order submitted there is a corresponding reject or acceptance notice returned to the facility. We also reconciled the purchase order acknowledgments from the vendor to the purchase orders accepted and sent to the vendor. We were advised that the EDI acquisition staff recently began matching the purchase order acknowledgments to the orders sent to the vendors to ensure acknowledgments are received for all orders. With this new process and the match of the data in the acknowledgments to the purchase order data at the facilities, VA has reasonable assurance that the orders are accurate and complete.

The required matches of EDI processed invoices within the Computer Assisted Payment Processing System (CAPPS) to receiving reports and within Centralized Accounting for Local Management/Financial Management System to facility obligations makes it almost impossible for an EDI processing error to result in a payment. Also, Austin Finance Center EDI staff on a daily basis reconcile the invoices received by the Austin Automation Center and processed through the translator, to those submitted to CAPPS. This ensures all the invoices submitted by the trading partners will be processed.

APPENDIX VII

SUMMARY OF POTENTIAL EFFICIENCIES ASSOCIATED WITH USING EDI[1]

Business Areas	Program Area	Business Functions[2]	Potential Efficiencies (In Millions)
Acquisition	Office of Acquisition & Materiel Management	Purchase Orders to Suppliers	$91.76
Finance	Office of Financial Management	Invoices from Suppliers	$12.64
Health Care	Veterans Health Administration (VHA)	Eligibility, Claims, Payments to Healthcare Providers and Insurers	$236.72
Loan Guaranty	Veterans Benefits Administration (VBA)	Applications, Defaults, Foreclosures with Lenders	$116.85
Education	VBA	Enrollments, Certifications and Financial Information from Educational Institutions	$36.60
Service History	VHA, VBA, National Cemetery System	Service History from Department of Defense	$4.89
TOTAL			$499.46

[1]Consultant study, "Applications of EDI Technology in the Department of Veterans Affairs", PSI INTERNATIONAL, INC., September 1993.

[2]Description of Key Business Functions Where Potential EDI Efficiencies Could Be Achieved

- **Purchase Orders:** *requests for goods and services sent to suppliers by VA.*
- **Invoices:** *payment requests to VA sent from suppliers.*
- **Eligibility:** *determination made by VHA before any services are provided to veterans.*
- **Claims:** *requests to the veteran or third party for payment for services provided.*
- **Payments:** *submitted to health care providers or insurers for services rendered on behalf of VA to a veteran.*
- **Applications:** *requests for loan guaranty provided by lenders to VA.*
- **Defaults:** *notifications from lenders that a veteran is not current with payments on a VA guaranteed loan.*
- **Foreclosures:** *notices that a lending institution is proceeding with legal remedies as a result of continuing default.*
- **Enrollment Certifications:** *verifications from educational institutions of veteran enrollments in an approved course of study.*
- **Financial Information:** *provided to VA by educational institutions to verify advance payments to veterans.*
- **Service History:** *documentation provided to various elements regarding the character and length of service in the military used to determine eligibility for VA benefits.*

APPENDIX VIII
Page 1 of 4

FULL TEXT OF ASSISTANT SECRETARY FOR MANAGEMENT COMMENTS

Department of Veterans Affairs

Memorandum

Date: SEP 19 1995

From: Assistant Secretary for Management (004)

Subj: Draft Report of Evaluation of Electronic Data Interchange (EDI) Implementation in VA

To: Assistant Inspector General for Auditing (52)

1. Office of Management comments on the subject report were originally forwarded via memo dated September 12, 1995.

2. Mr. Steve Gaskell, of your staff, contacted both the Office of Acquisition and Materiel Management and the Austin Finance Center to discuss several of the recommendations and our comments. As a result of those conversations, our comments to recommendations d. e. and f. have been revised and are attached.

D. Mark Catlett

Attachment

FULL TEXT OF ASSISTANT SECRETARY
FOR MANAGEMENT COMMENTS

Office of Management

Draft Report of Evaluation of Electronic Data Interchange (EDI) Implementation in VA

Recommendation: That the Assistant Secretary for Management take the following actions that can enhance current EDI implementation initiatives in the acquisition and finance program areas and assure the adequacy of future planning, implementation, and oversight of VA's use of this technology by:

a. Developing cost/benefit information and assessing current implementation results and impact on operations in the acquisition and finance program areas.

Comments: Concur. EDI procurement and invoicing have been operational for a number of years. Because the EDI purchase order and invoice process is mandated by executive order, we do not see the purpose of a cost benefit analysis. However, we do feel an impact assessment would be beneficial. The Austin Finance Center and the Information Systems Operations Division (91D) will collaborate in September 1995 to develop a plan for an independent contractor to accomplish this study.

b. Preparing a strategic marketing plan to guide, encourage, and facilitate the significant expansion opportunities that remain to be achieved in the acquisition and finance program areas.

Comments: Concur. The Austin Finance Center is currently in the process of developing a strategic EDI marketing plan for both internal and external EDI initiatives. The Information Systems Operations Division (91D) will work with the Finance Center to ensure acquisition issues are included. Development of this plan is scheduled for November 1995.

c. Completing necessary system modifications at the Austin EDI processing center that will provide nationwide statistics, by facility, on EDI usage and purchases to help facilitate implementation assessment and also enhance Department-wide procurement oversight.

Comments: It is our understanding that during this audit the IG auditors developed a program to collect nationwide statistics, by facility. It is recommended that this program be utilized to provide statistics on a quarterly basis. The Information Systems Operations Division will meet with the Austin Finance Center under the ADAS for Financial Management, and the Austin Automation Center EDI staff under the DAS for Information Resources Management, during September to prepare a plan for implementing the statistical gathering.

FULL TEXT OF ASSISTANT SECRETARY
FOR MANAGEMENT COMMENTS

d. Assuring that appropriate priorities are established and an implementation schedule prepared to complete IFCAP system modifications that can help streamline current EDI transaction processing at field facilities and facilitate expansion of transaction processing levels.

Comments: We concur; however, this recommendation was referred to Veterans Health Administration, Medical Information Resources Management Office (MIRMO) for response. MIRMO's comments are that the IFCAP Oversight Committee, which is composed of representatives from MIRMO, VHA's Chief Financial Officer's staff, the Office of Management, and field representatives, are working together on this issue. Current applications of EC/EDI have been given a high priority.

e. Requiring completion and testing of EDI operating contingency plans at the Austin Finance Center and at field facilities to assure continuity of operations should access to computer systems become unavailable in the event of a disaster or other events that disrupt operations.

Comments: Concur. The Austin Finance Center (AFC) does not have a disaster contingency plan for continuing to process invoice input and variance resolutions. The AFC is currently researching various contingency support possibilities and associated costs. We should have a recommended solution within the next 6 months, but implementation may require funding that will most likely not be available until FY 97. In the interim, should such a disaster occur, we would have to relocate our input/variance staff to the Austin Automation Center (AAC) to accomplish the input and variance resolution process until restoration of connectivity between the AFC and AAC mainframe.

f. Assuring that appropriate separation of duties is established for field facility staff who have broad access to automated acquisition and financial information that is used in EDI transaction processing.

Comments: As stated for recommendation d, we concur; however, the recommendation was referred to Veterans Health Administration, Medical Information Resources Management Office (MIRMO) for response. Comments from that office are:

The IFCAP Application Coordinator User Manual clearly states that "no single user should have all of the IFCAP menus." It is inappropriate for a Control Point Official to have the Funds Distribution option that enters Ceiling Transactions, as it is for a Purchasing Agent to be able to obligate a purchase order. This restriction of menus applies to Application Coordinators, as well as management.

VA policy prohibits the assignment of information security duties to personnel who have management or operational responsibility for an automated information system, but places no other restrictions on selection of the facility Information Security Officer. Assigning information security duties to the facility IFCAP Coordinator would not be in violation of VA policy. Further, the incumbent of the facility Information Security Officer position requires a security clearance at the non-critical sensitive level. Facility Information Security Officers are afforded a level of trust that is commensurate with the

FULL TEXT OF ASSISTANT SECRETARY
FOR MANAGEMENT COMMENTS

responsibilities of the position (e.g., security investigations, access to and review of system audit logs).

g. Developing a strategic plan for the Department to facilitate and guide future expansion initiatives that build upon the processing capabilities that have been established at the Austin EDI processing center.

Comments: This issue will also be discussed at the September meeting discussed in recommendation b.

APPENDIX IX

FINAL REPORT DISTRIBUTION

VA Distribution
Secretary of Veterans Affairs (00)
Under Secretary for Health (172C)
Under Secretary for Benefits (20A11)
General Counsel (02)
Assistant Secretary for Management (004)
Assistant Secretary for Congressional Affairs (009)
Deputy Assistant Secretary for Information Resources Management (045)
Deputy Assistant Secretary for Acquisition and Material Management (90)
Deputy Assistant Secretary for Financial Management (047)
Deputy Assistant Secretary for Public Affairs (80)
Deputy Assistant Secretary for Congressional Liaison (60C)
Director, Medical Information Resources Management Office (162)
Director, Austin Automation Center (200/00)
Director, Austin Finance Center (104/00)
Director, VA Medical Center, Houston, TX (580/00)
Director, Olin Teague Veterans Center, Temple, TX (674/00)

Non-VA Distribution
Office of Management and Budget
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Congressional Committees:
Chairman, Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Senate Committee on Governmental Affairs
Chairman, Senate Committee on Veterans' Affairs
Senate Ranking Minority Member, Committee on Veterans' Affairs
Chairman, House Committee on Government Reform and Oversight
House Ranking Minority Member, Committee on Government Reform and Oversight
Chairman, House Committee on Veterans' Affairs
House Ranking Minority Member, Committee on Veterans' Affairs
Chairman, Senate Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations
Senate Ranking Minority Member, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations
Chairman, House Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations
House Ranking Minority Member, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations

Department of Veterans Affairs

Memorandum

Date: NOV 15 1996

From: Deputy Assistant Secretary for Financial Management (047)

Subj: Response to Status Request on OIG EDI Report No. 5D2-G07-096

To: Jack H. Kroll, Asst. Inspector General, Office of Departmental Reviews & Management Support (53)

The following comments are provided on the status of the recommendation given by the Office of Inspector General in Report No. 5D2-G07-096, dated September 22, 1995. Additional new initiatives utilizing Electronic Commerce techniques have had impact on some of the recommendations.

The recommendation was subdivided into the following subparts:

a. Developing cost/benefit information and assessing current implementation results and impact on operations in the acquisition and finance program areas.

Comments: At the time of the report, the Austin Finance Center and the Information Systems Operations Division (91D) agreed to develop a plan for an independent contractor to accomplish an impact assessment. However, due to the expanded use of the purchase card which is a new Electronic Commerce initiative, the work flow process in both accounting and finance have changed dramatically. It has been determined that this study as initially envisioned would not be useful until after these revised procedures have been fully assimilated into the field operating procedures. By mid-FY 1997, the two staffs will reassess a need for and scope of a cost/benefit analysis.

b. Preparing a strategic marketing plan to guide, encourage, and facilitate the significant expansion opportunities that remain to be achieved in the acquisition and finance program areas.

Comments: The Office of Management prepared a Strategic Plan for Electronic Commerce initiatives. This plan encompasses all initiatives under the banner of Electronic Commerce/ Electronic Data Interchange (EC/EDI). The plan comprises a strategy to improve on an existing full business cycle process and incorporates other EC initiatives into the procurement and financial systems within the VA to further the VA's goal of enhancing the NPR requirements. For example, the VA was the first civilian agency to implement EDI transactions for vendor payments, thus allowing for an improved Electronic Funds Transfer (EFT) formats with multiple remittance advice capability and the development of a nationwide VA Credit Card System (CCS) that automates the receipt of the nationwide consolidated credit card bill.

Further, new efforts are underway to provide marketing training to key VA personnel involved in selling services to other agencies. An integral part of that process is the assessment of marketing efforts and formulating a more effective, coordinated strategy.

c. Completing necessary system modifications at the Austin EDI processing center that will provide nationwide statistics, by facility, on EDI usage and purchases to help facilitate implementation assessment and also enhance Departmentwide procurement oversight.

Comments: The Office of Acquisition and Materiel Management's Information Systems Operating Division has developed the capability of producing the recommended nationwide statistics. That capability has already been utilized to identify and address EDI issues at specific field stations. This recommendation should be closed.

d. Assure that appropriate priorities are established and an implementation schedule prepared to complete IFCAP system modifications that can help streamline current EDI transaction processing at field facilities and facilitate expansion of transaction processing levels.

Comments: This recommendation was referred to Veterans Health Administration, Medical Information Resources Management Office (MIRMO). It is our understanding that there was approval for IFCAP system modifications that addressed some of the perceived deficiencies. Installation of these modifications is planned in the October - November 1996 timeframe.

e. Request completion and testing of EDI operating contingency plans at the Austin Finance Center and at field facilities to assure continuity of operations should access to computer systems become unavailable in the event of a disaster or other events that disrupt operations.

Comments: The Austin EDI processing center currently utilizes software on the Austin Automation Center's (AAC) mainframe. As such, the EDI processing system is covered under the AAC's contingency plans. The Austin Finance Center EDI staff would relocate to the AAC if such need arises. This recommendation should be closed.

g. Developing a strategic plan for the Department to facilitate and guide future expansion initiatives that build upon the processing capabilities that have been established at the Austin EDI processing center.

Comments: The EC strategic plan encompasses many initiatives that will provide the framework to facilitate and expand EC/EDI initiatives throughout the Department. In addition, the Austin Finance Center organized a VA-wide Electronic Commerce Users Group (ECUG) with the expressed objectives of elevating EDI awareness by sharing information, knowledge, and expertise and to promote optimal use of existing and future VA EDI-related resources to VA's varied program offices areas. Program offices from OA&MM, OFM, VHA, and VBA have participated to date.

EDI initiatives formulated as a result of meetings by Office of Management staff were incorporated into an Electronic Strategic Plan. A copy of the current plan is attached.

A recent development from that group is the finalization of a Memorandum of Understanding between MCCR and the Austin Finance Center. That agreement defines the support the Austin Finance Center will provide in implementing MCCR's EC billing process. This recommendation should be closed.

If you have any questions or require additional information, please contact Keith Wanless, EDI Coordinator at the Austin Finance Center, at (512) 389-5310.

Frank W. Sullivan

Attachment

Mr. HORN. Good, I'll appreciate it. I would be glad to receive for the record what I thought you would answer, and you did. I also need to know if there are problems and what we need to do in that area to solve them.

Now, let me get back to the questions with Mr. Hawke, and then we'll pursue questions with all of you. This question relates, Mr. Secretary, to the unbanked. Most ATMs have a $300-per-transaction cash limit, while Social Security checks average about $700. How does the Department of the Treasury propose to ensure that the beneficiaries will not have to go three times to the ATM to withdraw their money if they need it immediately with all the hassle, the delays, and the costs that that entails?

Mr. HAWKE. Well, that is a problem, Mr. Chairman, that we're very concerned about. We would never create a mandatory account that would prevent a recipient from getting all the cash they need. There is of course, a security feature to those limitations on ATM disbursements as well as a kind of a logistical reason for them. But that's one of the questions we are going to be addressing as we try to formulate the specifications for the account that we will provide.

I think it's important to remember here that many recipients will be choosing accounts at a financial institution of their choice. And we're trying to encourage as much competition among the financial sector as possible to offer consumers voluntary choices of accounts that they can opt into the way they do today. So the forces of competition will play a role here.

What we're most challenged by right now is how we fulfill our mandate to assure that everybody has access to an account. And that's the option where we will probably be going out and procuring account services. We will write the specifications for that account, and this is one of the issues that we'll have in mind very much when we do that.

Mr. HORN. One often reads about fraudulent activities that occur are really—people that prey on senior citizens at the time the check is coming. Now, I don't know if the ATM helps deter some of that, since I guess they can stand there and file it several times to get all the cash out of the account. But sometimes tellers, when they see people in the bank, can spot that type of thing and sort of alert people that one is withdrawing under pressure what's in the account. Has much thought been given to that?

Mr. HAWKE. Not to that specific issue, Mr. Chairman. But we believe that, generally speaking, an electronic account is going to be more secure and provide more protections for recipients than the present paper check. Today the recipient of a check is forced to convert that into cash all at once. And they take the risk not only of theft of the cash, but loss of the check and forgery and alteration. In the electronic environment, we would hope that we can structure an account, and that the private sector institutions will offer accounts that will encourage thrift; that is, will encourage individuals to leave their funds in the account so that they're not forced to take them all out on the first day. And that not only provides a security feature for the individual, but also is one of those factors that's important in trying to get the unbanked people into the banking system, make them accustomed to using bank accounts and comfortable with that.

Mr. HORN. Well, I think you're absolutely right. I think a lot of theft goes on when those checks arrive, right out of mailboxes. And this way you would at least know the money is automatically deposited in your bank account. And I must say my bias is I can't believe someone wouldn't want it deposited in their account and not waste their time as we used to to have to go to the bank, put the check in, and all the rest of it. So if we want to protect senior citizens, I would think this is the way to protect them.

Later witnesses will argue that only federally regulated and insured institutions be permitted to be the conduits of electronic Federal payments. This would have the effect of excluding certain businesses, such as check cashing firms. These firms have the infrastructure in place in many poor neighborhoods with no banks, but many assert these firms engage in predatory practices. What's your reaction to this?

Mr. HAWKE. Mr. Chairman, I think we need to determine who can be the conduit; that is, who can have the relationship with the recipient, and what kind of institutions we can deliver payment to. Right now we can only deliver payment to institutions that are members of automated clearinghouses. That essentially means depository financial institutions.

Just as with paper checks, there's a limit to what we can do to restrict the arrangements that an individual makes once the funds come into the possession of the individual. An individual who receives a check today, can take that check and cash it at any place they want or do whatever they choose with it. So, by analogy, there are limitations to what we can do with respect to an individual's ability to engage in other relationships once the payment goes into an account.

Now, we do feel rather strongly that as far as the account that we're concerned about what we've come to call the default option, that is the option that we provide for recipients who don't have a bank account and haven't chosen one of their own, that those should be in federally insured and regulated financial institutions to provide the maximum safety for those individuals for whom we are providing the account. As I say, the arrangements that individuals make with other parties with respect to the treatment of that account once the funds are in there in the individual's names is something that we probably have very little ability to affect.

Mr. HORN. This question concerns the proposed benefits security card, Vice President Gore's proposal, as we know, to have all Federal benefits on a single card. Have you considered whether some seniors or veterans would not want their payments associated with the concept that might imply public assistance payment or welfare benefit, and might that damage acceptability of the card? What's your thinking at this point?

Mr. HAWKE. Yes. That is a concern that we are aware of and sensitive to and we haven't decided exactly what the interaction will be between the EBT programs and the EFT program. There are lots of reasons why we might not require a Federal recipient to use the benefit security card. For example, the benefit security card is a medium for transmitting, in many cases, family benefits like food stamps, where they're available to a number of members of the family. But in electronic funds transfer, the transfer has to be made to an individual who is the designated recipient of that payment. There may be different features in the default option account that we provide that would lead us to want to make that available rather than forcing people onto a benefit security card. But that's an issue that we have very much in mind.

Mr. HORN. Mr. Catlett, has the VA given any consideration to this idea of the proposed benefits security card? Since you have a number of benefits to render, I just wonder how you feel about it at this point?

Mr. CATLETT. Sir, we estimate about 9 percent of our beneficiaries are unbanked at this point. We have not looked at those specific issues in detail that we have addressed here. In general as an option, I endorse the idea that the safety and convenience is something that we ought to promote with our veterans. We have some issues there in terms of thinking that all 130 percent of our veterans will be able to be electronically receiving payments by January 1999, but we are making great progress in expanding the number who are participating in the EFT program.

Mr. HORN. Has the Chief Financial Officers' Council looked into the benefit security card in any way? Is there a subgroup or task force?

Mr. CATLETT. There have been discussions, and I know Marty has been to the council speaking to us about that.

Mr. HORN. Do you want to add anything, Mr. Wagner, just to the benefit security card, the degree to which it's being considered in the executive branch?

Mr. WAGNER. The specific issue of stigma, I'm going to have to do some thinking about it. My top-of-my-head reaction is you're looking for a delivery platform that's a single face delivery platform to deliver multiple services, whatever they may be. And it sounds to me like there's a real risk. But the way to deal with it is you address it as a broad-based solution rather than just an extension of a welfare or a food stamps program.

But I think I have to go back and discuss that potential issue. That could be—the way it's perceived. It's also an empirical question, what they really feel rather than what people say they feel. We'll look into it.

Mr. HORN. Thank you.

Mr. Secretary, the issue of cost has emerged as a key issue concerning the implementation of the EFT law. How will cost be apportioned between the Treasury, vendors who provide EFT services via contractor relationships, and recipients of Federal benefit program payments?

Mr. HAWKE. Well, Mr. Chairman, with respect to what I call the default option, that is the account that we will procure and make available to those unbanked recipients that don't otherwise choose their own account, we don't view that as a subsidized account. That is an account where we will set the specifications of the account in the invitation for bids. And we'll get competitive bidding from companies that will offer this with the expectation of getting a substantial volume of payments.

Our mandate under the statute is to make sure that that's a reasonable cost. But there is no mandate for us to subsidize an account. And we're concerned about what the effect of that would be.

Ideally, the private sector would respond to this new initiative with a wide variety of account configurations that would be of appeal to people who are receiving electronic payments. And first off, we would like to see the processes of competition work. If we come out with a subsidized account, it may undermine that process. So we have to be very careful in that regard.

Mr. HORN. Your testimony briefly mentioned the disincentives in the Prompt Payment Act to use EFT for vendors. Could you describe some of those disincentives?

Mr. HAWKE. Well, the principal problem with respect to vendors is the problem of transmitting payments information along with the payment. Particularly larger vendors, who are recipients of a lot of payments, are going to have difficulty identifying a particular payment to a particular invoice. And that's the major problem that that's inhibiting us from moving ahead on the vendor side. When electronic data interchange becomes more readily usable, we think that problem will tend to disappear.

Mr. HORN. Mrs. Creque, who represents the American Association of Retired Persons, AARP, and who will be a witness after this panel, notes the possibility of nursing homes or other institutions with the financial interest in payees being designated as an authorized payment agent. Have you looked into this possibility?

Mr. HAWKE. We've been considering that possibility. And there are presently arrangements that the Social Security Administration sanctions with respect to the designation of third parties to receive payments on behalf of individuals who are incapacitated or the like. We don't propose to change those or really expand those relationships at all. Again, we believe that our mandate is to transmit funds to an account in the name of the individual recipient. And in cases of particular hardship, we would grant waivers, where appropriate, to allow an individual to continue to receive a check.

Mr. HORN. Now, I'll ask you the question that I asked Mr. Wagner. In April, the Subcommittee on Government Management, Information, and Technology held a hearing on the Debt Collection Improvement Act of 1996. At that time, I asked Jerry Murphy to examine with GSA whether an administrative offset feature could be incorporated into Federal credit card systems to offset Federal payments to deadbeat vendors who are delinquent on Federal debts. These cards will be accepted by millions of vendors, some of whom will owe money to the Federal Government. These payments will represent $30 billion in disbursements over 5 years. Is there any progress on that front?

Mr. HAWKE. I think Mr. Wagner said about what I would have said on that question. We've asked GSA to build into the new card the capacity for offset, and we're working with them to try to see how that could best be done.

Mr. HORN. Well, we thank you.

And we move now to Mr. Catlett for a few questions. And your testimony noted that 49 percent of the vendor payments are processed electronically. That compares with a mere 12 percent governmentwide. This was accomplished in an organization where each hospital director jealously protects his or her turf. Do you have any feeling why other agencies haven't been as successful as the VA? Or does modesty keep you from answering that question?

Mr. CATLETT. Mr. Chairman, I would like to answer that question from our perspective.

Mr. HORN. Yes.

Mr. CATLETT. Which is, I believe, one reason, as you recognize, we do have activities across the country. But some time ago, before we even reached electronic payments, had centralized the process in our financial transactions. So that clearly has given us a capability. All this information, as I noted, nearly 130 percent comes electronically from the facilities now to our center in Texas. And that's been the focus of our activity, to develop these relationships with our trading partners and with the vendors.

As I mentioned, there were 485 where we have full process. We've gone after the largest ones first. Despite having hundreds of facilities, there are several hundred companies that probably do 80 percent. It's the 80/20 rule here; 80 percent of our business, probably, with the top 20—clearly with the top 20 percent of our 200,060 vendors, and I'm sure it's higher than that. So we've been able, through having a centralized activity, to address the industry in that way.

Mr. HORN. As the VA have shown, if management makes the electronic payments a priority, it can dramatically increase the volume of electronic payments. What leadership has the CFO Council provided in the area of electronic payments?

Mr. CATLETT. The CFO Council you're speaking about?

Mr. HORN. Yeah.

Mr. CATLETT. The—we have a—1 of the 12 subcommittees that work on issues regularly and routinely in the—for the Council has identified this as an issue. Actually, the—my Deputy, the Deputy CFO for the VA, has been the chair of that group and has led that activity. So we are—there are regular activities or monthly reports to the CFO Council on this. We designate this. And I can't say exactly. We've had our annual retreats over the last 4 years now. And 2 or 3 years ago this was identified as one of the areas that needed attention. And so once I've identified that and we establish a subcommittee, the work of that subcommittee has proceeded and has been regularly reported to the Council. So it's been designated as a high priority in the CFO Council.

Mr. HORN. OK. I understand you're the legislative chairman in the Council?

Mr. CATLETT. Yes, sir.

Mr. HORN. Any pitches you want to make while you're on the record.

Mr. CATLETT. No, sir, not at this moment.

Mr. HORN. OMB can't do anything to you since I asked you the question.

Mr. CATLETT. Thanks for the offer, but I'll pass for the time being.

Mr. HORN. Your testimony also mentioned that your 10 million paper transactions have been eliminated. I think we'll all give a cheer to that. That's a lot of paper, a lot of trees saved. The Sierra Club ought to be giving you an award, I think, or Secretary Brown, as he leaves. Has this allowed you to downsize and re-engineer the accounting department?

Mr. CATLETT. Yes, sir. I was thinking about coming up when the National Performance Review identified the 252,060 reduction in staff was identified, I was skeptical at that time. They were identifying 50 percent for personnel, finance, procurement, having worked in this job for 4 years and realized what we have been able to do, I think that is a realistic goal. We have not reached the 50 percent goal yet, but we will be able to do so. There are more activities for us to centralize in terms of processing our financial and procurement activities. So it is very possible that we are well on our way to meeting that goal.

Mr. HORN. Well, that's a very impressive record. And I guess I'd ask you how active you've been on making these vendor payments electronically? And do people in other agencies come to you since you have a success story here and say, OK, how did you get it done?

Mr. CATLETT. Yes, sir. In the past 6 months GSA and DOD have been to our Austin Finance Center to look at our financial management processes. I think, even DOD's CFO, Mr. Hummer, has been there as well. And I can provide for the record those others who have been there. I'll make a little plug here other than legislative.

Obviously we have two interests here. In that consolidation going on, we are a franchise activity, hoping to sell those services, cross-service other agencies with that. But we, of course, as well are introducing them and sharing with them our technology and our practices and processes down there that they may want to emulate.

[The information referred to follows:]

Visitors to the AFC

Veterans Canteen Service—Art Austerman
VHA MCCR—Barbara Mayerick
VHA HAC—Director and IRM staff member

Social Security Administration—John Moellar
Treasury Financial Management—Central Office
Federal Communications Commission, Washington, DC

VA Foreign Services Officer—Diane Fuller.

VAMC San Antonio, TX—Chief of Subsistence, Chief of Supply Services, Fiscal Officer, and Chief of Accounting.

Department of Defense—Dr. John Hamre, Under Secretary of Defense, Comptroller and CFO; Col. Derald Emory, Military Assistant to Dr. Hamre; Bruce Carnes, Deputy Director for Resource Management, DFAS; Ron Good, Office of the Deputy CFO.

Department of Agriculture (USDA)/National Finance Center (NFC)—18 visitors.

Department of the Army, Ft. Sam Houston, TX—Lt. Col. Gloria Kitsopoulos, Denise Johnson, Joe Demariano.

Immigration and Naturalization Service (INS), Dallas, TX—3 visitors (Assistant Director for Finance was one).

USMC (Retired), Okinawa, Japan—Colonel Roberts.

Mr. HORN. As I understand it, now, of the 39 million benefit payments, slightly more than half were made electronically. And that mirrors the rate, as I understand it, governmentwide. Is that your approximation?

Mr. CATLETT. We're now over 60 percent. In the past year we have made some increases. We've been canvassing.

Mr. HORN. Why has the VA's success with converting vendors not been equaled with similar success on the beneficiary side?

Mr. CATLETT. Right. And, well—for our employees we are at 94 percent, which I think is comparable. We have recently gone to—

the 50 percent number that you are speaking to was a number I was familiar with. Frankly, until I was preparing for this hearing, and in the last year, we have increased it at another 10 percent. We have been doing outreach. We have been stuffing checks to our veterans and making our pitches to the convenience and safety of the program. And there's been a response and an increase here in the past year.

Mr. HORN. Let me speculate. Is it because you as CFO have the authority over vendor payments, but the VA Benefit Administration is less helpful with respect to beneficiaries?

Mr. CATLETT. No, sir, that is not the case.

Mr. HORN. You're going to defend them.

Mr. CATLETT. No, it's more than a defense. They have been very active in this. It's their cost that they save. They, like all the rest of us, want to reduce their costs as well as providing excellent service to veterans. There is safety and convenience for veterans that they believe in, and they are promoting and assisting us. They have staff very active in making outreach efforts to veterans. But as I have said, it is their mail costs that we are saving as each recipient agrees to receive an electronic payment.

Mr. HORN. So you think there is cooperation and there will be progress in this area?

Mr. CATLETT. Yes, sir. I mean, again, this is a cohort of the population that I think that are—you know, the older Americans that are—as we at least intuitively say—will be those that are most difficult to convert, particularly as you get to the final numbers.

Mr. HORN. The last question is for Mr. Hawke. You note that only 1,060 out of the 10,060 financial institutions are capable of using financial EDI or electronic data interchange. That seems low, especially when we're asking citizens to increase the use of technology. What's Treasury planning to do to get the banks up to speed in this area?

Mr. HAWKE. Well, we have been working with the banking trade associations on this problem. And in part, it's a question of getting the proper software installed and getting the right systems installed. I think progress is going to have to be made toward this. This is the wave of the future. And banking institutions that want to really provide the services that their customers are demanding, are going to have to come along with this. However, in smaller banks where they don't have the software and systems capacity right now, progress is a little slower than we would like.

Mr. HORN. I would think they would leap at the opportunity of having a check deposited and sitting there for days before somebody might use it. And we all know what they can do in gaining a little interest over the weekend. So I'm sort of amazed if they aren't jumping at it.

What's your reaction? Do you think——

Mr. HAWKE. Oh, I agree. Just as a general principle, we would like to see float eliminated from the payment system; but, in effect, float is going to be the mechanism for absorbing a lot of the costs that might otherwise be passed on to customers here.

Mr. HORN. Well, I thank you all for coming. Mrs. Maloney, who made our quorum, told me she has no questions for you. She's going between four or five meetings this morning, as we all are, and the full committee will be meeting shortly.

So we thank you.

Mr. CATLETT. Thank you.

Mr. HORN. And you all did a good job, and we appreciate having the latest information on this since we think this is a tremendously important opportunity.

Mr. HAWKE. Thank you, Mr. Chairman.

Mr. HORN. We're going to call one witness out of order, because she has a plane to catch, and we are never sure between bells ringing on the floor or in committee when we're going to have to leave. So if Marcelyn Creque, the volunteer director of the American Association of Retired Persons, will come forward out of order. Ms. Creque, if you would just stand, we'll give you the oath. All witnesses here are under oath.

[Witness sworn.]

Mr. HORN. OK the witness does affirm.

We're glad to accommodate you. Where are you going back to today?

Ms. CREQUE. Chicago, just for tonight. Then I'll be off for North Dakota tomorrow.

Mr. HORN. Well, I hope things are coming along out there. That's a sad situation.

Ms. CREQUE. Yes. We have been actively involved in helping people try to restructure their lives.

STATEMENT OF MARCELYN CREQUE, VOLUNTEER DIRECTOR, AMERICAN ASSOCIATION OF RETIRED PERSONS

Ms. CREQUE. Mr. Chairman and members of the committee, AARP appreciates this opportunity to present our views regarding the impending implementation of mandatory electronic funds transfer or EFT. My name is Marcy Creque, and I am the regional volunteer director for AARP's Midwest region. On behalf of the association, thank you for drawing attention to this important issue.

Mr. Chairman, AARP has been active in the debate regarding mandatory conversion to EFT prior to the enactment of the law, and we were pleased to work with you on this issue.

While we recognize that direct deposit was a desirable option for many, the association did not favor mandating EFT for all recipients of Federal payments. We believed and still believe that this would impose undue hardship on many recipients. Congress made a decision to go ahead with EFT, however. Since it did, we were pleased that a hardship exemption and other provisions were included in the act in response to concerns raised by AARP and others.

We want to work with this committee and the administration to ensure that the transition to this paperless system is as smooth and painless as possible. But this system must be designed to work for Federal payment recipients, not for the convenience or profit of financial institutions.

Today, I want to talk about who is affected by mandatory electronic funds transfer and summarize a few of the major points that are discussed in our full statement. We have elaborated on these points in comments submitted to the Department of the Treasury.

First, who will EFT affect? The Treasury Department estimates that over 10 million recipients of Federal payments are unbanked; that is, they do not have bank accounts. Some 80 percent of these persons are recipients of Social Security, veterans' benefits, or other Federal retirement pensions or payments. According to the latest survey of consumer finances, some 9 percent of families headed by persons over age 60, about 2.5 million families, have neither a checking or savings account.

What do we know about these families? The survey tells us that the incidence of older families age 60 and older without checking accounts is heavily concentrated among those with incomes below $10,060 and those headed by older women and minorities.

The survey also notes that families without bank accounts tend to have lower educational levels. Another source found that households with deposit accounts average 12½ years of education, compared to only 10 years for households without deposit accounts. Literacy and familiarity with banking technology will become critical factors as large numbers of persons are required to use ATMs and point-of-sale [POS] terminals for the first time to access their benefits.

Among those age 65 to 74 without checking accounts, difficulties in managing and balancing accounts are one of the chief reasons for not having one.

About 33 percent of Social Security recipients and 68 percent of Supplemental Security Income recipients do not receive benefits via direct deposit. The State of California, Mr. Chairman, is one of several where Social Security recipients who receive their benefits by checks are heavily clustered. Given the vulnerability of so many of the unbanked, AARP has encouraged the Treasury Department to take the following actions.

First, define "authorized payment agent," preferably through a separate rulemaking. The definition should provide for accountability and assure the safety of recipient funds. Recipients in areas lacking banks are often forced to use alternative check-cashing outlets or other options that may charge up to 25 percent or more of the check's face value. Personal safety can also be a concern with such operations. Businesses that lack adequate consumer protections and promote predatory lending practices should not qualify to participate in EFT.

Second, limit the use of transaction and account fees related to EFT. Banks and businesses cite as a major concern the cost of EFT systems implementation. While AARP recognizes that some investment will be necessary to adapt services to the unbanked population, we are concerned that these costs not be simply passed on to new customers who will be forced to use EFT under the Treasury regulation. Many of these persons cannot manage any additional charges.

According to the Treasury, Federal payments must be made by electronic transfer by January 1, 1999. That will amount to more than $240 billion annually. Given the advantage of the float and paperless deposits, financial institutions must not be allowed to impose unreasonable fees for receiving Federal EFTs.

Third, requires financial institutions to offer minimal banking accounts with specific consumer protections. Such accounts should address the needs of persons currently without bank accounts. Further, these accounts should not label or stigmatize the account or account holder as a less desirable part of the mainstream banking system, which AARP believes may be the effect of Treasury's recent proposed rulemaking regarding EBT.

Many seniors, veterans and Federal retirees correctly equate EBT with State-administered public assistance, which the Congress expressly excluded from the Regulation E banking protections. Mandatory EFT accounts, however, will have Regulation E coverage. Given that Congress has spoken on EBT, it is incumbent on Treasury to ask Congress for authority to reclassify mandatory EFT accounts as EBT and prevent any undue recipient and regulatory confusion.

Fourth, ensure hardship waivers especially where current service needs are not met. Waivers should not be reserved only for the most extreme cases, but should apply to anyone who truly will suffer a hardship according to their individual situation and condition.

Finally, provide adequate public education and notice about the impending change. Each Federal payment recipient must be notified repeatedly well before January 1, 1999, in mailings containing benefit payments and other forms of communication that future payments will be made by electronic funds transfer. The notice must explain in plain, simple-to-understand language, including a Spanish translation, what electronic funds transfer and related terminology means, since many recipients will be unfamiliar with these terms.

In conclusion, AARP believes it is critical that basic consumer protections be in place well before January 1, 1999. This is particularly important for those recipients of Federal payments who do not currently have bank accounts. Federal payments may be the primary or sole source of income for these unbanked consumers. Therefore, Congress and relevant Federal agencies must ensure that these individuals are protected from unfair, deceptive, or abusive practices as well as from a reasonable hardship.

AARP stands ready to work with you in this critical endeavor.

Mr. HORN. We thank you for that very detailed and thorough statement.

[The prepared statement of Ms. Creque follows:]

On behalf of the American Association of Retired Persons (AARP), thank you for this opportunity to present our views regarding the impending implementation of mandatory receipt of federal payments via "electronic funds transfer" (EFT). My name is Marcelyn Creque and I am the Regional Volunteer Director for AARP's Midwest Region.

I. Introduction

AARP played an active role in the debate regarding mandatory conversion of federal benefits to EFT prior to enactment of the Debt Collection Act (the Act) of 1996. While we recognized the value of EFT as a consumer choice that could enhance banking convenience, the Association did not favor mandating EFT on all recipients of federal payments because it could impose undue hardships on many. We were pleased that Congress included a hardship exemption and other provisions in the Act to accommodate such cases.

The conversion to EFT is of particular interest to AARP because older persons make up a significant proportion of those affected by it. The Treasury Department estimates over 10 million recipients of federal payments are "unbanked", i.e., they do not have bank accounts. Some 80% of these persons are recipients of Social Security, veterans benefits or other federal retirement pensions or payments. The latest (1995) Survey of Consumer Finances (SCF) released by the Federal Reserve indicates that 9.1 percent of families headed by persons age 60 and older, some 2.5 million families, had neither a checking nor a savings account. They make up 20.5 percent of the families without checking or savings accounts.

The lack of a checking account is particularly difficult for families receiving government benefit payments. They frequently must resort to more expensive check cashing services to obtain cash for living expenses. The SCF reports that 21.4 percent of families headed by persons age 60 and older, some 3.2 million families, do not have checking accounts. These figures are higher for families headed by persons age 50 and older. One third (33.2 percent) of these families, some 4.9 million families, do not have checking accounts.

Further, the incidence of older families (age 60 and older) without checking accounts is heavily concentrated among those with incomes below $10,000 and those headed by older women and minorities. Twenty-eight percent of families age 60 and older with incomes below $10,000 did not have checking accounts. This compares to 8 percent for families age 60 and older with incomes between $10,000 and $24,999. The percentage of female-headed families age 60 and older without checking accounts was nearly double that of older families headed by men (16 percent versus 8.5 percent). Finally, some 38 percent of families headed by an African American age 60 and older and 35 percent of families headed by Hispanics age 60 and older were without checking accounts. This compares to only 7.5 percent of families headed by white persons age 60 and older.

The SCF also notes that certain occupational/work status categories correlate with a high incidence of unbanked families. For example, about 14 percent of retirees were without transaction accounts of any kind. Families without bank accounts also tend to have lower educational and literacy levels. An analysis of the 1985 Survey of Income and Program Participation (SIPP) by the U.S. General Accounting Office (GAO) concluded that 57 percent of nondepositor family heads had 9 to 12 years of education and 24 percent had 8 years or less. In his analysis of the 1989 SCF, John P. Caskey, author of *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*, found that households with deposit accounts (either checking or savings) averaged 12.6 years of education compared to only 9.9 years for households without deposit accounts. Literacy and familiarity with banking technology will become critical factors as large numbers of persons are required to use Automatic Teller Machines and Point Of Service terminals for the first time to access vital government benefits. Data from the SCF indicate that among those aged 65-74 without checking accounts, difficulties in managing and balancing an account were among the chief reasons given for not having one.

The switch to EFT will also impact those with deposit accounts who currently receive government-issued checks. According to the Social Security Administration, as of March 31, 1997, 67.3 percent of Social Security recipients and 31.8 percent of SSI recipients received their benefits through direct deposit. Social Security recipients receiving their benefits by check were heavily clustered in New York, Pennsylvania, Texas, and California. Florida, North Carolina, Ohio and Illinois also had significant numbers of Social Security recipients receiving their benefits by check.

Given the particular vulnerability of so many of the unbanked, it is critical that implementing regulations be carefully crafted to include consumer protections. AARP has encouraged the Treasury Department to take the following actions:

- Define "Authorized Payment Agent," preferably in a separate rulemaking;
- Limit the use of "transaction" and "account" fees related to EFT;
- Require financial institutions to offer minimal banking accounts with specific consumer protections such as Regulation E;
- Ensure hardship waivers, especially where current service needs are not met; and
- Provide adequate public education and notice about the impending change.

II. Defining Authorized Payment Agent

It is critical to define the term "authorized payment agent" in a way that provides fiduciary accountability and assures consumers that their funds are both safe and accessible. In many rural and low-income communities, the absence of banks forces consumers to use alternative check-cashing outlets or other options that may charge up to 25 percent or more of the check's face value. These operations are also sometimes located in unsafe areas, jeopardizing the personal safety of those who use them. If the term is not carefully defined, facilities such as these check-cashing outlets may qualify to participate in EFT, but without adequate restrictions to protect consumer funds or discourage potentially fraudulent practices. Merely establishing a federal insurance requirement for these agents, as has been suggested by some, is not sufficient to protect vulnerable federal beneficiaries from abuse. Nor would an insurance requirement guarantee that such agents fulfill their fiduciary responsibility to protect consumer funds to which they have access.

Without a clearer definition, nursing homes, assisted living facilities, or other institutions that have a financial interest in the recipient of the federal payment may also qualify as a recipient's payment agent. What is to prevent these institutions from charging high service or management fees or denying/limiting ready access to funds? Who will oversee the institution to ensure that these funds will be properly managed and protected? The potential for fraud or abuse of these funds is considerable and is compounded if the recipient is unsophisticated or physically or mentally unable to protect his or her interests.

Moreover, in the absence of implementing rules, some may suggest that an "authorized payment agent" is not subject to the consumer protections provided under new subsection (i)(2)(A) and (B) of the Act, which states that individuals required to have accounts at financial institutions "will have access to these accounts at reasonable cost, and with the same consumer protections with respect to other account holders at the same financial institution." Even if these consumer protection provisions were imposed on all agents receiving federal EFTs, presumably these same protections would not be extended to other transactions made at these non-financial institutions. Those required to have their federal payments deposited with these "authorized payment agents" would likely still use undesirable check-cashing services that, as mentioned above, may be extremely expensive, prone to entice clients into usurious financial contracts, and compromise personal safety.

Consequently, AARP strongly believes that a separate rulemaking to define "authorized payment agent," along with public hearings across the country (including rural areas, inner city communities, and other diverse areas) would offer a better means of ascertaining which services and consumer protection concerns are most essential.

In the alternative, if a separate rulemaking is not conducted (or until final rules are promulgated), AARP urges Treasury to limit the authorized payment agents to federally-regulated financial entities. If the agents are not limited in this way, it is critical that these agents be carefully and comprehensively defined, with considerable consumer protection provisions in place before any payments may be accepted by them.

III. Limit the Use of "Transaction" and "Account" Fees Related to EFT

Banks and other financial institutions cite as a major concern the cost of EFT systems implementation. Significant among those costs will be the installation of additional ATM/POS terminals to handle the additional customers who will be required to receive their benefits via EFT. Special problems are anticipated in low-income communities that are currently underserved or unserved by bank branches or ATM machines. In addition, many terminals may have to be modified to permit access to disabled, non-English speaking or illiterate recipients. Further, the installation of crime prevention measures at ATMs such as lighting, surveillance cameras, and "panic buttons" will be an additional expense.

In its report, *From Paper to Plastic: The Electronic Benefit Revolution*, the Financial Management Service (FMS) of the U.S. Treasury Department indicates that financial institutions have the main responsibility for new terminal installations and efforts to insure the safety of customers. While AARP recognizes that some investment will be necessary to adapt services to the unbanked population, we are concerned that these costs not simply be passed on to new customers who will be required to use EFT under Treasury regulations. As noted previously, many of these persons would be hard put to manage any additional charges.

Banking is becoming increasingly expensive for consumers as financial institutions charge for services previously offered free of charge, and raise fees for such core banking needs as writing a check, using an ATM machine, or making balance inquiries. Increasing costs are an important reason why 10 million recipients of federal checks do not have bank accounts -- they cannot afford them. High minimum account balance requirements, now common at banks, are unacceptable for those who must use all available funds for basic needs such as food, shelter, and utilities.

According to estimates from Treasury, the 340 million federal payments that must be made by electronic transfer by January 1, 1999, comprise some $240 billion dollars annually. Financial institutions will profit through the "float" created by this tremendous influx of money. Therefore, far from being a burden, mandatory EFT represents a significant windfall for these institutions. It will also be much less expensive for financial institutions to process and manage paperless deposits. Given these advantages, financial institutions should not be allowed to assess unreasonable costs or fees for receiving federal EFTs.

IV. Require Financial Institutions to Offer Minimal Banking Accounts with Specific Consumer Protections

According to the National Automated Clearing Housing Association (NACHA), the cost savings to the banking industry alone flowing from the requirement for federal EFT payments will be sizable. Financial institutions will save between $.75 and $1.25 per transaction for each payment converted from a deposit made with a teller to direct deposit. Annual cost savings to the banking industry under mandatory EFT are estimated by NACHA to be in the area of $350 million to $500 million.

AARP is concerned that without strong direction from FMS, preparations for full implementation of EFT will be inadequate to handle the additional new recipients entering the system for the first time.

The Association does not believe that low-income recipients who cannot afford checking accounts because of fees or balance requirements should be forced to use expensive check cashing services. To address the needs of persons currently without bank accounts, banks should be required to offer basic bank accounts which represent a modest cost to financial institutions. Given the financial windfall institutions will receive from the "float" on EFT deposits, such costs could hardly be viewed as burdensome. A basic bank account should have the following elements:

- Available to individuals with $750 or less on deposit during each monthly period;
- An account maintenance fee no greater than cost plus ten percent profit, with Federal Reserve oversight;
- Minimum initial deposit requirement of no more than $25;
- Minimum balance requirement of $1;
- Ten free withdrawals permitted each month; and
- A monthly statement or passbook detailing account activity.

Further, these accounts should not have the effect of labeling or stigmatizing the account holders as persons who cannot afford to be a part of the mainstream banking system. This was not the intent of Congress. AARP believes this would certainly be the effect of the current Treasury proposed rulemaking, which in its Background section classifies all mandatory EFT accounts as "EBT" (Electronic Benefit Transfer) accounts to distinguish them from mainstream voluntary EFT accounts. EBT generically refers to state-administered public assistance benefit accounts that are accessed via debit cards and are explicitly denied Regulation E protections by law. Mandatory EFT, according to Treasury, will have full Regulation E protection. Thus the EBT classification for mandatory EFT payments could create the inaccurate perception that federal payments lack the consumer protections they in fact have.

We have two further concerns if the treasury proposal goes into effect. One, Treasury fails to require that these accounts incorporate mainstream bank account privileges, such as making personal deposits to the account and writing checks. Two, while the option to have mandatory EFT payments on an EBT card should certainly be the choice of the individual, labeling these accounts as "EBT" leaves a misimpression that they are somehow related to state-administered public assistance benefits. The net effect of the EBT classification is the creation of a stigma -- a statement about the financial desirability of the "EBT" account and account holder in eyes of the mainstream banking system. Because this was not the original intent of Congress, Treasury should ask Congress for the authority to reclassify mandatory EFT accounts as EBT accounts.

V. Ensure That Hardship Waivers Are Available - Especially Where Financial Services Needs Are Unmet

There is also a need to adequately monitor and address current and potential direct deposit problems resulting from the new requirements. While Treasury and the financial services industry tout direct deposit as a virtually trouble-free payment mechanism, AARP is concerned that these observations may be overly optimistic and may not take into consideration all of the problems that consumers are currently experiencing or that the system is likely to experience with the addition of many new participants.

An informal survey of AARP's membership conducted through the *AARP Bulletin* in 1993 revealed a significant number of Social Security recipients who signed up for direct deposit but did not have their funds deposited in the proper accounts. Many others experienced delays in receiving their funds, particularly when they switched banks or their bank changed hands. None of the respondents in the survey reported having their direct deposit problems resolved within a day or two. Rather, they frequently reported that it took several months before they gained access to their funds. Such a delay can have a serious impact on those who rely on the monthly payment to cover basic necessities such as rent and food. Moreover, consumers being pushed into direct deposit are the least educated and least able to deal with the banking industry's error resolution system.

Consequently, despite the cost savings and decreased risk of theft that may result from electronic funds transfers, a considerable number of federal benefit recipients will still endure a hardship if required to receive their payments this way. Besides those in isolated locations or those with impaired mobility or a diminished capacity to understand EFTs, others affected include those confused by debit cards or other electronic technology and those fearful or mistrustful of financial institutions. Given the sheer number of recipients who could be adversely affected by these provisions, it is essential that the waiver provisions be widely publicized and have broad application.

Waiver notices must inform recipients of the name, address, and telephone number of a contact at the federal office from whom they must seek a hardship waiver. Also, the notice must communicate clearly the circumstances that give rise to such a waiver. Waivers should not be reserved only for the most extreme cases but should apply to anyone who truly will suffer a hardship according to their individual situation and condition. This means that the standard must be flexible, as a situation that is hardship for one person may be relatively insignificant for another.

VI. Provide Adequate Advance Public Education and Notice About the Impending Conversion to EFT

Most consumers are unaware of the Electronic Funds Transfer Act (EFTA) or Regulation E, which implements it. While EFTA and Regulation E provide important consumer protections (such as a $50 liability limit on the use of a stolen credit card), their provisions are not well known by consumers and the notice requirements are complicated. For example, many low-income families do not have telephones, yet a bank may select use of a special telephone line to allow customers to learn if a deposit was made. Also a financial institution may fulfill its error resolution obligation under EFTA by simply informing the recipient that its investigation indicates the error was not caused by the bank and that the recipient should get in touch with the appropriate agency. AARP is concerned that this will result in recipients being shifted back and forth between the bank and the local Social Security office. We believe significant attention must be given to the probability that many of those using direct deposit or a financial institution for the first time will experience difficulties. The Federal Reserve and Treasury should assess existing problems and develop procedures for monitoring and resolving consumer complaints that are likely to result from increased participation under the proposed rule. Information gathered should provide the basis for developing public education messages targeted to specific recipients.

Each federal payment recipient must be notified repeatedly -- well before January 1, 1999 -- in mailings containing benefit payments (and other appropriate forms of communication) that future payments will be made by electronic funds transfer. The notice must explain in plain, simple-to-understand language (including a Spanish translation) what electronic funds transfer and related terminology means, since many recipients will be unfamiliar with the terms.

VII. Conclusion

Although electronic funds transfers may offer significant benefits for consumers and the federal government (efficiency, cost savings, and reduced risk of theft of federal payments), fundamental consumer protection provisions must be in place well before January 1, 1999. This is particularly important for those recipients of federal payments who do not have a current relationship with a bank. Federal payments may be the primary or sole source of income for these "unbanked" consumers. Therefore, Congress and the relevant federal agencies must ensure that these individuals are protected from unfair, deceptive, or abusive practices, as well as from unreasonable hardship. AARP stands ready to work with you in this critical endeavor.

In compliance with House Rule XI, clause 2(g) regarding information of public witnesses, attached is AARP's statement disclosing federal grants and contracts by source and amount received in the current and preceding two years.

AARP Statement of Federal Grants & Contracts Pursuant to Rule XI, Clause 2(g)

On December 19, 1995, the President signed into law the Lobbying Reform Disclosure Act of 1995 which prohibited 501(c)(4) organizations that lobby from receiving federal funds. Although the lobbying act only applies to new grants, AARP transferred its grant programs (staff, funds, and administration) to the AARP Foundation, a 501(c)(3) nonpartisan, charitable corporation established in the District of Columbia in 1961. These transfers, effective January 1, 1996, were approved by all of the federal funding agencies.

	AARP	AARP Foundation	
	1995	1996	1997
	Actual	Actual	Projected
Revenues			
Department of Labor: AARP Senior Community Services Employment Program (SCSEP) (1)	$50,993,000	$46,155,000	$50,600,000
Environmental Protection Agency: AARP Senior Environmental Employment (SEE) Program (2)	24,050,000	21,126,000	24,000,000
Internal Revenue Service: AARP Tax-Aide (3)	3,468,000	3,327,000	3,200,000
Housing and Urban Development: AARP Home Equity Information Center	234,000	257,000	357,000
Health & Human Services:			
AARP Early Detection and Control of Breast Cancer Project	235,000	253,000	375,000
AARP National Legal Assistance Support Project	154,000	40,000	135,000
AARP Technical Assistance Project for Statewide Legal Hotlines	100,000	40,000	125,000
AARP SSA Outreach Demonstration Program	98,000	0	
AARP National Eldercare Institute	28,000	0	0
White House Conference on Aging	6,000	0	
AARP Suicide Evaluation and Prevention Project	0	0	50,000
AARP Ombudsman Training and Technical Assistance	2,000	51,000	50,000
AARP Improving Early Access to Mental Health Services Project	0	87,000	49,000
Department of Justice	58,000	0	0
Corp for National Community Service	1,000	0	0
Total Federal Grants	$79,427,000	$71,336,000	$78,941,000

Three Largest Programs:

(1) The AARP SCSEP is a work-training program authorized under the Older Americans Act of 1965. Eligible program applicants must be at least 55 years of age, physically able to work, and have income at or below the poverty level. This program operates in 102 locations in 35 states. For the grant-year ending June 30, 1996, the program served over 13,000 individuals and had an unsubsidized placement rate of 44%.

(2) The AARP SEE Program places retired, or unemployed individuals, 55 or older, in technical assistance roles with the EPA. For the last grant year, participants were enrolled in 33 locations throughout the United States. Multi-year cooperative agreements were projected originally to result in payments of $24 million for 1997. Because this program may end before the end of 1997, a lower amount may be received in the current year.

(3) The AARP Tax-Aide Program provides free tax counseling for low and middle-income individuals, 60 and over, through a network of more than 10,000 sites and 30,000 volunteers. In 1996, this program helped over 1.5 million taxpayers.

Revised October 1996

THE AARP FOUNDATION
History and Role

The AARP Foundation was established in the District of Columbia in 1961 as a 501(c)(3) nonpartisan charitable corporation, contributions to which are tax deductible. As an affiliate of AARP, the corporation was originally named the Retirement Research and Welfare Association and was set up to engage in the study and discussion of issues affecting aging persons.

In 1983, the Retirement Research and Welfare Association changed its name to the AARP Foundation and shifted its emphasis to promoting projects and community service endeavors related to the social welfare, maintenance, and improvement of health and educational services for older persons. During the 1980s and early 1990s, the Foundation received grants for various AARP projects and also awarded small grants to a variety of community service, educational, and social welfare groups.

On December 19, 1995, the President signed into law the Lobbying Reform Disclosure Act of 1995 which prohibited 501(c)(4) organizations that lobby from receiving federal funds. Although the lobbying act only applies to new grants, AARP transferred its grant programs (staff, funds, and administration) to the AARP Foundation. These transfers were approved by all of the federal funding agencies.

Today, the AARP Foundation administers educational, employment, community service, and advocacy programs funded by both private and federal grants totaling about $76 million and employs 206 staff. Major programs of the Foundation include the Senior Community Service Employment Program, the Senior Environmental Employment Program, the AARP Tax-Aide Program, and the Washington, DC based advocacy programs funded through Legal Counsel for the Elderly, Inc. The AARP Foundation's five-member Board of Directors is appointed by the AARP Board of Directors and provides oversight and guidance to the Foundation's management. Anne Harvey serves as Foundation Administrator, supervising the administrative, financial, and professional activities of the Foundation. Under a service agreement, AARP provides the Foundation with support services and specialized skills needed to carry out some of the grant-funded programs.

AARP Foundation Administrator's Office

Mr. HORN. Since our family is a member of AARP, I should say that on the record this next statement does not represent that membership. It's just a thank you, because your staff worked very closely with our committee staff in developing the consumer protection report language that we had. And we look forward to working with you and other senior citizen groups, there's a number of them, in terms of protecting all our citizens from unreasonable fees. So we share that concern.

I think electronic transfer will save thousands of senior citizens from being robbed every month of their benefit payments. And they—this is the way you protect them. And——

Ms. CREQUE. Except——

Mr. HORN. We don't want unintended consequences to go, but I think, frankly, hundreds of millions of dollars will go to senior citizens, not crooks, after this is done.

Ms. CREQUE. Agreed. But we do have some concerns currently about the locations of ATMs. Some are in isolated lobbies. Many are right out on the sidewalk. Finally, we have to also take into consideration some of the problems that we have as we grow older; our eyesight, arthritic fingers. So we do have some concerns about safety.

Mr. HORN. As a senior citizen, I understand that.

Are you concerned that the banks will have a monopoly on the 10 million new clients represented by those individuals without bank accounts? What's your feeling on that? Have you looked at that as to how many people actually have bank accounts that are in your membership?

Ms. CREQUE. We did look at the number of people in our membership that had direct deposit and what their experience had been with direct deposit. And some of their experiences involved errors in transmission and a long period of time it took to resolve those errors. When your income is based solely on that payment, you cannot afford a lengthy period of time to resolve those errors. So that is one area that we have looked at.

Mr. HORN. This was an error in the amount of deposit that had come through electronically?

Ms. CREQUE. The amount of deposit that either came through or the account to which it was deposited, because, you know, transposition of one number can create quite an error.

And the other thing that occurs with seniors is trying to resolve that type situation. They encounter another piece of electronic equipment called voice mail, which they literally——

Mr. HORN. It frustrates me every day, and I didn't have to hit 66 to be frustrated. I was frustrated by that years ago.

Ms. CREQUE. That's another point of frustration in trying to resolve the errors, because sometimes they get caught in a catch–22. The bank says, our records show this. You go back to the originator. So there is some difficulty.

But one of our concerns pertaining to the banking industry, if people are mandated to accept EFT transfers. We don't want them to be stigmatized; and that can be done in many ways. It can be subtle. For example, people could be assigned to use a specific ATM machine, or they could use different colors of ATM cards, and we do not want to subject any of our senior citizens or any citizen to that type of indignity.

Mr. HORN. Well, I think you're right. And I think, frankly, a bank that is aggressive and wants to serve its clientele will do what you're talking about and make sure there's security there and 20 cameras focusing on various angles of that ATM, so if anybody does make mischief, there's a fairly good record of them. And I think that would assure a lot of senior citizens about the security. I think, let's face it, senior citizens, correctly in many cities, are worried about going out at night.

Ms. CREQUE. That is true.

Mr. HORN. And it isn't just senior citizens; 25-year-old people are worried about going out at night in an ATM, as you suggested, in a dark area. And this is where people have to call—that's a good thing local AARP people can do, because a lot of them are looking for things to do. They can go sit down with the bank president, say, look, this doesn't make any sense. What can we do to get this thing in a place where you serve people and they don't have to fear for their life?

Ms. CREQUE. We agree. And that could be done under what we call our connections project. Under Connections, we know that seniors want to remain independent, so we provide services like the banking service, writing checks to help them remain independent.

Mr. HORN. What are your organization's plans to conduct an education campaign regarding direct deposit? What are you planning to do on that?

Ms. CREQUE. First, we would work with the committee to set up the instruction campaign. Then we have various outlets available. We currently have a couple of programs addressing financing and telling people how to write checks and how to manage their finances. It would be undertaken like any other program that AARP would undertake. We would train people to go out and speak before senior centers. We would have meetings. And through our many publications, we would alert seniors to what is coming up. And then we have the one-on-one volunteer services that would be available.

Mr. HORN. Yes. I would think Modern Maturity has about 33 million people, or is it more than that now that it goes to?

Ms. CREQUE. The membership of the association is about 32 million.

Mr. HORN. Thirty-two. They all get a copy of Modern Maturity, right?

Ms. CREQUE. Right. Plus the bulletin.

Mr. HORN. Yes. A couple of full pages there on direct deposit, maybe the cover, direct deposit. You can't miss it. You at least look at the front cover or the back cover. And I think that would be a great service to everybody in terms of educating them. At least it's a start.

Would you like to respond to any of the issues that you heard from the three Government witnesses?

Ms. CREQUE. I was interested in the Treasury Department—in negotiating these accounts with the bank, and our concern about the possibility that you could have ATMs in nursing homes and assisted living facilities. Our concerns are from the standpoint there is no protection for the consumer. An employee could abscond with the money, or a concern go bankrupt. So we are concerned that these agencies be both federally regulated and federally insured. Because if your total income is coming from the Government, you cannot afford to become a party to a bankruptcy action, for example, and wait for your money.

Mr. HORN. Regarding your advice concerning check-cashing firms and their role as a possible payment agent, would that be true if those check-cashing firms offered a more reasonable or cheaper and more convenient service to its customers?

Ms. CREQUE. Again, we would be concerned about protection of the consumer and the transmittal of the money to the check-cashing agencies. By the way, with this EFT–99 service as it's proposed, with the debit card of the ATM, seniors would incur not only ATM expense after the first debit card withdrawal, but in taking care of their living expenses. They cannot pay in cash in some instances. So they're going to have to go somewhere, whether it's back into the bank or to a check-cashing agency, to get money orders or checks, because their account as it's currently set up does not give them check-writing privileges.

Mr. HORN. In our looking at the welfare problems around the country, we found billions of dollars that were being misspent, and some of it was related to checks, being able to go to a bar, for example, and the bartender cash the check, and obviously the person bought quite a bit of alcohol before leaving the bar, so they didn't have much left on the rest of the monthly benefit payment.

And so you raise legitimate questions here on some of the circumstances of these firms and where they're located and why that might be disturbing to a senior citizen or anybody that doesn't want to get into a lot of trouble just by going through that door, because that's the only place you can cash a check. So how do you suggest we deal with that problem?

Ms. CREQUE. Again, we're looking for institutions that will be regulated. And there has to be some criteria set up and really a good look at all of the participating institutions. There will be a lot of people, like when welfare reform occurred, that want to hop on the bandwagon because they see an opportunity to make some money for their businesses.

Mr. HORN. Yes.

Ms. CREQUE. But our No. 1 concern, is that for many people, 90 percent of their household income is a Federal payment, like Social Security. They're living from hand to mouth. They cannot afford a loss of their money.

And the other thing, Mr. Chairman, to be realistic, there are group of senior citizens and some younger people that will never accept electronic funds transfer. You have some seniors who are a carryover from the Depression when banks failed, and they don't trust banks. You also have the language barrier problem. Somehow, people want the money in their hand; they want to count it. Another aspect is we still have a group of people that go and pay bills in person. They need to see that transaction. They need to have that piece of paper in the hand that says this has been done. So I think we need to be mindful of that.

Mr. HORN. Well, I grew up in a household that had exactly those views, and I'm well aware that you're right when you talk about people who have lived through the Depression and had mortgage foreclosures and everything else. They're not going to take any chances. But I think also when the chips are down, electronic deposit is a safer way to make sure their money is deposited than the way it is now for the average system.

Ms. CREQUE. Agreed.

Mr. HORN. And that's how we want to educate them.

Ms. CREQUE. With some training, as you know, because many seniors do not readily accept something just because it's new.

Mr. HORN. Yes.

Ms. CREQUE. You have to prove to them what the benefits are when accepting it.

Mr. HORN. And that's where the AARP can be most helpful.

Well, we thank you for your testimony. It has been very helpful, and we wish you well on the trip.

Now the full Committee on Government Reform and Oversight has scheduled a meeting this morning, and under the rules of the House, the subcommittee cannot conduct its hearing once the full committee has come together. So we're going to recess until 2:30 p.m., here in this room, I believe. Hopefully the full committee will have quit by that time.

And so the three other witnesses we have, Elliott McEntee, the chief executive officer for the National Automated Clearinghouse Association; Dina Nichelson, president of the American League of Financial Institutions; and Margot Saunders, managing attorney, National Consumer Law Center, we will start precisely at 2:30. And we're sorry we can't finish everything in the morning, which I think we might have, but the rules of the House are the rules of the House. So we're in recess until 2:30.

[Whereupon, at 11 a.m., the subcommittee recessed to be reconvened at 2:30 p.m. the same day.]

Mr. HORN. May I ask our witnesses to rise and raise your right hands.

[Witnesses sworn.]

Mr. HORN. All right. Recess is over. It is approximately 2:49, and the Subcommittee on Government Management, Information, and Technology will come to order.

We are delighted to have here the witnesses in both panels two and three, and one is Ms. Nichelson, the president of the American League of Financial Institutions, and another is Elliott McEntee, chief executive officer, National Automated Clearing House Association and Margot Saunders, the managing attorney for the National Consumer Law Center.

Why don't we just go down the line in alphabetical order, Mr. McEntee. Welcome. Please give us your testimony.

STATEMENTS OF ELLIOTT McENTEE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL AUTOMATED CLEARING HOUSE ASSOCIATION; DINA NICHELSON, PRESIDENT, AMERICAN LEAGUE OF FINANCIAL INSTITUTIONS; AND MARGOT SAUNDERS, MANAGING ATTORNEY, NATIONAL CONSUMER LAW CENTER

Mr. MCENTEE. Thank you, Mr. Chairman, and it is a pleasure for me to be here testifying on behalf of the National Automated Clearing House Association on the Federal Government's EFT mandate.

Last year, the Congress approved legislation that would achieve three major objectives: Significantly improve services that the Government provides to its citizens; substantially reduce the cost of sending payments to individuals and businesses; and set the stage for improving the competitiveness of the United States in the world marketplace. During the next 5 minutes, I will explain why the EFT mandate will achieve these objectives.

Requiring the Federal Government to send payments to individuals by direct deposit will result in substantial benefits to consumers. Direct deposit is the safest and most convenient way to receive funds. With direct deposit, payments are not lost or stolen. In the 20 years the Social Security Administration has offered this service, not a single direct deposit payment has ever been lost or stolen. In contrast, thousands of payments made by check are lost, stolen, and forged every month.

With direct deposit, consumers have access to their funds at the opening of business on the payment date, and interest begins to accrue immediately, if the money goes into an interest bearing account. Because of these benefits, over 80 percent of all new Social Security recipients are voluntarily signing up for direct deposit.

How will consumers that do not have a bank account react to receiving Government payments electronically? To answer this question let's look at the recipients of food stamps and welfare payments in those States that provide those benefits by electronic funds transfer. Several surveys have shown that over 80 percent of the consumers participating in EFT programs prefer this method of payment compared to receiving paper coupons and paper checks.

Up to 500,060 companies that sell goods and services to the Federal Government will be required to receive their payments electronically. In addition to the benefits I just described for consumers, companies will be able to receive the remittance information that is needed to reconcile a payment in electronic form. This will enable companies to substantially reduce the cost of reconciling the payment.

The Federal Government will also benefit from the EFT mandate. The cost to send payments will decrease by over 90 percent, according to the Treasury Department. The expense of researching lost and stolen payments will be eliminated. For every dollar that the Federal Government saves in this manner, we move one step closer to balancing the Federal budget, without reducing services to the public.

The United States is a recognized world leader in using electronic technology for thousands of applications. Unfortunately, sending and receiving payments is not one of those applications.

Almost 80 percent of the noncash payments made in this country are made by check. In contrast, in many of the countries that we compete with, electronic payments are used far more frequently than checks. If electronic payments usage in the United States was the same as in those countries, we could save up to $50 billion a year. If the Federal Government takes the lead in phasing out checks, then you can be assured that the private sector will follow that lead and those potential cost savings would start to materialize.

Because of the benefits I just discussed, the National Automated Clearing House Association urges the Congress not to modify the law that created the EFT mandate. We would like to bring a related matter to the attention of the subcommittee. The Treasury Department has announced that it would not proceed with implementing the next group of businesses required to deposit Federal employment taxes through EFTPS, thus reducing the ultimate number of depositors by over 4 million taxpayers. The Treasury plans to take this action because of concerns expressed by the small business community. Rather than exempting small businesses from paying taxes electronically, we would urge the Treasury Department and the Congress to deal head on with the real concern businesses have with paying Federal taxes electronically.

Under current law, if the payment is late, the IRS can impose penalties, up to 10 percent of the taxes due. This law should be changed. The IRS should be permitted to charge only for the interest income lost because the payment was late. Under this proposal, the IRS could only impose higher penalties to chronic late payers or when fraud is involved. By making this change, the Treasury would not have to exempt the 4 million businesses from paying taxes electronically, thus, saving both businesses and the Federal Government a substantial amount of money. Attached to the written testimony, we provided some details on that proposal.

That concludes my remarks and I will be glad to try and answer any questions you may have.

Mr. HORN. That is an excellent statement you have submitted and I appreciate your precise summary. We are going to go down with the other two witnesses and perhaps we can have a dialog between the three of you and the committee.

[The prepared statement of Mr. McEntee follows:]

THE FEDERAL ELECTRONIC FUNDS TRANSFER MANDATE

The National Automated Clearing House Association (NACHA) appreciates this opportunity to present its views on the Federal government's electronic funds transfer (EFT) mandate. NACHA is a nonprofit trade association representing the Automated Clearing House (ACH) Network which provides government agencies, businesses, and individuals a safe, reliable, and cost-effective electronic payment mechanism.[1] This payment mechanism supports Direct Deposit,[2] Direct Payment, and many other individual and commercial electronic payment applications, including Federal payments.

THE EFT MANDATE IS GOOD PUBLIC POLICY

By including the mandatory EFT provisions in the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*, Congress and the Administration have recognized the many benefits associated with converting checks to electronic payments. By mandating the use of EFT for Federal payments, Congress and the Administration have also recognized that the benefits of paying individuals and businesses electronically are not attainable under a dual system in which costly paper checks continue to be issued. Moreover, the confidence placed by the Federal government on the ACH Network and other EFT systems to carry virtually all payments to be made by Federal agencies in the next millennium sets a strong example for the states and for the private sector to follow. It also recognizes the global competitive position of the United States and the challenges we face to close the gap with other nations where EFT participation rates are so much higher.

Taxpayers are better served under the mandate
In practice, "good government" means reliance on efficient operations using proven technology. Direct Deposit is proven technology; it is safer, more convenient and more reliable than paper checks as a means of payment. For example, taxpayers pay 42 cents for every Federal payment

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1 Through its thirty-five member associations and more than 13,000 member financial institutions, NACHA establishes the rules, guidelines, and standards for the exchange of commercial electronic payments via the ACH Network. NACHA's mission includes the development, promotion and use of electronic solutions to improve the payments system through activities including financial electronic data interchange (financial EDI), Electronic Benefit Transfer, cross-border transactions, bill payments, electronic checks and The Internet Council. NACHA also produces payments marketing collateral material and technical publications, and provides education services such as conferences, seminars, The Payments Institute, and the Accredited ACH Professional (AAP) program. The ACH Network reaches more than 20,000 financial institutions and more than 500,000 businesses in the U.S. Information about NACHA can be obtained by calling (703) 742-9190, sending e-mail to *info@nacha.org*, or visiting NACHA's Internet site at *http://www.nacha.org.*

2 With Direct Deposit, the payment originator's financial institution instructs the recipient's financial institution electronically through the ACH Network to credit the appropriate funds to the recipient's account on the payment settlement date. These funds are available to the recipient at the opening of business on that date.

issued as a check. By comparison, taxpayers pay only 2 cents for every Federal payment delivered by Direct Deposit.[3] A tangible example of this benefit is that the Social Security trust fund is expected to save $100 million a year when all Social Security benefits are issued by Direct Deposit.[4]

The competitive position of the U.S. is enhanced with EFT

While our economy's reliance on electronic payments as a substitute for less-efficient paper payments (checks and cash) has grown dramatically over the past decade, the United States still lags behind its foreign competition. For example, just over half of all private-sector U.S. employees receive their wages via Direct Deposit. And, while this percentage is growing, it falls well behind the 90 percent participation rates enjoyed by other countries.

To look at the position of the United States vis-a-vis its trading partners around the world from a societal perspective, every payment made by check in this country that could have been made by EFT costs our economy as much as $1.50. At the macroeconomic level, with 63 billion checks issued each year, this societal cost represents $60-$90 billion dollars a year in foregone economic opportunities.

BACKGROUND

Public Law 104-134, the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*, contains a provision requiring the use of EFT for Federal payments.[5] Generally the new law requires that by January 1, 1999, all persons entitled to Federal payments will be paid by Direct Deposit or some other form of EFT. This includes benefit payments to individuals and vendor payments to Federal contractors. In support of this requirement, the Secretary of the Treasury is required to issue implementing regulations that include guidelines on how "unbanked" recipients will be provided with electronic payment services. NACHA understands these implementing regulations will be issued as a notice of proposed rulemaking and request for comment in July 1997 or shortly thereafter.

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3 SOURCE: U.S. Treasury Department, Financial Management Service.

4 SOURCE: Social Security Administration (SSA). SSA faces the challenge of converting to Direct Deposit or some other form of electronic payments more than 20 million Social Security and Supplemental Security Income (SSI) recipients who still receive monthly checks. The conversion must take place in less than 19 months. While all Federal payments except those made by the IRS are affected by the mandate, Social Security is likely to be the most visible program affected.

5 Federal payments made under the Internal Revenue Code are exempt from the EFT mandate.

The Treasury Department is charged with facilitating access to EFT by individuals and businesses included in the mandate. Since very few exceptions are likely to be allowed in any waiver authority adopted, Treasury is pursuing a three-pronged approach to ensure that access to Federal EFT payments is virtually universal: (1) Direct Deposit through the Automated Clearing House (ACH) Network and other EFT payment mechanisms using traditional bank accounts, (2) "Direct Deposit Too" into accounts established by financial institutions with electronic-only access (designed to appeal to individuals that are currently "unbanked"), and (3) electronic benefit transfer (EBT).

ELECTRONIC PAYMENTS ARE SAFE, RELIABLE AND CONVENIENT

Fortunately, a reliable infrastructure already exists for processing Federal EFT payments. From the perspective of the nation's financial institutions which will serve as intermediaries and processors of these payments, the Federal EFT mandate presents many opportunities and a few challenges. To ensure a smooth implementation of the mandate, it is imperative that the Federal government coordinate with and rely to the greatest extent possible on the private sector. This includes the need for the Federal government to adopt EFT payment policies that recognize existing technology and banking industry conventions, and that depend on established payment and information processing systems.

The benefits and challenges associated with EFT for Federal payments to individuals and businesses are presented in detail below. Included throughout this discussion are the key roles to be played by financial institutions in facilitating implementation of the Federal EFT mandate.

Federal Payments To Individuals

The large majority of Federal payments to individuals are made by the Social Security Administration (SSA). At present, Social Security generates more than 30 million Direct Deposit payments each month to recipients. Sixty-five percent of the 44 million Social Security beneficiaries currently use Direct Deposit, and over 85 percent of new beneficiaries are opting for Direct Deposit. Thirty-two percent of the 6.6 million Supplemental Security Income (SSI) recipients use Direct Deposit. Approximately 91 percent of all Social Security beneficiaries and 50 percent of SSI recipients currently have an account with a financial institution and could be paid by Direct Deposit immediately.[6]

To the individual recipient, the benefits of Direct Deposit are significant, offering greater convenience, reliability and even interest earnings.

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6 SOURCE: Social Security Administration.

- *Convenience.* With Direct Deposit, the need to visit a financial institution to deposit a Federal check is eliminated. As a result, recipients can save over 10 hours each year by not having to visit the teller window or ATM machine to cash or deposit Federal checks. Furthermore the recipient enjoys immediate access to his or her money, while interest begins to accrue immediately if the funds are deposited into an interest-bearing account.

- *Reliability.* Direct Deposit is also safer and more reliable. In the 21 years it has been available to Social Security beneficiaries, not a single Direct Deposit payment has ever been lost. However, check thefts have doubled in the past 10 years and counterfeiting remains a problem. Currently, the Federal government must handle 1.7 million inquiries annually from recipients whose checks have been lost, stolen, damaged, or delayed.[7] Direct Deposit eliminates these problems -- providing recipients greater reliability and security, and saving the Federal government valuable human and systems resources by not having to track and respond to these inquiries, reissue checks, etc.

- *Flexibility.* The recipient's financial institution also benefits from Direct Deposit as a result of cost savings and increased customer satisfaction. An estimated $1.00 is saved for each payment deposited through the ACH Network instead of through a teller window or ATM. In return for these savings, customers often receive free or low cost checking accounts and other account benefits. Should a recipient wish to change an account or financial institution, this is accomplished by simply filling out a brief form and authorizing the new account relationship.

Finally, to make it even easier for Federal payment recipients to enroll and authorize Direct Deposit to their account(s), NACHA and the SSA recently developed an automated enrollment feature for the ACH Network now being used by increasing numbers of financial institutions. Automated enrollment reduces the potential for data entry errors in the enrollment process, speeds up the process of enrollment for the recipient, and provides financial institutions access to a new customer service feature.

Federal Payments To Vendors
The primary challenge in implementing the EFT mandate as it applies to payments to Federal vendors rests with the Federal government in that it must link EFT payments with their remittance information. Linking and transmitting payments with payment-related data is known as "financial electronic data interchange" (financial EDI). The government's challenge is reflected in current participation rates -- of the 24 million vendor payments (including grant payments) issued by the Federal government in fiscal year 1996, only about 18 percent were issued by EFT.

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7 Michelle Singletary, "Electronic World, Unchecked Problem?", *Washington Post*, March 5, 1997, p. C1.

As with electronic payments to individuals, successful implementation of the EFT mandate for vendor payments will rely on the existing payments system infrastructure and financial EDI capabilities meeting three key criteria:

- *Universal Accessibility.* There must be virtually no barriers to participation by vendors of any size and their financial institutions in systems providing access to EFT and payment-related information.

- *Minimal Cost.* Financial EDI participation should result in minimal additional costs to vendors and financial institutions in terms of initial investment in enabling capacity and ongoing transaction processing costs.

- *Reliability.* The emphasis must be on using proven networks operating under established rules and standard formats for transmission of EFT payments and related information.

The ACH solution. When assessed against these criteria, the ACH Network is particularly well suited as a primary network for transmitting Federal vendor payments and related data. According to a study of businesses completed by NACHA in 1995, nine out of 10 respondents expressed the opinion that the ACH Network was the most cost effective and preferred choice for exchanging financial EDI payments. Another important finding of the study was that 85 percent of respondents preferred to keep dollars and data together when receiving financial EDI payments. When one network is used for processing the payment through banking channels and an entirely separate network is used for processing payment-related information, financial EDI can be needlessly complex and less efficient.

In recognition of businesses' preference, the banking industry is moving rapidly to ensure that a universal capability exists to link payment related information with EFT transactions through bank-owned networks. Access to these solutions is both reliable and inexpensive. For example, NACHA and MCI have developed *Rapid*EDI* to give financial institutions of any size a financial EDI capability through the ACH Network that they can offer customers without a substantial technology investment. The Chicago Clearing House and several financial institutions have also developed a financial EDI processing network known as *EDIBANX.*

The ease and accuracy with which information supporting EFT payments is initiated and transferred to the receiver are also crucial to successful and universal financial EDI implementation. To support this key factor and the government's objectives requires that all appropriate Federal agencies must be capable of originating and receiving both EFT and EDI communications themselves or through outsourcing arrangements. Moreover, they must support prevailing national standards and formats for EFT, such as the NACHA Operating Rules, and for EDI, such as American National Standards Institute ASC X12. This will allow financial EDI transmissions to be processed throughout the chain "as is," or at least be easily mappable to proprietary formats that recognize standard formats. Federal agencies must also recognize that most vendors, currently, will require payment-related information to be delivered in human-readable form.

NACHA'S ROLE IN SUPPORT OF THE MANDATE

NACHA is engaged in a joint educational initiative with the U.S. Treasury's Financial Management Service (FMS) and the Federal Reserve Banks to facilitate a smooth implementation of the Federal EFT mandate. This initiative is targeting consumers, financial institutions and businesses about the mandate, and is using direct mail, public service announcements on radio and television, and other means of communications. To kick off the campaign, FMS and the Federal Reserve Banks mailed brochures to more than 20,000 financial institutions. The brochure, *"Are You Ready?,"* informs institutions about the EFT mandate and urges them to prepare to meet the electronic payment needs of their consumer and business customers. NACHA has been responding to follow up requests for information generated through this initiative and has contacted over 3,700 institutions as a result.

Finally, as the rulemaking body for the ACH Network, NACHA is also actively pursuing with financial institutions, businesses, service providers and government agencies rules changes and other Network enhancements to better support the data transmission needs for consumer and vendor payments under the mandate.

ELECTRONIC TAX COLLECTION IS ALSO GOOD PUBLIC POLICY

NACHA would also like to call the Subcommittee's attention to the collection of federal taxes through the Electronic Federal Tax Payment System (EFTPS). This initiative offers taxpayers and the Federal government many of the same cost reductions and efficiencies associated with the Federal EFT mandate. However, the Treasury Department recently announced that it would not proceed with implementing the next group of businesses required to deposit Federal employment taxes through EFTPS, thus reducing the ultimate number of depositors by 3-4 million taxpayers. We understand this policy change was in reaction to criticisms directed at the Federal government by the small business community which was concerned that conversion to EFTPS might result in late payments and, consequently, stiff penalties.

The Treasury announced the reduction in the scope of the EFTPS program in conjunction with a delay in the assessment of non-compliance penalties for EFTPS depositors from July 1, 1997 until January 1, 1998.[8] These announcements were made by Donald C. Lubick, Acting Assistant Secretary of the Treasury for tax policy in testimony given June 5, 1997 before the Senate Finance Committee's Subcommittee on Taxation and IRS Oversight. While NACHA has consistently supported relief for the small business community through non-compliance penalty abatement, we believe that the unilateral decision by Treasury to reduce the required size of the EFTPS program is a short-sighted approach. Necessary tax relief for the small business community, indeed all businesses, should instead focus on reforming current penalty assessment policies.

As noted in the attached written testimony submitted to the House Ways and Means Committee's Subcommittee on Oversight on April 16, 1997, NACHA believes there is significant merit in reforming business Federal tax payment penalties, particularly late payment penalties, so that Federal policies more closely reflect policies in the private sector. Briefly, what NACHA proposes is that Congress, the Federal government and the business community work together to develop late payment penalties based on the time value of money owed, rather than on fixed and escalating percentages of the amount owed as is current policy.

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NACHA believes that the Federal government has taken a significant and extremely positive step forward by fully embracing EFT as the means to deliver payments. Electronic payments are safer, more reliable, and more convenient to recipients, and result in significant cost reductions to the Federal government. The Federal EFT mandate is "good government" in practice and all participants -- consumers, businesses, and financial institutions -- win. For the reasons stated above, NACHA would urge Congress to resist any attempts to modify the EFT mandate. With respect to Federal electronic tax collection policies, we would also urge Congress to direct the Treasury Department to retain the original scope of the EFTPS program and to work with representatives of the taxpaying business community to develop meaningful reforms to the manner in which penalties are assessed.

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8 IRS regulations require corporate taxpayers to deposit electronically if their total Federal depository taxes (e.g., income, employment and withholding taxes) exceed the annual dollar threshold for a specific determination period. Taxpayers currently required to use EFTPS to deposit their Federal taxes are companies that had total Federal depository taxes in excess of $47 million in calendar 1994. As of July 1, 1997, the threshold amount will drop to $50,000 in annual Federal taxes and the determination period will be for calendar 1995. It is expected that approximately 1.2 million taxpayers will be obligated to deposit Federal taxes electronically as of July 1, though as noted above the IRS will not penalize such companies continuing to use the costly paper coupon deposit system and making timely payments until January 1, 1998. Finally, under original IRS policy, a final threshold of $20,000 would take effect January 1, 1999.

ATTACHMENT

RECENT NACHA SUBMISSION TO THE HOUSE WAYS & MEANS COMMITTEE'S SUBCOMMITTEE ON OVERSIGHT REGARDING THE ELECTRONIC FEDERAL TAX PAYMENT SYSTEM

FOR THE RECORD

THE ELECTRONIC FEDERAL TAX

PAYMENT SYSTEM

April 16, 1997

U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Oversight

Elliott C. McEntee
President and Chief Executive Officer

National Automated Clearing House Association
607 Herndon Parkway, Suite 200; Herndon, VA 20170

THE ELECTRONIC FEDERAL TAX PAYMENT SYSTEM

The National Automated Clearing House Association (NACHA) appreciates this opportunity to present its views on the federal government's Electronic Federal Tax Payment System (EFTPS) and legislation (H.R.722) that would exempt certain small businesses from the requirement to pay taxes electronically under this program. NACHA is a nonprofit trade association representing the Automated Clearing House (ACH) Network which provides government agencies, businesses, and consumers a safe, reliable, and cost-effective electronic payment mechanism.[1] This payment mechanism supports Direct Deposit, Direct Payment, and many other consumer and commercial electronic payment applications, including federal tax payments under the EFTPS program.

A. The Problem

The United States Congress, thousands of corporations, and the Nation's financial institutions are concerned with the readiness of the federal government and taxpayers to successfully implement the next phase of the Electronic Federal Tax Payment System (EFTPS), which requires as many as 1.2 million taxpayers to begin paying their federal taxes electronically. These concerns have been magnified because of the fear that the mandate will result in taxpayers incurring Internal Revenue Service (IRS) late payment and avoidance penalties of up to 10 percent of the tax payment due. NACHA believes that virtually all these concerns would be eliminated if the IRS provides temporary relief on avoidance penalties and imposes late payment penalties in a manner similar to those used in the private sector for compensating a party that is "injured" by a late or erroneous payment.

With the EFTPS program, the federal government has elected to use the ACH Network to collect tax payments electronically. The ACH Network was largely built by the private sector and its use will save the Federal government hundreds of millions of dollars in its revenue collection operations. Because the Federal government has elected to use a private sector payment network, we believe it should follow the rules governing that network except where such rules are inconsistent with public policy.

B. The Solution

NACHA's proposed solution would only apply to business taxes collected through the EFTPS program and addresses the problems facing taxpayers required to begin making electronic tax payments by the July 1, 1997 deadline.

In the private sector, if an electronic payment is delayed, then the party that has not made this

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1 Through its thirty-eight member associations and more than 14,000 member financial institutions, NACHA establishes the rules, guidelines, and standards for the exchange of commercial electronic payments via the ACH Network.

payment on a timely basis compensates the party receiving the late payment according to a widely used formula. The amount of compensation is based on the time value of the funds to be paid and the number of days by which the payment was late. The formula, which is incorporated into the ACH Network rules, uses the overnight federal funds rate as its basis for determining the value of funds.[2] The IRS may also want to assess a minimum fee to cover the administrative costs of assessing the penalty.

For example, if a taxpayer owed $100,000 in federal taxes and the payment was two days late, the late payment penalty would be $30.56 (plus any IRS administrative fee), instead of a penalty of up to $10,000.

As an incentive to ensure that this compensation formula for late tax payments is not abused, the current graduated penalty structure could be imposed on taxpayers that frequently make late payments, or those that delay payment for an inordinate period of time following receipt of an IRS notice. Also, for reasons of efficiency and convenience to taxpayers, we believe the entire process of calculating and assessing the penalty should be automated. NACHA would be willing to research this issue further and make recommendations as to how best the IRS could automate this process.

Finally, NACHA recommends consideration of the following modifications to avoidance penalties related to a taxpayer's failure to begin using the EFTPS system when mandated:

- For those mandated taxpayers that have enrolled in the EFTPS program by the applicable deadline (e.g., July 1, 1997), a 90-day waiver of any penalties assessed for a failure to deposit their tax payments through EFTPS should be applied. This 90-day waiver period would commence with the date on which the applicable deadline takes effect; and,

- For those mandated taxpayers that have failed to enroll in the EFTPS program by the applicable deadline, a 30-day waiver of any penalties assessed for a failure to deposit their tax payments through EFTPS should be applied. As with the 90-day waiver for EFTPS-enrolled taxpayers, the 30-day waiver period could commence with the applicable implementation deadline. However, to accommodate those taxpayers that are unaware of the need to comply, the IRS could choose instead to commence the waiver period with the date on which the taxpayer receives an IRS notice of non-compliance, as opposed to the date upon which the taxpayer became obligated to pay via EFTPS.

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2 Under the NACHA Operating Rules, Appendix Nine (pp. OR 102-103), *$ Compensation = (($ amount of entry) x (Fed. Funds Rate) x (# of days back-valued)) / 360.* The Fed. Funds rate for April 7, 1997 quoted in the *Wall Street Journal* was approximately 5.5 percent. For EFTPS payments, the 90-day T-bill rate might be substituted for the Fed. Funds rate. At the market's close on April 7, 1997, the 90-day T-bill rate was quoted at 5.16 percent.

By modifying the late payment and avoidance penalties associated with the EFTPS program along the lines we have proposed, NACHA believes that taxpayer concerns will be allayed without compromising the significant benefits to taxpayers, financial institutions and the federal government attributable to the program and the smoother implementation process that would result.

C. Other Comments on the EFTPS Program

The goals of the federal government with respect to the EFTPS program should be supported. NACHA believes that the federal government has taken a significant step forward by developing a program that will reduce the costs and inefficiencies borne by taxpayers, financial institutions and the federal government associated with the current paper-based tax deposit system. To achieve these objectives, we believe it is correct for the federal government to require the use of the EFTPS program for most business taxpayers according to the implementation schedule now in place.

Compliance with the Federal EFTPS mandate is facilitated greatly by the government's selection of the ACH Network as the primary means to handle federal tax payments under the program. The ACH Network is a mature and reliable payments system currently used by over a half-million companies, thousands of financial institutions, and federal and state government agencies in support of daily commerce. It is also used by forty-six states for business tax collection purposes. Finally, the ACH Network represents a low cost alternative to either the current Federal Tax Deposit (FTD) paper-based coupon system or the Fedwire option under EFTPS (which exists more as a contingency so that same-day payments may be accommodated when necessary) offering universal access to taxpayers.

However, some modifications to EFTPS are necessary. With minimal changes to the EFTPS program as currently envisioned, including the modified penalties described above, difficulties associated with its intended implementation schedule should be avoided. As described in the attachment, however, NACHA also has some concerns of a technical or operational nature regarding the EFTPS program that we have communicated to the Treasury Department's Financial Management Service (FMS) and the IRS. It is our hope that these concerns will be resolved as quickly as possible to ensure that the EFTPS program operates in a manner fully consistent with private-sector payments system rules and operating procedures.

Federal Tax Deposit coupon processing costs must be recouped. Maintaining both electronic and paper tax deposit methods for large numbers of taxpayers is redundant and costly. Moreover, we expect that the cost to financial institutions for serving each of their business customers' tax deposit needs will be magnified if the EFTPS mandate is limited, as proposed in H.R.722, or delayed in its implementation. Therefore, as long as the option remains available to a significant number of taxpayers to pay federal taxes through the FTD coupon process, we believe that financial institutions must be capable of recouping the significant processing costs they bear.

Until recently, financial institutions participating as Treasury Tax and Loan (TT&L) depositories were able to recoup the costs of processing FTD coupon payments (which can run upward of $2-$4 per coupon) with the float benefits attributable to holding FTD balances overnight. However, now that the larger taxpayers have begun paying federal taxes electronically under the EFTPS program or its predecessor, TAXLINK, the balances held overnight for federal tax payments have declined substantially. Consequently, the float benefits attributable to these balances have also declined substantially, while the number of FTD coupons processed has only declined marginally since most taxpayers continue to use this method. The result for the typical TT&L depository financial institution is that processing costs now exceed the float benefits associated with the FTD coupon process.

This imbalance between the costs and benefits associated with playing such a critical role in the federal government's revenue collection operations is justified in our view only if it exists for a reasonably brief period. Since limiting the EFTPS mandate to only larger taxpayers would lock in this imbalance, and extending the current implementation period would prolong it, NACHA believes that either action would be unacceptable to the banking industry without adequate compensation for the processing of FTD coupon payments. Moreover, without such relief, financial institutions might be compelled to leave the TT&L program, thus possibly meaning an access problem for taxpayers choosing not to pay federal taxes electronically.

-- ATTACHMENT --

NACHA Concerns with EFTPS Technical and Operational Issues

NACHA has the following concerns with certain technical and operational issues raised by the current operation of the EFTPS program and proposed Internal Revenue Service (IRS) and Financial Management Service (FMS) policies and operating procedures.[1] NACHA believes that the policies and procedures governing the operation of the EFTPS program should reflect current operating rules in the private-sector, which for the ACH Network are detailed in the NACHA Operating Rules.

Acknowledgments. NACHA recently approved a change to the NACHA Operating Rules that will allow Receiving Depository Financial Institutions (RDFIs) to send acknowledgment entries over the ACH Network to confirm the receipt of ACH credit payments. Two new optional standard entry class codes (i.e., ACK and ATX) have been established to send acknowledgments in response to an Originator's request to confirm receipt by the RDFI of a corporate credit payment. This rule change takes effect September 19, 1997. *Now that the capability for sending acknowledgments over the ACH Network has been developed, NACHA has asked the IRS to commit to having their Financial Agents send acknowledgments for ACH credit tax payments when requested by the taxpayer.*

Automated Enrollment. In September 1996, a NACHA rule change took effect that allows RDFIs to send automated enrollment entries (ENR) to Federal Government agencies to enroll consumers for direct deposit. The ENR format is optional for RDFIs and Federal Government agencies. The Social Security Administration has begun using ENR as one of many options for enrollment, and in November 1996 had already received and processed over 50,000 ENR entries. *NACHA has asked the IRS to commit to offering an automated enrollment option to taxpayers if NACHA revises the automated enrollment format to accommodate corporate EFTPS enrollments.*

Reversals. Proposed 31 CFR Part 203 would require financial institutions to receive approval from the IRS in advance to reverse erroneous or duplicate ACH credit entries. The EFTPS Payment Instruction Booklet states that an ACH credit reversal entry will be returned as unauthorized if the taxpayer has not received prior approval to send the reversal. As reversing entries and files are allowed to be sent without prior authorization under the NACHA Operating Rules when transmitted within five days of settlement, this requirement for prior authorization will cause confusion to taxpayers and financial institutions. As a result, errors may not be corrected in a timely fashion and the likelihood of penalties increases. *NACHA has asked the IRS and FMS to consider allowing for the reversal of entries and files to correct duplicate or erroneous entries or files without prior authorization from the IRS.*

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[1] Proposed 31 CFR Part 203 (61 *Fed. Reg.* 190, September 30, 1996).

Prenotification/Zero Dollar Entries. With EFTPS, the corporate taxpayer would have the option of sending a prenotification with an addenda record or a zero dollar payment prior to the first EFTPS ACH credit payment. As proposed, EFTPS would be using both these entries in an atypical fashion. Prenotification entries are typically not sent with an addenda record as the RDFI is only required to verify the account number. As a zero dollar entry is considered a non-value transaction, these entries are not associated with the ten-day waiting period associated with a prenotification. In order to use these transactions in an accurate fashion, the prenotification entry should be required without an addenda record and/or the zero dollar entry should be required without a ten day waiting period. *NACHA has asked the IRS and FMS to consider our recommendation to require prenotification entries without an addenda record or to allow for zero dollar entries without a ten day waiting period.*

Financial Institution Requirement to Sign ACH Debit Enrollment Form. The EFTPS enrollment form requires that, when a taxpayer elects the ACH debit method, the taxpayer's financial institution must sign the enrollment form. As the enrollment is between the taxpayer and the IRS, it is inappropriate for the financial institution to be required to sign the enrollment form. Taxpayer verification of certain information with the financial institution can be accomplished by telephone or fax without the necessity of a financial institution representative's signature. *NACHA has asked the IRS to consider removing the requirement from the enrollment form that the taxpayer's financial institution sign the enrollment for the ACH debit option.*

Compensation. Proposed 31 CFR Part 203 states that FMS will impose a fee on financial institutions to recover the value of funds lost when the financial institution is responsible for a late tax payment. The proposed rule does not explain what procedures FMS will use to determine whether a financial institution is at fault for a late payment, or what procedure the financial institution should use to demonstrate that it was not at fault, as the case may be. Furthermore, the NACHA Operating Rules define a procedure for compensation where one party is unjustly enriched or injured. *NACHA has asked the IRS and FMS to consider adopting NACHA's compensation rules as the appropriate method for recovering the value of funds due for late payments for which a financial institution is held responsible.*

Mr. HORN. Ms. Nichelson.

Ms. NICHELSON. Good afternoon, Mr. Chairman. It is my pleasure to testify before you this afternoon and offer the views of the American League of Financial Institutions, also known as ALFI.

ALFI is a national trade association chartered in 1948 to represent the legislative interests of minorities on savings banks and savings and loan associations. ALFI was first formed by a group of seven, then building and loan executives. They determined that they needed a voice to express their concerns among banking regulators and Members of Congress in Washington. They formed what was then known as the American Savings and Loan League, and at the time there were seven building and loan institutions and that grew to 72 savings and loan associations in 1978. They kept unique office hours because many of the depositors were domestic laborers who only had Thursday off. As a result, they were only open on Thursday evenings.

In 1989, the American Savings and Loan League amended its bylaws and renamed the organization the American League of Financial Institutions. There are currently 41 minority savings banks and savings and loan associations, representing $5 billion in assets, with 109 branches and approximately 1,200 employees. They are located throughout the United States in urban and emerging communities, and they rank in asset sizes from our largest minority-owned institution, which happens to be the largest minority-owned institution in the country, Carver Federal Savings Bank in New York, with assets totaling $360 million, to the smallest, Ideal Federal Savings Bank in Baltimore, which has assets of $7 million.

We are delighted to have this opportunity to share our views with you and the subcommittee regarding the electronic benefits transfer funds program. We understand the need to streamline the process of disbursing Government benefits to those deserving Americans. Many recipients of these benefits are located in the same urban communities as our member institutions. Minority savings institutions are all unique in their business strategies for growth and are all unique in their individual goals toward more products and services to their customers. Electronic banking can only enhance their ability to reach a broader market and increase their competitive advantages within their communities.

We feel it is important that Treasury encourage recipients of Government payments to voluntarily agree to transfer those payments to financial institutions under the current electronic direct deposit program and that Treasury encourage banks to create electronic-only accounts, known as Direct Deposit Two. Inasmuch as the electronic benefits transfer, EBT, option is not available through most depository institutions, we urge that be the option of last resort on Treasury's plans to convert paper payments to electronic funds transfers.

Mr. Chairman, I would like to share a few strategies of some of the members of ALFI with you which represent a variety of the approaches to the future of electronic banking. For instance, a members' institution in your home State of California recently announced a unique alliance. Broadway Federal Bank, located in Los Angeles has assets totaling $114 million. Broadway has three branches, one appraisal center, plans to open another branch in

July, and has 51 employees. Although subject to OTS approval, Broadway Federal and the Nix Check Cashing Facility in south central Los Angeles have formed a proposed alliance. This pilot relationship is the result of what Broadway saw as an opportunity to expand its banking services to whom some call the unbanked. Because this proposed legislation will mean the end to what traditionally recipients have known as a physical check in the mail, Broadway would be one of many minority financial institutions well-suited to disburse these funds.

It further represents the opportunity for recipients of electronic funds transfer to begin the process of assimilating into basic cultural management their financial life-styles to the extent that these recipients would now be positioned to establish checking accounts, credit cards, and use ATM cards.

Another ALFI member, Carver Federal Savings Bank in New York is exploring the possibility of opening its own check cashing company under its holding company. Carver's plan will include providing other products and services such as money orders and bill payment services. Carver is also exploring the possibility of offering check cashing services to noncustomers through a software vendor. Although these plans are in their infancy, they further validate Carver's commitment to reach all consumers in their communities.

We think it is important that certain protections for the consumer be included in this proposed legislation as well. The fees associated with managing these electronic benefits should be regulated by Treasury so that the consumers are not unfairly charged by a single vendor. It is our recommendation that Treasury be authorized to promulgate regulations that protect EBT fund recipients and require all financial institutions to report the EBT funds by volume, by community, and that the fees they receive in connection with the transfers be reported on a quarterly basis.

There should be significant training requirements for all custodians of EBTs, which includes sensitivity training and the requirement to work with churches and community groups. Education will play a vital role in Treasury's EBT program. Why? Because as a local retailer likes to say, an informed consumer is our best customer.

Consumers who have managed their entire lives on a cash basis will need to learn how to live electronically. Treasury should look to minority savings institutions to help in this process by jointly sponsoring educational seminars in local community centers, churches, and in some instances the minority institutions themselves.

Many minority institutions have bilingual tellers, brochures in several languages, and regularly attend community events where English is a second language. It should be noted that all minority savings institutions have many services in place, such as direct deposit, Social Security, and retirement direct deposit. Many of these institutions also have automatic teller machines, located in branches and in shopping centers in their communities; therefore, minority institutions have already established an infrastructure that could facilitate the electronic transfer of funds to the appropriate recipient.

The new generation of consumers, as a result of welfare reform, will understand the value of their benefits and the need to ultimately move beyond Government assistance. It is important to the membership of ALFI that this new generation understand they can have the same availability of financial services as traditional banking customers.

In conclusion, Mr. Chairman, we believe that the electronic funds transfer program has value. We want Treasury to remember the importance of encouraging recipients of the funds to voluntarily agree to transfer their benefits to a financial institution. Further, it is our hope that Treasury will encourage financial institutions to create electronic-only accounts through this program. These programs represent a great opportunity for consumers who were previously unbanked to become traditional bank customers, thereby availing themselves of an array of banking services. These programs ultimately provide a new customer base for financial institutions.

I thank you for this opportunity to comment and I await your questions.

Mr. HORN. Well, thank you very much. We appreciate that statement.

[The prepared statement of Ms. Nichelson follows:]

Mr. Chairman and members of the subcommittee, it is my pleasure to testify before you today and offer the views of the American League of Financial Institutions, also known as ALFI.

ALFI is the national trade association chartered in 1948 by a group of bankers, known during the early days of finance as building and loan executives, who determined that issues unique to their communities would best be articulated through a more structured entity. They formed what was then known as the American Savings and Loan League. The American Savings and Loan League grew from seven (7) building and loan institutions to 72 savings and loan associations in 1978. They offered basic services to their customers such as home mortgage lending and some small business lending. Their offices were traditionally open on Thursday evenings to accommodate the majority of their customer base which consisted of domestic laborers whose day off was Thursday.

By 1989, as a result of the Financial Institutions, Reform, Recovery and Enforcement Act (FIRREA), significant restructuring occurred, and many savings and loan associations could not survive the new regulatory challenges, and were merged or sold. This resulted in an attrition to 42 savings and loan associations. In 1989, the American Savings and Loan League amended its bylaws, and renamed the organization the American League of Financial Institutions. There are now 41 minority savings banks and savings and loan associations, representing $5 billion in assets, 109 branches, and approximately 1,200 employees. These institutions are located throughout the United States in urban and emerging communities. They range in asset sizes from the largest minority-owned institution in the country, Carver Federal Savings Bank in New York with assets totaling $360 million, to the smallest, Ideal Federal Savings Bank in Baltimore, which has assets of $7 million. The average asset size falls in the $40 million - $50 million category. Minority financial institutions represent approximately 5% of the 2,000 savings institutions, nationwide.

One of the positive results of banking legislation in years is that institutions were given the ability to offer more banking-related services to their customers such as checking, small business loans, student loans, financial planning, credit counseling, and a host of other banking-related services.

As a result, ALFI members are very interested in opportunities to broaden and diversify the products and services they can provide to their customers.

Therefore, we are delighted to have this opportunity of offer comments regarding the Electronic Benefits Transfer (EBT) Funds Program currently being discussed before this subcommittee. We understand the need to streamline the process of disbursing government benefits such as social security and public assistance payments to those deserving of those benefits. Many recipients of these benefits are located in the same urban communities as our member institutions and, are in fact, customers. The 41 minority savings institutions represented by ALFI are all unique in their business strategies for growth and their individual goals toward more products and services to their customers. Electronic banking will enhance their ability to reach a broader market and increase their competitive advantages within their communities.

Mr. Chairman, for instance, a member institution in your home state of California, recently announced a unique alliance. Broadway Federal Bank, F.S.B., located in Los Angeles, has assets totaling $114 million, with three branches, one appraisal center, and 51 employees. Although subject to OTS approval, Broadway Federal and the Nix Check Cashing Company, also located primarily in Los Angeles, have agreed to open a Broadway Banking Center in a Nix Check Cashing Facility in South Central Los Angeles. This pilot relationship is the result of what Broadway saw as an opportunity to expand its banking services to so-called "unbanked individuals," or those persons in communities who do not have a relationship with a bank, and use check cashing facilities to manage their day-to-day financial transactions. Because this proposed legislation would mean the end of what traditionally recipients have known as a "physical" check in the mail, Broadway would be one of many minority financial institutions well-suited to disburse these EBTs.

Furthermore, this further presents the opportunity for recipients of these EBTs to begin the process of assimilating management their financial lifestyles into the cultural mainstream by positioning themselves to establish checking accounts, apply for home loans, credit cards, and use ATM cards.

Another ALFI member, Carver Federal Savings Bank in New York, is exploring the possibility of opening its own check cashing company under their holding company. Carver's plan will include providing other services such as money orders and bill payment services. Carver is also exploring the possibility of offering check cashing services to non-customers through a software vendor. Although these plans are in their infancy, they further validate Carver's commitment to reach all consumers in their communities. EBTs provide another opportunity in directing us all towards more efficient financial management.

Gateway Bank in San Francisco, California, is also exploring ways of positioning itself to be among the recipients of the EBTs. Gateway has assets of $49 million, with 29 employees, and three offices, two in San Francisco, and one in Oakland. Although Gateway does not have ATM machines, they are currently negotiating an agreement with a national automated teller machine network which allows their customers to use their own ATM card embossed with the Gateway Bank insignia, and will allow their customers to use their ATM card to make three transactions per month at no charge, and charge a minimum fee per transaction in excess of the three-use limit.

Chinatown Federal Savings and Loan, located in New York City's Chinatown area, has $100 million in assets and 19 employees operating out of the bank. They are a full-service bank offering an array of products including checking. They have no immediate plans to add an ATM to their bank because they have extended hours of operation, and their customer base is located almost exclusively in Chinatown. Chinatown Federal estimates that approximately 80% of their customers currently receive social security benefits through electronic transfer, and are encouraged by this new proposed legislation.

Home Federal Savings Bank, located in the heart of Detroit, has assets totaling $25 million, with two branches in addition to the main office, and 18 employees. Home Federal is a full-service bank offering all traditional services including checking. Home Federal does not currently have an ATM, but has plans to offer this service to its customers in the future. Home Federal's concern is the threat of large banks and their interest in their own financial gain at the expense of senior citizens and persons on public assistance who will be forced to pay unreasonable fees under the electronic benefits funds transfer. Home Federal feels it is important for recipients of social security and public assistance benefits to be educated to the process as early as possible in order for them to fully understand how drastic the change will be in their lifestyle management.

Therefore, ALFI believes it is important that certain protections for the consumer be included in this proposed legislation as well. The fees associated with managing these electronic benefits should be regulated by Treasury so that consumers are not unfairly charged. For instance, although larger banks are arguably in a better position to manage

EBTs because of the volume involved, they may seek to capitalize on their exclusive position and charge unreasonable fees to the customer. It is our recommendation that Treasury be authorized to promulgate regulations that protect EBT fund recipients, and require all financial institutions to report their EBT funds volume by community, and the fees they receive in connection with the transactions on a quarterly basis. There should be significant training requirements for all custodians of EBTs which include sensitivity training and the requirement to work with churches and community groups. Why? Because as a local retailer likes to say, "An informed consumer is our best customer."

Education will pay a vital role in the success of Treasury's EBT program. Consumers who have managed their entire lives on a cash basis will need to learn how to live "electronically." Treasury should partner with minority savings institutions to help in this process by jointly sponsoring educational seminars in local community centers, churches, and in the minority savings institutions themselves. Many minority savings institutions have bilingual tellers, multi-language brochures, and the employees regularly attend community events where English is the second language.

It should be noted that all minority savings institutions have many services in place such as direct deposits, and social security and retirement direct deposit. Many of these institutions also have automated teller machines located in branches and shopping centers in their communities. Therefore, minority institutions have already established an infrastructure that could facilitate the transfer of EBT funds to the appropriate recipient.

The new generation of consumer as a result of welfare reform will understand the value of their EBTs and the need to ultimately move beyond government assistance. It is important to the membership of ALFI that this new generation understand that they can have the same availability of financial services as traditional banking customers.

Despite their general enthusiasm for supporting EBT programs, minority institutions recognize several potential pitfalls. For example, some minority savings institutions are concerned about the low balances and high activity associated with the EBT accounts. This is one of the very real challenges facing these minority savings institutions. Therefore, consideration should be given to requiring customers to maintain average balances. Institutions are also concerned about overdrafts in the accounts. These concerns further underscore the necessity to ensure education at the early stages of this program, not just related to EBT, but to the entire cultural shift to full citizenship in the banking customer community.

Conclusion

We believe those closest to the community should be allowed to serve the community. The merits of the EBT Program far outweigh the negatives. This program presents a great opportunity for consumers who were previously "unbanked" to become traditional bank customers, thereby availing themselves to an array of new banking services. This program ultimately provides a new customer base for financial institutions. We pledge to work with this committee and this Congress to make EBT work for the community and the institutions serving those communities.

Mr. HORN. Ms. Saunders.

Ms. SAUNDERS. Thank you, Mr. Chairman. We very much appreciate the opportunity to testify today as EFT–99 holds the potential for great benefit and also for great trouble to our low-income clients and their communities. I offer my testimony today not only on behalf of the low-income clients of the National Consumer Law Center, but also on behalf of the Consumer Federation of America, the National Community Reinvestment Coalition, and the Organization for New Equality, three other organizations that represent low-income people and consumers.

There are numerous issues which will affect the unbanked recipients of Federal benefits. One is the extent to which Treasury forces the unbanked to use accounts which cost them too much. Another extremely important issue is which kind of institution, regulated and insured, or unregulated, Treasury authorizes to be the providers of the Federal payments to payees. This issue is important, not only because of the fees which could be charged, but also because of the other services that these alternative providers would try to force upon the Federal payees.

A third issue, which I won't address further in my testimony today, but one which is also very important, is the extent of hardship exemptions that are allowed under the statute—excuse me, under the regulations that are promulgated. Treasury is saying that they need to allow check cashers and finance companies to partner with banks in order for the delivery of Federal payments to be made. And they are proposing that this could be done in one of two ways. One, individuals could choose alternative providers as authorized agents—there is no way, Mr. Chairman, I will be able to read all my testimony, so I will be paraphrasing—one is as authorized agents, and, two, if they fail to make a choice and the bank becomes a default bank, the bank would offer to provide the services through the alternative providers, such as check cashers or finance companies. This is what we are particularly concerned about, either one of these choices.

We believe the statute used the words "alternative authorized agent" as a synonym for only those words like guardian, alternative payee, or other words which are used in current benefit statutes, such as Social Security and veteran's benefits, all of which have a fiduciary duty to the individual. We are very concerned that Treasury would allow check cashers or finance companies to advertise to the low-income population, allow us to be your conduit for the Federal payments, come pick up your payments every month.

Well, that might work for month after month, until one day the individual goes to the finance company and says, well, I think I do need some money to pay my utility bill and gets a 36 percent or 40 percent interest rate loan because the loans from the financial providers are very often unregulated and even where they are regulated, the interests and the terms are very, very high. If they fail to make those payments or they have problems making the payments, they still have to go back, month after month, unless they change their authorized payment agent, and that is the scary part to us. There is no prohibition in the Social Security law against set off; there would be nothing that would stop that finance company from taking the entire Social Security payment to be put toward the payment of a finance—of a high cost loan. And that shouldn't be the way Treasury delivers its Federal payments.

On the other hand, other than the banks that Miss Nichelson represents, most banks are saying, not all of them, but many banks are saying, we are not sure that we can find that it is financially feasible, despite the float that will be available, to provide services. So Treasury's response is, well, we may need to allow banks to partner with check cashers and finance companies to provide the services in low-income communities where there are no other banks, where there are no financial institutions. And that, to us, is also a tremendous concern.

I represent low-income people all over the country who have been the victims of abusive practices of check cashers, pawnbrokers, and finance companies. I have in my testimony in the appendix, just a few stories of the abusive practices that low-income people are subject to.

We don't think anybody but federally regulated and federally insured providers should be the conduits of Federal payments, one way or the other. The use of check cashers as one method to access the funds is fine. We don't want to prohibit a bank from, say, establishing a default account for a number of individuals and providing access at the bank, at the grocery stores, and at check cashers. That would be fine. It is the exclusive use of the check casher, of the alternative provider, that scares us so much. I have, today, a letter that was signed, that was sent out, just today, to Secretary Rubin——

Mr. HORN. Excuse me. I am going to have to recess. We have a vote downstairs and I have to respond to it. You will be able to finish as soon as I vote.

[Brief Recess.]

Mr. HORN. This hearing will resume. We will have a few of these in and outs. I apologize to you. It happens frequently here, and it is hard on the witnesses, and so I sympathize with you. Let me start—you were going to finish your final remarks there. Go ahead.

Ms. SAUNDERS. I was just going to tell you that we have a letter that was sent just today to Secretary Rubin of the Treasury, signed by 15 organizations, representing low-income people, disabled people, low-income communities, unions, asking the Treasury to clearly draw the line at regulated and insured depository institutions as being the conduits, and I would be glad to provide a copy of that letter.

Mr. HORN. Please, without objection it will be added to the record at this point.

Ms. SAUNDERS. Thank you. I would be happy to answer any questions.

[The prepared statement of Ms. Saunders follows:]

Testimony before the
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
Subcommittee on Government Management, Information and Technology
regarding the
Impact of P.L. 104-134 ("EFT-99")
On the Poor, the Elderly and the "Unbanked"
June 18, 1997

Mr. Chairman and Members of the Committee, the **National Consumer Law Center**[1] thanks you for inviting us to testify today regarding the implications of EFT-99 to the unbanked recipients of federal payments. We offer our testimony here today on behalf of our low income clients, else well as the **Consumer Federation of America,**[2] the **National Community Reinvestment Coalition,**[3] and the **Organization for A New Equality.**[4] This is an issue in which we are all vitally interested. There is significant potential for negative impact on low income elderly and disabled people throughout the U.S. which would result from the improper implementation of the new law.

There are numerous issues which will affect the unbanked recipients of federal benefits. One is the extent to which Treasury forces the "unbanked" to use accounts which cost them too much money to access. Another, just as important issue is *which kind of institution - regulated and insured, or unregulated -* Treasury authorizes to be the providers of the federal payments to federal payees. This issue is important, not only because of the fees which would be charged by the alternative financial providers, but because of all of the *other* services that these providers would market to the poor. A third issue is how Treasury defines the "hardship" exemption under the statute. If defined

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[1] The National Consumer Law Center is a nonprofit organization specializing in consumer credit issues on behalf of low-income people. We work with thousands of legal services, government and privates attorneys around the country, representing low-income and elderly individuals, who request our assistance with the analysis of credit transactions to determine appropriate claims and defenses their clients might have. As a result of our daily contact with these practicing attorneys we have seen examples of predatory lending to low-income people in almost every state in the union. It is from this vantage point--many years of dealing with the abusive transactions thrust upon the less sophisticated and less powerful in our communities--that we supply this testimony today. *Cost of Credit* (NCLC 1995), *Truth in Lending* (NCLC 1996) and *Unfair and Deceptive Acts and Practices* (NCLC 1991), are three of twelve practice treatises which NCLC publishes and annually supplements. These books as well as our newsletter, *NCLC Reports Consumer Credit & Usury Ed.*, describe the law currently applicable to all types of consumer loan transactions.

[2] The Consumer Federation of America is a nonprofit association of some 250 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

[3] The National Community Reinvestment Coalition (NCRC) is the nation's largest CRA (Community Reinvestment Act) membership organization. The goal of NCRC is to increase fair and equal access to credit, capital and banking services. NCRC, representing over 615 national, regional and local community organizations seeks to support and provide tools to build community and individual net worth.

[4] The Organization for a New Equality (O.N.E.) is a multi-racial organization whose top priority is expanding economic opportunity to people who have historically been excluded from the economic mainstream. Established in 1985 by the Reverend Dr. Charles R. Stith as a non-profit organization, O.N.E. is working to develop and implement new economic stategies to promote equal opportunity and encourage change.

appropriately, those federal recipients who cannot find appropriately priced accounts would be allowed to continue receiving paper checks. (Criteria included in the hardship standard should also include reasonable and safe access and consideration of disabilities).

The crux of the problem here is that Treasury says that the banks don't want the accounts of the "unbanked" and that the only way to convince the banks to provide these services is to allow them to charge fees for the services. In fact, it is too early to know the answer. Treasury does not know how much it will cost to provide these accounts. Treasury does not know how much benefit the banks may derive from providing these accounts - in terms of float on the funds in the accounts, and sale of other banking services to these new customers. There is considerable confusion over the reasons why there are so many people outside the banking system in the U.S.[5] The significant discrepancies in the information currently available is a clear indication that more information should be gathered before drastic and expensive changes in the delivery system for federal payments are made.[6]

While banks are publically hesitating to embrace the unbanked as a new source of customers, other financial providers -- such as check cashers and finance companies -- are chafing at the bit to be allowed to dispense these services. ***However, consumer and community advocates are united in their belief that allowing alternative financial providers to be the conduits for federal payments will be expensive and harmful to federal recipients and their communities.*** It is the task of Treasury, and of Congress, to figure out how to deliver federal benefits to the unbanked in the United States so as to *improve* the lives of the recipients, not make them harder.

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[5] Data from the 1995 Survey of Consumer Finances, (which involved interviews of 4,299 families from all income brackets) found that of 15 percent reported that they did not have a checking account. The reasons provided by these families for not having a checking account ranged:

- 27% said they did not write enough checks to make one worthwhile;
- 20.5% said they did not have enough money to afford a checking account;
- Nearly 29% reported that they did not like to deal with banks; and
- Just under 10% each gave as their reason either high minimum balance requirements, an inability to manage or balance an account, or bank service charges they deemed to be too high.

Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances. Federal Reserve Bulletin, Col. 83, No. 1, Jan. 1997 at 7.

On the other hand, a recently completed study involving a much smaller sample of unbanked direct *federal benefit recipients* found:

- 47% said they did not have enough money to have an account;
- 21% said they had no need for an account; and
- 6% said that bank fees were too high.
- Much smaller percentages cited concerns about bounced checks, overuse of ATM's, bad credit histories, distrust of banks, privacy, or having their assets frozen in the event of a legal judgment.

Department of the Treasury Financial Management Service, *Mandatory EFT Demographic Study, Executive Summary,* April 22, 1997 at 3-4.

[6] In fact, the Office of the Comptroller of the Currency has recognized the need to determine why so many households in the U.S. do not participate in the financial mainstream. The OCC has recently embarked upon a research effort to answer this question.

Treasury has estimated that it will save approximately one hundred million dollars per year by the electronic deposit of all federal funds.[7] Most of these savings will flow from the direct deposit of federal payments into existing bank accounts. EFT-99 (as Treasury has dubbed the requirements of P.S. 104-134) offers significant opportunities to bring low income people into the mainstream banking system. Consumer and community advocates welcome this chance to facilitate the relationship between the poor and the banks. Savings efforts would be fostered and loan terms improved. Credit provided by banks is generally on much more reasonable terms than that provided by alternative financial providers - fringe bankers. However, these new relationships between banks and low income federal recipients should not cost too much; nor should they be cause of further problems in the low income community. **Treasury should use some of the initial savings realized from the electronic deposits to encourage and pay for the initial establishment of truly low cost accounts for the "unbanked."**

The balance of this testimony will be in four parts:

1) The financial burden of ATM and POS fees on low income elderly and disabled federal recipients.

2) The importance to *individuals and low-income communities* of ensuring that alternative financial providers are not the conduits of payments to federal recipients.

3) The appropriate definition for the "Hardship" exemption under the statute which would allow a waiver of the requirement for electronic deposit. "Hardship" should include those individuals who do not have access to accounts at financial institutions with a reasonable fee structure, reasonable means of access and other basic terms. "Hardship" should also include recipients' mental or physical disabilities which prevent the feasible access to their funds, as well as recipients who are unable for a variety of other reasons to use electronic banking.

4) Recommendations for Congressional action to deal with these concerns.

Part 1
The Financial Burden of ATM and POS Fees on Low Income Elderly and Disabled Federal Recipients.

There are potentially three types of fees that could be charged federal recipients of electronic payments: (1) a monthly service charge by the assigned bank; (2) a charge from the assigned bank for accessing their benefits; and (3) a surcharge fee if they go to another bank's ATM. However, this is not the limit on all of the types of fees that could be charged. As the amount of most federal payments are not in neat $5 or $10 increments, such that ATM machines would be able to dispense

[7] "At a minimum the Government will save 28 cents per check on postage, printing supplies, and paper; and avoid check costs of 28 million for every one hundred million payments converted to EFT." *EFT-99 Facts*, prepared by the Department of the Treasury, Financial Management Service.

the entire monthly allotment in one withdrawal, at least some POS (point of sale) device withdrawals will also be required. Although, currently few retailers impose POS access fees, there is nothing to prohibit fees the imposition of such fees when POS usage becomes more widespread.

Further, because of the interest income that banks can make on the federal payment held in the accounts, it would make business sense for institutions to encourage *more* withdrawals during the month, rather than fewer - thus rewarding recipients for leaving some funds in the account (and encouraging recipients in their savings' efforts). Also, it is likely that the unbanked will recognize the safety and convenience of leaving funds in the accounts, for gradual withdrawal as need arises during the month. So, it is not unreasonable to imagine a scenario in which the following, seemingly reasonable, incremental fees would be charged to a federal recipient in one of these accounts:[8]

Monthly service charge by the assigned bank --	$3.50
Charge from the assigned bank for accessing benefits ($1.00 x 3)[9] --	3.00
Surcharge fee for use of *another* bank's ATM ($1.50 x 2)[10] --	3.00
POS fees ($1.50 x 3) --	4.50
TOTAL monthly expenditure accessing federal payments --	$14.00

Now, consider the burden this amount imposes on an elderly or disabled individual[11] subsisting entirely on Supplemental Security Income (SSI).[12] Currently the federal payment to an SSI recipient living alone is $484 a month.[13] **This means that this low income federal recipient would spend 2.9% of their income every month just accessing the federal payment to which they are by law entitled.** The burden could easily be more, as the incremental fees used in this example are each fairly low.

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[8] The ATM related fees are reasonable examples based upon various proposals that have been discussed. The POS fees are just guesswork on NCLC's part, based on experience with the onset and growth of ATM fees.

[9] This assumes three separate withdrawals, each with a charge $1.

[10] The fees from the home bank and the surcharges from use of another bank's ATM are likely to be imposed for the same transaction.

[11] The Treasury study found that SSI check recipients are far more likely to not have a bank account (58%). Department of the Treasury Financial Management Service, *Mandatory EFT Demographic Study, Executive Summary,* April 22, 1997 at 4.

[12] One also needs to assume for this example that this individual lives in one of the majority of states that does not provide additional state benefits to SSI recipients.

[13] This is the current SSI monthly payment for an individual living independently and completely self-supporting. Someone living in another's household and receiving meals and other sustenance receives a payment of $322.67. Couples living independently receive $363 each. (Information provided by Social Security Administration, May 20, 1997.)

Some may say that these charges are not excessive when compared to the amounts that many of the unbanked currently pay to have their federal payments cashed. Indeed if the unbanked recipient is now using a check cashier on a regular basis, it is likely that a single transaction of cashing the federal check would be in excess of these $14 monthly fees.[14] And, it must be recognized that the individual who uses the ATM card to withdraw funds in increments during the month enjoys additional safety and convenience features that are not available when a check cashier is used. However, it is *not* reasonable to assume that all unbanked recipients of federal payments use check cashers to cash their federal checks. It is much more likely that the majority of these unbanked use one of the following, *no cost* alternatives:

- cash their check at a bank at which they do not have an account;
- cash their check at a grocery store or other neighborhood store;
- deposit their check in a relative's account;
- have a relative cash their check for them.

In fact, a recent Treasury survey on the characteristics of Federal Benefit Check Recipients,[15] found that 58% of federal benefit recipients without a bank account nonetheless have their federal checks cashed at a bank, 25% use a grocery store or other retailer for check cashing purpose, and **a mere 8% of unbanked federal recipients regularly used check cashing outlets.** [16]

The impact of the *combination* of numerous fees imposed to access electronically deposited federal payments on low income recipients will be equivalent to a reduction of their federal entitlement. Those in poverty will suffer. This potential financial burden on America's poorest, underscores the importance of Congress and Treasury' ensuring that the actual fees charged - if any - are appropriate and truly necessary.

Part 2
The Importance to Individuals and Low and Moderate Income Communities of Ensuring That Alternative Financial Providers Are Not the Conduits of Payments to Federal Recipients.

Treasury is contemplating allowing providers of financial services other than regulated depository institutions to be conduits of federal benefits. Such a result would be terrible for low income recipients of federal payments and their communities. If alternative providers of financial services are permitted to be conduits of federal payments, that would constitute the federal government's blessing of grossly abusive practices against low-income and elderly people. Moreover, it would actually force the unbanked into relationships with these unregulated financial providers that to date they have generally been able to avoid. As the Treasury's own study indicates, the

[14] See information in Part 2 on fees of regulated and unregulated check cashers in different states.

[15] Department of the Treasury Financial Management Service, *Mandatory EFT Demographic Study, Executive Summary*, April 22, 1997.

[16] *Id.* at 4.

overwhelming majority of the unbanked federal recipients cash their federal checks at banks or stores,[17] generally --if not always -- without any fees being paid to access their federal money whatsoever.

Treasury could allow alternative providers of financial services could be the conduits in two ways: 1) The term "authorized agent"[18] in the statute could be interpreted to allow an alternative financial provider to be designated the recipient of federal payments instead of a financial institution (defined by Treasury to be a bank, savings institution or credit union)[19]; or 2) Treasury could permit financial institutions to contract with alternative providers as its delivery mechanism for EFT payments to the otherwise "unbanked."

Fringe bankers, such as check cashers, finance companies, and others, do business in the low income community because of the large profits that they can make. Expensive services, extraordinarily high fees, and abusive transaction terms are standard business practices for these alternative providers. **They have succeeded because of the vacuum created by the absence of banks from these communities.** These fringe bankers make no reinvestment of their substantial profits back into the communities. They charge as much for financial services as the regulatory structure - or lack of regulation - allows. And the low income residents of the community gain little benefit other than the specific service provided from their presence. If this non-regulated industry - which continues without CRA obligations - is allowed to be the conduit of federal payments, the financial problems in the low income communities will not only continue to be ignored, they will be exacerbated.

Treasury's use of alternative financial providers as conduits for the federal payments will be the U.S. imprimatur on the unregulated activities of these alternative providers. The government will be saying, in effect, that the federally insured and regulated banking system is only for those who can afford it. The poor would be required by the government to use alternative, unregulated providers with none of the benefits and protections furnished to consumers in the financial mainstream. Such a result should not be the consequence of this legislation.

Consumer and community advocates fear the use of alternative financial providers as conduits largely because of the *other* services that will undoubtedly be sold to the recipients. If recipients must go through the doors of the fringe bankers at least one time each month, it is very likely that they will

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[17] *Id.*

[18] The amendment to 31 U.S.C. §3332 requires recipients of federal funds after January 1, 1999 to
"(1) designate 1 or more financial institutions or other *authorized agents* to which such payments shall be made; and
"(2) provide to the federal agency that makes or authorizes the payment information necessary for the recipient to receive electronic funds transfer payment through each institution or agent designated under paragraph (1)." (emphasis added).

[19] "Financial institution means any bank, savings bank, savings and loan association, credit union, or similar institution." 31 C.F.R. §208.2(e).

fall prey to the expensive -- and unregulated -- other financial products of these fringe bankers, such as check cashing,[20] payday loans,[21] high cost home equity loans, even rent-to-own transactions. While recipients may always be able to opt for these services if they care to, they should not be required to go through the doors of these alternative providers every single month in order to obtain their federal entitlement.

Treasury's use of "authorized agents" as alternative conduits of federal payments should be limited to those individuals and entities who have a fiduciary duty to the recipient. The words "other authorized agents" in the new law are only intended to apply to the types of recognized surrogates that are currently used as intermediaries for the receipt of benefits through the various federal programs, when the actual recipient cannot, for some reason, be the original designee of the federal payment. For example, the Social Security Act uses the term "representative payee," various Veterans programs use the term "fiduciary agent;" and other federal payees may use guardians or attorneys in fact. The new statute simply uses the term "other authorized agent" as a pseudonym for all of these terms, as it would have been illogical to attempt to separately identify every type of individual agent currently used under both federal and state law as an intermediary for the receipt of federal payments. However, the consistent aspect among all of the types of agents currently recognized by state or federal law is the fiduciary duty that is owed to the recipient. *Treasury should not go beyond this by allowing agents to be conduits of federal payments who do not have a fiduciary duty to the recipients.*

Very Limited Regulation on Check Cashers. Check cashers are NOT the appropriate alternative to banks to provide access to federal payments for the "unbanked." In only eleven states, plus the District of Columbia, are there even limits on the amounts that check cashers can charge to cash government checks. Examples of caps on check cashing fees in the few states that have limits are:

California:	3 to 3.5% for government and payroll checks, depending upon identification.
Connecticut:	1% for state welfare checks, 2% for others.
Delaware:	2% or $4, whichever is larger, for all checks.

[20] According to a recent study of fringe banking in Milwaukee: "Customers pay far more for services provided by a check cashing business than they pay for the same services at a conventional bank. Fees for cashing payroll checks nationwide generally range between one percent and three percent of the face value of the check. For personal checks the range was generally between 1.7 percent and 20 percent, averaging around 8 percent. In some instances, however, fees and interest rates have been reported as high as 2000 percent. A study by the New York Office of the Public Advocate found that a check cashing customer with an annual income of $17,000 will pay almost $250 a year at a check cashing business for services that would cost $60 at a bank. The Federal Reserve Bank of Kansas City reported that a family with a $24,000 annual income using a check cashing business will spend almost $400 in fees for services that would cost under $110 at a bank." (Citations omitted). Squires and O'Connor, *Fringe Banking in Milwaukee: The Rise of Check Cashing Businesses and the Emergence of Two-Tiered Banking System.* (1997) at 5,6.

[21] Payday loans are generally provided by check cashers who agree to cash a post-dated personal check with the understanding that it will not be deposited until the customer's next payday. "Customers can receive $50 for a check written in the amount of $60 and dated 14 days after the cash is provided. ... The effective annual interest rate for this loan is 1,092 percent." Ibid, at 11, 12.

D.C.:	1% or 50 cents whichever is greater.
Georgia:	The larger of $5 or 3% for welfare checks, 5% for payroll checks, and 10% for personal checks.
Illinois:	1.4% to 1.85% plus an additional 90-cent-per-check charge.
Indiana:	$5.00 or 10% of the face amount of the check, whichever is greater.
Minnesota:	2.5% of welfare checks over $500 (5% for the first check), 3% of other government and payroll checks (6% for the first check); no limit on personal checks (but rates must be filed and "reasonable").
New Jersey:	1% on New Jersey checks, 1.5% on others, or $.50, whichever is larger.
New York:	1.1% of the face amount or $.60, whichever is larger.
Ohio:	3% on government checks.
Rhode Island:	The larger of $5 or 3% for welfare checks, 5% for payroll checks.

While some of these fee ceilings may themselves seem high, in the rest of the 38 states, there are no limits whatsoever on these fringe bankers.

For once, let us learn from experience. The experience in the low-income communities around the nation is that fringe bankers have developed sophisticated and ingenious techniques for taking money from the poor. Fringe bankers--check cashers, finance companies, and others--should not be provided a government boost to their business by serving either as "other authorized agents," or contractors with financial institutions for the delivery of federal payments. Commercial banks, savings banks, credit unions, and possibly the U.S. Postal Service, should be the only designees for receipt of electronic transfers of federal payments.

"Fringe banking" is an entire industry devoted to doing business in the low-income community, which has proliferated largely as a result of the deregulation of interest rates and loan terms in many states since the 1980's. Lawyers who represent poor people can document--in almost every state--high cost lending, both illegal under state usury laws, as well as legal under a deregulated environment. Many of these providers constantly push the envelope in terms of the legality of their practices--they keep charging the exorbitant fees until made to stop. All too often, the abusive practices are not technically illegal, but exceed the bounds of common decency.[22] Establishing any one of the purveyors of this high cost credit as the conduit of federal payments sanctions and stimulates these types of transactions. The federal government should be in the business of discouraging high cost lending, not providing the means to facilitate it.

Substantive limitations on fees and terms governing the contracts between the recipients of federal payments and the authorized agents would NOT provide sufficient protections from the problems that would be created by allowing fringe bankers to be authorized agents. The federal payment would simply ensure that the recipient becomes a captive customer of that fringe banker, without even the present opportunities to go elsewhere if treated unfairly. Fringe bankers, generally

[22]The legal standard applicable to judge these transactions thus becomes one of "unconscionability." Unconscionability generally refers to a transaction "which is so one sided that only one under delusion would make it and only one unfair and dishonest would accept it." *See*, Cobb v. Monarch Finance Company, 913 F.Supp 1164, 1179 (N.D.Ill. 1995).

speaking, should not be supported by the federal government. Appendix A provides examples of some of the abusive charges made by fringe bankers.

Justifications for Fringe Bankers - Not Sufficient. Some Treasury staff have said that check cashers and money transmitters should be considered for three reasons: 1) they seem to be the financial providers of choice to many of the unbanked; 2) they may offer services (such as electronic payment of bills) to many low income people that may not otherwise be accessible; and 3) they have a wide array of outlets in the community already which should be deployed to provide residents more access. Even if these statements were true -- although Treasury's own research calls them into serious doubt -- they are nevertheless not sufficient justification for making the fringe bankers "authorized agents" for the receipt of federal funds.

There are several reasons that some low income people often choose to use check cashers rather than banks. Very often, low income people cannot afford to use banks: they cannot afford the fees or minimum balances required for accounts. Presumably the proper design of Direct Deposit Too[23] accounts will remedy the financial aspect of this issue. However, as noted previously many low income people do not use banks even when affordable accounts are offered because of privacy concerns, fears of having their funds attached by creditors, or just because banks are not as comfortable to them as the local check casher or retailer who provides free or low cost check cashing services to its customers. Reassurances of privacy and of the anti-attachment prohibitions for Social Security funds should address the first two aspects of this concern. The last aspect - the level of comfort - can be addressed by simply allowing check cashers to continue providing their services in the community as they do currently.

We do not propose that fringe bankers be prohibiting from providing any access to federal money, just not the *sole* access for any federal recipient. Nothing requires that check cashers could not establish ATM or POS devices on their premises and sell recipients all of the products and services that are now currently offered. The key distinctions between this and allowing alternative financial providers to be "authorized agents" or contractors with financial institutions for the delivery of federal electronic payments are:

1) If recipients can only receive their federal payments through "financial institutions" as currently defined by Treasury, they will be pulled into the mainstream banking system, and thus provided savings' opportunities as well as alternative (and less expensive) sources for credit.

2) Recipients who must have a bank account, but who nevertheless choose to access their money through a check cashier or a money transmitter, will still have the choice every month of where to obtain their funds-- they would not have to go to the check cashers to receive their federal payments.

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[23] Treasury's use of "default" banks to receive all the direct deposits for all recipients who fail to designate a financial institution will provide a significant opportunity for Treasury to ensure that there are adequate ATMs and POS devices throughout the low income community accessible at little or no cost to these Direct Deposit recipients.

3) The banks receiving the federal payments will have a greater source of funds as a basis for community reinvestment back into the low income community, whereas the check cashier has no such obligation.

Access should not be the criteria to allow alternative financial providers to be the conduits of federal payments. Social service agencies in the community can quite easily facilitate access. The agencies can help recipients initially establish accounts with various banks that have electronic equipment or branches in the community. The social service workers can help recipients determine which accounts best serve their individual needs by interpreting the features and the costs of the available choices. Further, the workers can help recipients learn about accessing funds electronically by conducting trainings, providing reading materials on the new law and its requirements, and helping recipients master the use of personal identification numbers (PINs), ATMs and POS devices. Finally, the social service agencies can help recipients use banks' customer assistance telephone lines to answer questions about withdrawals, charges, and other issues.

The Use of Default Banks Provides Treasury With Tremendous Leverage To Expand Services in Low Income Communities. What happens to all the payments to federal recipients who fail to tell their federal payer into which bank their deposits should be placed? It is unlikely that paper checks will still be sent. Instead, the funds will be transferred electronically to some bank. The recipients will then have to obtain their funds from that bank, either electronically or through a teller. Treasury will have the choice of using either a federal Electronic Benefits Transfer system -- one bank nationwide, with minimal services, and minimal access -- or a series of default banks in each state or region.

If Treasury chooses to go the route of using default banks, the leverage available is immense. Consider the potential amount of money involved in just one state, that would flow through the default bank, that is not now being deposited in that bank. On a state by state basis, the monthly deposits will be increased by hundreds of millions of dollars.[24] The float on this money, even if it is all withdrawn within a few days of deposit by the Treasury, will be substantial. It therefore seems reasonable to assume that many banks will recognize the profit potential of being a default bank for all of the unbanked recipients in the state or region and that there will be competition for this opportunity on a national, state, or local level.

Treasury can use the leverage provided by the competition between financial institutions to be the default bank to ensure that additional ATM and POS devices are available at reasonable access points throughout the low income communities. Treasury can also use the combination of these many relatively small accounts to provide economies of scale. In this way, the combination of many accounts should keep the monthly and transaction fees to a minimum, while still providing the financial institution with a healthy profit for engaging in this new business. Additionally, the default

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[24] As the average Social Security payment is approximately $700 a month, it is reasonable to assume that the average payment to the unbanked might be slightly lower, say $500 a month. 10 million (unbanked) times $500, equals $5 billion of new deposits a month. Roughly, dividing that by 50 (states) yields additional deposits on a state level of about $100 million a month.

banks will have a ready source of new customers to whom to market all of their other products and services.

Part 3
The "Hardship" Exemption Allowing a Waiver of the Electronic Deposit Requirement.

As advocates of low-income consumers, we basically agree that electronic transfers are a more efficient and safer method of receiving payments than the paper based system. However, the additional advantages of the electronic system quickly evaporate if recipients have higher costs, unanticipated risks, and greater potential losses. Assuming that financial institutions respond to this opportunity to market their business to an entire new segment of the communities, there are a range of options that could be pursued. Banks could aggressively market existing low cost checking or savings accounts. They could create all electronic accounts, as are contemplated under Direct Deposit Too", with access only through use of an ATM card. Or, wholly new types of accounts and combinations of attributes might be designed.

We hope as much as Treasury that the banking community will recognize the huge potential for new customers in EFT-99, and begin the process of designing new accounts which would meet the needs of the unbanked, while providing fertile new markets for a variety of banking services. However, we are less sanguine regarding this actually happening. First, this has not happened to date.[25] Although the federal government and the unbanked have a new reason for needing the banking community to respond, the banks may not react as desired by marketing services to this population, as they clearly have not done to date. Further, many of the larger banks have already recognized the tremendous money making potential in this market and have created non-banking subsidiaries to provide services which are priced considerably more expensively than the same services provided to their own customers. A number of finance companies and check cashers are subsidiaries of banks.[26] In many cases, the ultimate ownership of the fringe banker does not seem to change its standard practices.

If consumer advocates are overly pessimistic, we will be thrilled to find ourselves wrong. However, if we are correct, then it will fall back to the federal government to either (1) reduce its expectations for the pervasive use of electronic transfers (because too many of the unbanked will remain unbanked, and thus not have electronic transfers realistically available to them); (2) provide some incentives to banks for providing these electronic transfer services to the unbanked; or (3) compromise the standards of the accounts to be furnished to the unbanked, and require this

[25] Competition does not work in the traditional sense in the low income community. While competition was deemed to provide adequate protections for consumers, for the poor it has been a dismal failure. Generally, reverse competition has prevailed - the more expensive providers have prospered in low income and minority communities. In fact deregulation of interest rates and credit terms has caused far more harm than good for poor people. Deregulation of basic loan terms has only allowed high cost lenders to charge more to people who do not have the means to obtain better deals.

[26] Indeed in some cases, the first business was the finance company, which then created the holding company and associated national bank as the structure to avoid the imposition of state usury statutes.

population to be serviced in a manner which does not adequately protect them from abuses. Option 3 should be avoided at all costs, as whether or not one believes that it is the government's responsibility to protect the neediest of its citizens from harm, everyone should agree that it is NOT in the government's purview to advance that harm upon the neediest of its citizens. Requiring the unbanked to use fringe bankers to access their federal payments, or requiring them to use accounts at financial institutions which do not include certain minimum standards would *create* new opportunities for the neediest segment of the federal payee population to be harmed. This is an unacceptable choice.

Essential protections for electronic transfers include a myriad of considerations. We propose that the minimum attributes of a required electronic account for the receipt of federal payments meet these criteria. Any federal payee who cannot find an account at an insured, depository institution should be considered to have a hardship under the statute, such that their federal payment would continue to be made by paper check.[27] After all, although as a policy matter we can all agree that receipt of payments electronically is generally better for all concerned, that will not apply to each individual. This is the basic rationale behind the statute's exception to the requirement for electronic transfers in cases of hardship. When high costs, excessive risks and/or difficulties in accessing the payment are involved for a particular individual the electronic option may be far worse than the paper system.

- **Limits on monthly fees.** Many recipients of federal benefit payments, and especially those who are currently unbanked live at or below the federal poverty guidelines. For example, one of the criteria for *receipt* of SSI payments is meeting an income eligibility test. Very few of these precious dollars should be required to be spent on fees for the mandated electronic account.

  <u>At a maximum, allowable fees should be the *lesser* of 1% of the monthly payment or $3.00.</u>

- **Reasonable access to cash withdrawals.** Many people budget on a weekly basis, so they should be permitted to withdraw needed cash on a weekly basis. Moreover, it is to the institution's financial benefit to encourage the recipient to leave some portion of the payment in the account, as the account is not interest bearing and the institution benefits from the float.

  <u>Reasonable access to cash withdrawals should include no fewer than four free ATM withdrawals at the financial institution at which the account is held per month, plus a reasonable number of ATM balance inquiries. In the absence of ATM availability, the same general rules should apply to teller withdrawals.</u>

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[27] If too many of the "unbanked" continue to meet this hardship definition, then it behooves the federal government to consider incentives to financial institutions to create accounts which meet these minimum standards.

- **Limits on fees for access to cash.** Currently many financial institutions charge as much as $2.50 to users of their ATMs who are not customers. Recipients of direct federal benefits who have these limited electronic accounts should not be charged any more than the actual costs to the financial institution for processing the transaction.

  Recipients who use the ATMs at the financial institution where they have an account, on a more frequent basis than four times a month, should be charged no more than the actual cost of the transaction to the financial institution.

- **Prohibition on fees for point of sale transactions involving a purchase.** Both the merchant and the bank gain when payments are made electronically when a sale of goods or services has taken place. The merchant receives payment immediately, without the cost of having to count the cash, the worry of having to collect on a check, or the expense of the merchants' discount when a credit card is used. The bank similarly benefits. Further, the bank benefits because it has the use of the recipient's money until the last possible moment. The recipient of electronically dispensed federal payments should thus not be charged for electronically paying for goods, when by doing so it benefits everyone else in the transaction.

  No fees or surcharges should be permitted for POS transactions involving the purchase of goods or services.

- **Other access and consumer protections issues should also be assured.** Appendix B of this testimony sets out these other consumer protection issues in more detail.

Part 4
Recommendations for Congressional Action

Congress should amend P. L. 104-134 in three ways:

1) Delay the implementation of the section of the law which requires electronic deposit of federal payments to the "unbanked" to enable Treasury to determine the actual costs and benefits to financial institutions derived from providing direct deposit accounts to the unbanked recipients of federal payments.

2) Authorize Treasury to employ various means, including the use of some of the savings derived from electronic deposits of federal funds to recipients *with* bank accounts, to motivate financial institutions to provide the "unbanked" with direct deposit accounts.

3) Ensure that only financial institutions with CRA obligations to the low income communities, or credit unions, be the authorized conduits for federal electronic payments.

Appendix A
Examples of Fringe Banking Charges

Establishing formal relationships between the recipient of federal funds and fringe bankers, which are not easily discarded is a dangerous support for the activities of these fringe bankers. Limits on the fees and the terms charged by the fringe bankers for the transfer of funds will not adequately protect consumers. Even now, some fringe bankers provide free check cashing as a means of enticing customers into their stores. Even rent-to-own dealers are recognizing that check cashing provides a captive audience for its overpriced services.[28] The free check cashing is simply a loss leader for the overwhelmingly profitable rent to own transactions that follow. The rental of the living room suite or a TV at a rental purchase store is likely to cost the consumer an equivalent interest rate of well over 100%.[29] One federal appellate court recently found "the public interest overwhelmingly favors enjoining these contracts."[30] Unfortunately for consumers, in most of the other 49 states equivalent judicial decisions are not immediately likely. Is this a relationship that the federal government should be fostering by allowing this type of financial services provider to be a conduit for federal payments?

- "Check cashing fees range from 1% of the check to a very high 21% of the face amount of the check."[31] There are only a handful of states that regulate the rates imposed by check cashers. Allowable regulated fees are as high as 10% on personal checks (Georgia). However, even in the few states where there are limits on check cashier's fees, these restrictions are routinely ignored. In a study by the New Jersey Public Advocate's Office on check cashing charges, 652 customers were surveyed. 49% of these customers were found to have been charged more than the maximum legal rate--on average 44% over the legal rate.[32]

- The check cashers' fees are not just exorbitant on small checks. Consider one case in which $1,100 was charged on a lump sum Social Security check for $11,000. The check cashier had deceptively told the recipient that cashing the check would have been more expensive at a bank.[33]

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[28] *See* Rental Dealer News (August 1993), at 11-12.

[29] A recent 8th Circuit case found that the 46%-746% interest rates charged by rent to own dealers was ample justification for a permanent injunction against dealers operating in the state of Minnesota in standard modes. Fogie v. THORN Americas, Inc. 95 F.3d 645, 653 (8th Cir. 1996).

[30] *Id.* at 654.

[31] Consumers Union, *The Thin Red Line* (1993).

[32] John P. Caskey, *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor* (Russell Sage Foundation 1994).

[33] *In Re Wernly*, 91 B.R. 702 (Bankr. E.D. Pa. 1988).

- In South Carolina, where until recently small loan rates were completely deregulated, 100% was a typical posted interest rate charged for small loans. Now, with some statutory limits, 56%-60% is a typical charge for loans between $300 and $400. Higher rates, even for costlier loans, are not uncommon. For example, 85% on a $1000 loan with a 1 year term was recently made to one low-income consumer.

- Check cashers are also making big bucks on people who have checking accounts. "PayDay" Loans are the newest scheme. Lower income wage earners, military personnel and welfare recipients are all typical customers.[34] According to the Virginia Attorney General the following describes a typical loan transaction:

> Consumer customer visits Payday, completes application and writes a present or post-dated check to Payday for $100. Payday provides customer with $83 in cash that day and agrees to hold customer's check until an agreed upon future date, generally corresponding with the consumer customer's payday. On the agreed upon future date, Payday deposits and presents the consumer's check for payment. During this process the consumer customer's check typically is held for a period of between five to fifteen days." The effective annual percentage rate actually charged on these PayDay loans ranges from 498% to 1,495% if the check is held for only five days.

- In Illinois, finance companies have also abused the deregulation of small loan interest rates. In one case[35] consumers were charged between 283% and 557% on loans in the range of $1000. Lender's employees typically met customers as they left their places of employment; threats of violence were implicit throughout the dealings.[36]

Some may argue that these examples are extreme, and not characteristic of the fringe banking industry. We, who work with lawyers representing low-income consumers on a daily basis, attest that these few examples are not isolated incidents. How many examples would it take to prove a pattern of abusive behavior by too many fringe-bankers throughout the United States?

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[34] This quote is from the complaint filed by the Virginia Attorney General in the case of Commonwealth of Virginia, ex rel. Mary Sue Terry, Attorney General v. Bar D Financial Services, Inc. (d/b/a Payday).

[35] *Brown and Cooper v. C.I.L. Inc.*, January 28, 1996, 1996 U.S. Dist. LEXIS 4917.

[36] For an example of a case in which a court found that a series of transactions may have been "unconscionable," or "not inconsistent with an absence of meaningful choice," see, *Cobb v. Monarch Finance Company*, 913 F.Supp 1164, 1179 (N.D.Ill. 1995). In this case, the consumer entered into a total of ten separate loans from three finance companies: (1) four loans, each with a principle of $690, and annual percentage rate (APR) of 101%; (2) five loans, each with a principle of $700, an APR of 96.43%; and (3) one in the amount of $500, an APR of 57.22%. All loans created a similar payment mechanism. A bank account was created on behalf of the consumer, to which an allotted portion of her paycheck was electronically and directly deposited. The allotment was then immediately transferred from the consumer's account to the finance company account.

Others may argue that there is nothing inherently wrong with these charges, as everyone has choices and the consumers of these fringe bankers are simply inappropriately exercising their freedom of choice. That may or may not be. But the issue here is not whether to allow these industries to continue to thrive, but whether the federal government should place its imprimatur on these activities by establishing those responsible as the conduit for the access to the federal payments by many low-income consumers.

Appendix B
Additional Consumer Protection Issues Related to EFT-99 Accounts

- **Reasonable access to information about the balance left in the account.** Providing monthly statements--as otherwise required to consumers under the EFTA--is a relatively expensive service which might reasonably be waived for recipients of Direct Deposit Too accounts. However, that leaves the necessity that recipients be entitled to find out, on a reasonable basis, the remaining balance on their accounts, as well as the reason, the timing and the amount of and of fees imposed reasonable to require that every ATM transaction include the provision of a receipt which indicates the imposition of fees, to the extent applicable, and the remaining balance in the account. To the extent that further information is necessary, or recipients wish to find out any of this information at other times, they should be able to call a toll free number, provide appropriate identifying information and obtain there account information. Whether or not this telephone service is available, recipients should be able to obtain a transaction history upon request at minimal or no cost.

  At a minimum, all receipts from ATM transactions should include information about the remaining balance and fees; at least two monthly ATM balance inquiries should be allowed for free, and others should be charged no more than the actual cost to the bank for providing the information; and a transaction history should be available free upon request or whenever there is a dispute.

- **Application of the consumer protections (such as disclosure of rights, protections from loss from unauthorized transfers, error resolution, etc.) which are provided by the Electronic Funds Transfer Act ("EFTA," also referred to as "Reg E").** There should be no dispute about this issue. Indeed, as the federal government will benefit from the provision of electronic accounts to federal payees, it is the federal government which should bear the risks of loss when the application of EFTA poses an additional cost to the financial institution that is unwilling to beat.

  The EFTA should unconditionally apply to all Direct Deposit Too and federally established EBT accounts.

- **Electronic access to benefits that is within a reasonable distance to the recipient's home must be provided.** Access based on distance is generally a subjective matter. In a rural area, requiring an ATM or POS within a mile from the recipient's home seems to be unrealistic and perhaps unnecessary. However, given the expense (both financial and emotional for some recipients) of urban transportation, as well as the degree of physical handicap for many elderly or disabled recipients, access to benefits that is even a mile away may be too far. The standard thus should remain subjective.

  Recipients should be permitted to avoid the requirements of electronic transfers if benefit access is not reasonably accessible from their homes.

- **The ATM card or device must be accepted by a reasonable number of merchants in the neighborhood and surrounding area.** There are currently a number of ATM networks--Cirrus, Honor, etc.--most of which are reasonably accessible at merchants in the geographical area in which the banks offering them are located. However, some networks are more popular in some areas than others, and are thus less accessible in the "foreign" areas. If access to cash benefits through ATMs is limited before fees are imposed, it is important that POS access be reasonable. This means that there must be a sufficient number of stores which both accept the type of ATM network device provided in the geographic vicinity in which the federal payee lives and permit the use of the card for cash back and withdrawals as well as purchases.

  <u>The ATM card or device must be accepted by a reasonable number of merchants in the neighborhood and surrounding area who permit cash back transactions and reasonably priced cash withdrawal options.</u>

- **ATMs and POS devices must be accessible to handicapped people.** Many recipients of direct federal benefit payments are eligible for such payments on the basis of a physical or mental handicap. Their handicap may cause them to be unable to participate in an electronic banking environment unless the equipment is specially modified to accommodate any handicapping condition they have, such as braille PIN pads, wheelchair accessible ATMs, etc.

  Unless Treasury is prepared to monitor compliance, merely requiring system compliance with the Americans with Disabilities Act is not sufficient. Leaving it up to the aggrieved individual to somehow find a way to manage while independently pursuing an ADA claim is an unreasonable expectation for government benefit recipients who are both poor and disabled.

  <u>Systems that do not meet the special needs of handicapped recipients of government payments must not be considered adequate for requiring electronic transfers for these federal payees.</u>

- **Recipients with limited reading skills or no English literacy at all also have special needs.** ATM and POS on-screen messages must meet the needs of those with limited English proficiency or who are non-English speaking.

  <u>Systems that do not meet the special needs of those who are non-English speaking or have limited English proficiency must not be considered adequate for requiring electronic transfers for these federal payees.</u>

- **Training for new electronic transfer recipients**. Many of the 10 million unbanked recipients of federal payments may have never had a relationship with a financial institution or used a credit or debit card before signing up for the receipt of their federal benefits electronically in 1999. In recognition of this, there should be an opportunity for anyone who desires some personal training on how to use an ATM for a balance inquiry or withdrawal to receive some minimal level of assistance from the financial institution. This should be in addition to any written training material that may be provided. The failure to accommodate such requests for assistance could well keep some who might otherwise be willing to establish an electronic funds transfer arrangement from doing so.

In addition to providing written materials, financial institutions offering Direct Deposit Too or federally established EBT accounts should be required to provide in-person training upon request.

- **Opportunity for new electronic transfer recipients to choose their own PINs (personal identification numbers).** Our strong preference would be for all electronic delivery systems to use PIN self-selection as the norm to reduce the likelihood of the individual's needing to write the number down and carry it with him or her in order to remember it. We recognize however that PIN assignment is more likely to be the norm. In such cases, individual must be notified at the time of card issuance of the procedures to follow if they would prefer to change their PIN to a self-selected number. Moreover, there must be a simple process to effectuate such a change that does not delay the individuals' access to their federal payments.

  Direct Deposit Too and federally established EBT accounts must provide for a simple and quick means for recipients with an assigned PIN to change to a number of their own choosing.

- **Reasonable procedures for PIN replacement and card replacement.** It is critical that any electronic system for delivering federal payments have established procedures for promptly responding to recipient requests for a replacement of either the ATM card or the PIN. The need to get a replacement card or PIN could arise for any number of reasons, including the loss of the card, damage to the card or the magnetic strip on the card, failure to remember the assigned PIN, or recipient concern that the card and/or PIN has been compromised. Use of the card and PIN may well be the only way that federal payees can access the benefits they need to pay their bills and provide for the bare necessities.

  Simple procedures for requesting and promptly obtaining a replacement card and/or PIN must be in place and a clear explanation of the steps an individual must take to initiate this process must be included in the informational materials provided about the account.

APPENDIX A

June 18, 1997

Secretary Robert E. Rubin
Department of the Treasury
15th and Pennsylvania Avenue
Washington, D.C. 20220

Dear Secretary Rubin:

The undersigned advocacy organizations collectively represent low-income people, the elderly, the disabled, minorities and other consumers who will be significantly affected by the implementation of EFT-99. This joint letter is to urge you to use the statutory requirement for electronic transfer of federal payments to improve the lives of America's most vulnerable citizens by bringing them into the banking system. You have the opportunity through the appropriate implementation of P.L. 104-134 to make a significant difference. The *wrong* decision by Treasury at this juncture may ease the transition to an electronic payment system for the U.S. Government, but it will do so at the cost of its citizens.

If done right, Mr. Secretary, EFT-99 will significantly foster the relationship between the unbanked federal recipients and the regulated, insured mainstream banking system. As you have recognized, bolstering banking relationships facilitates savings efforts, and increases the opportunities for other financial transactions between consumers and banks. The banks benefit from the new business. Consumers benefit from the lower cost and less abusive terms banks provide as compared to the unregulated alternative financial providers.

There are a number of specific decisions we urge Treasury to make in implementing rules for EFT-99:

- **Only federally regulated and insured, depository institutions should be permitted to be the conduits for federal payments.** This would *not* mean that recipients could not access their funds through an ATM or POS device at an alternative financial provider such as a money transmitter or a finance company — just that they would never be ***required*** to go to that alternative provider to access their money. Nor would it prevent recipients from transferring the funds on their own to a non-insured mutual funds account.

- **Recipients who do not voluntarily participate in the electronic transfer program must be provided *individual* accounts at insured, depository institutions, which are affordable, reasonably accessible, include basic consumer protections and provide access to essential banking services.** These accounts must provide least-cost access to their federal entitlement; encourage savings; and foster financial relationships between the unbanked federal recipients and the mainstream financial institutions. When selecting institutions to provide these services, Treasury should give weight to the geographic coverage that the competing institutions offer.

- **Treasury's use of "authorized agents" as alternative conduits of federal payments should be limited to those individuals and entities who have a fiduciary duty to the recipient.** The words "other authorized agents" in the new law are only intended to apply to the types of recognized surrogates that are currently used as intermediaries for the receipt of benefits through the various federal programs, when the actual recipient cannot, for some reason, be the original designee of the federal payment. The consistent aspect among all of the types of intermediaries currently recognized in federal law is the fiduciary duty that is owed to the recipient. *Treasury should not deviate from this important principle by allowing agents to be* *conduits of federal payments who do not have a fiduciary duty to the recipients.*

Fringe bankers, such as check cashers, finance companies, and others doing business in low and moderate income communities have succeeded because of the vacuum created by the absence of banks from these communities. These fringe bankers do not reinvest their substantial profits back into the communities. The residents of these communities gain little benefit other than the specific service provided by the fringe bankers. If Treasury allows this non-regulated industry -- which continues without obligations to the community -- to operate as either "authorized agents, " or subcontractors with banks for the purpose of receiving federal payments, the financial problems in the communities will not only continue to be ignored, but they would be exacerbated.

Treasury's use of alternative financial providers as conduits for the federal payments will be the U.S imprimatur on the unregulated activities of these alternative providers. The government will be saying, in effect, that the federally insured and regulated banking system is only for those who can afford it. The poor would be ***required*** by the government to use alternative, unregulated providers with none of the benefits and protections furnished to consumers in the financial mainstream. Such a result should not be the consequence of this legislation.

We urge you to exercise your authority to ensure the proper resolution of these issues. We would like to meet with you at the earliest possible date to discuss our concerns in more detail. Thank you for your attention.

Sincerely,

ACORN
AFL-CIO
American Association for Retired Persons
American Federation of State, County and Municipal Employees
Center for Community Change
Consumer Action
Consumer Federation of America
Greenlining Institute
International Brotherhood of Teamsters
Jesuit Conference USA, National Office of Jesuit Social Ministries
National Alliance to End Homelessness
National Community Reinvestment Coalition
National Consumer Law Center
National Peoples' Action
NETWORK: A Catholic Social Justice Lobby
Organization for A New Equality
Surface Transportation Policy Project
21st Century Group
Woodstock Institute
United Auto Workers **U.S. PIRG**

Mr. HORN. I have some questions for all of you and some for two of you. Let's start with Ms. Nichelson, and I am sure you heard Margot Saunders' testimony advocating excluding from the definition of "authorized agent," the category or term she calls "alternative financial providers," such as check cashing firms.

Do you have any comments on that suggestion?

Ms. NICHELSON. Well, I do believe since check cashing facilities are not regulated, that they shouldn't be involved in the process of being the recipients of these funds. I think financial institutions, especially those located in those urban areas, are best suited to help disburse those funds. And so in that respect I do agree with her comments. I do have concerns about facilities such as check cashing companies.

Mr. HORN. Anything else you want to add to that, Ms. Saunders?

Ms. SAUNDERS. Yes, I want to clarify, we don't have a problem with a bank, as Ms. Nichelson is proposing, a bank setting up an office in the check cashers outlet and using their brick and mortar as a method of getting banking services to low-income people; we think that is a terrific idea. I know there were some concerns that we would disagree, but I think the more we talk, the more we find we are agreeing. We want to see the unbanked get into banks, and whether it is through check cashers or not, it is fine. It is the exclusive use of check cashers or the alternative providers that concerns us.

Mr. HORN. I am delighted to hear you say that, Ms. Saunders. If I took you downstairs with me, there is a room where they have been talking all day and they aren't agreeing yet; namely, the full committee.

Mr. McEntee, any thoughts on this question?

Mr. MCENTEE. Just one brief thought on this question. We believe that the Treasury Department only has the legal authority to place the funds in a financial institution. I think the basic question that surrounds the relationship between the consumer, the third party, and the financial institution, is should the consumer be permitted to set up an account, which would not be an insured account, but should they be permitted to set up an account at a third party. I think there is an area of debate surrounding that issue, and I think financial institutions, check cashers, and consumer groups will be sorting that issue out for the next few months. I am not so sure we have a clear-cut answer right now as to how that is going to play out, other than we firmly believe the Treasury needs to get the funds initially into the financial institution and the arrangement between the third parties, the financial institutions, and consumers would have to be determined and, again, I don't have a specific answer as to how that should work right now.

Mr. HORN. Ms. Nichelson, are you engaged in any sort of education campaign with your membership to inform them about the new law?

Ms. NICHELSON. Yes, sir, we are. We hold an annual conference in October and November. However, we have already begun the process of sending information to the member institutions on the various proposals before Treasury, and this issue in particular has really sparked a great amount of interest.

My oral testimony didn't expand into the numerous comments that I have received from the 40-member institutions who have real concerns about some of the provisions. They do prefer educating the consumer before this process takes place in 1999. They do understand the fact that there will be persons who would like to remain unbanked, who don't want a relationship with the bank, but they do believe that because of the new welfare reform and the new generation of people who are currently receiving public assistance, and those peoples' ultimate goal to become more of a contributing entity to society and not so reliant on Government, that those will be the people who ultimately will establish a working relationship with the bank. And the banks further have begun the process of going to communities, going to churches, and offering free seminars on credit counseling and on just educating the consumer to how it can work. Banking can be very intimidating if you don't understand it, but if you can streamline the process and let people know that you don't sign your life away because you apply for a checking account, or even with ATM cards, it is just another way of you beginning the process of managing your financial life-style.

Mr. HORN. That is very helpful.

Mr. McEntee, what sort of educational campaign or conferences does your organization schedule for banks and other financial institutions?

Mr. MCENTEE. We have been focusing on delivering educational message to financial institutions, businesses, and consumers that are going to be affected by this legislation. We have worked very closely with the Treasury Department and have mailed out—actually, the Treasury Department mailed out 50,060 letters to financial institutions all around the country informing them of the requirements of the mandate. We have gotten responses back from about 3,500 of those financial institutions.

We have regional associations around the country. They have been putting on seminars and conferences on the EFT mandate. The American Bankers Association has been doing the same thing. We have been working very closely with several trade associations that represent the interest of the business community and they have been putting on educational programs as well.

We are also working with the Treasury Department to develop public service announcements and video news releases, and some of those would be released at the end of this year and early next year. The purpose of those messages is to communicate directly to consumers, so we are working very closely with the financial institutions, the business community, and the Treasury Department, to get the word out on the EFT mandate requirements.

Mr. HORN. Well, that is helpful.

Ms. Saunders, do you want to add anything to the discussion on education and how to go about it?

Ms. SAUNDERS. No, sir.

Mr. HORN. OK.

Mr. McEntee, your testimony noted that the biggest challenge in vendor payment comes from attaching payment information with payments, so-called financial electronic data interchange or financial EDI. How many banks are currently able to take advantage of financial EDI?

Mr. MCENTEE. In our estimate, there is about 9,060 commercial banks that provide services to vendors, that provide services to the Treasury Department and other government agencies. There are a little less than 2,060 financial institutions or commercial banks today that have that capability. There have been a lot of developments in the marketplace over the past year to develop inexpensive software packages where small banks can install these software packages on PCs that process information electronically and pass that information electronically or through the mail or through a fax system to the vendor depending on what the vendor is looking for.

I would like to say we are in place today, that the banking industry is ready today, but I cannot do that. We are fairly optimistic that sometime before January 1, 1999 the vast majority of commercial banks will be in the position to provide that remittance service information to the business community.

Mr. HORN. Can you give us an idea of the cost of the software and how does it vary? Does it vary by the number of transactions or do you just get a basic system, whether it is a small bank, medium sized bank or a large bank?

Mr. MCENTEE. Software companies have been producing services for the large banks for several years now so the problem is not with the larger financial institutions, it is basically with the small community banks.

We have worked very closely with a couple vendors to develop a service called Rapid EDI and Rapid EDI can be purchased for as low as $10 a month, where the financial institution basically signs up for the subscription service and the third party that we have under contract basically goes into the personal computer that the financial institution has, extracts the remittance information, and then transmits the remittance information directly to the business customer. If the financial institution is interested in doing more of the processing on their own, they could lease the software package for $50 a month and that way they can provide a number of different options to the business customer, delivering the remittance information by mail, by fax, or electronically. So the software packages that have been developed for small financial institutions are relatively inexpensive.

The problem right now is that a lot of those institutions are not interested in purchasing or leasing the software packages because there is no demand for that service. The demand will be there, however, when this EFT mandate goes into place.

Mr. HORN. Any other thoughts on software and need for any of the people you relate to?

Ms. NICHELSON. I would just suggest, Mr. Chairman, that although you are talking software within the banks, I hope that once a lot of this written information is sent to the consumer that you consider that a lot of people use English as a second language and you should consider some bilingual brochures and bilingual options when you are attempting to really reach these people in hopes that they will become part of the process prior to 1999.

Mr. HORN. One of the problems is the urban area I come from, and I suspect you come from, there are 70 languages spoken in the schools. There is no way you can communicate in 70 languages.

Ms. NICHELSON. I agree with you, Mr. Chairman. However, I suggest if you start with Spanish and with some of the Chinese speaking languages, you would reach a large segment of those people.

Mr. HORN. You wouldn't in my community. You better start in Khmer. It is the largest community of Cambodians outside of Cambodia.

Ms. NICHELSON. I think it is interesting, Broadway Federal Bank in south central Los Angeles, they have now over half their staff is bilingual. They speak Spanish and they speak some Chinese and some other dialects, and Paul Hudson, the president of the bank, would probably share with you that that has really helped him to broaden his outreach to the people directly within his community.

Mr. MCENTEE. Mr. Chairman, let me try to respond to that question. We have produced some of the public service announcements in Spanish, geared directly to a lot of the urban communities, so we are sensitive to the need to try to communicate in more than English, but I agree with you it would be impossible to produce this information in 70 different languages.

Mr. HORN. Mr. McEntee, the Federal Government will save, presumably, their estimate was $130 million per year under this new law. Beneficiaries are expected to save $1.6 billion per year and you note that $1 will be saved by banks per electronic transaction in reduced teller cost. How much does that result in reduced cost to the banking industry each year as a result of this law? Has anybody ever worked the numbers on that?

Mr. MCENTEE. As you were talking, I was trying to work out the numbers, but my mind is not working fast enough. If I recall, I think there is about 300 million transactions that the Government will be making to consumers by direct deposit, assuming all government recipients get paid by direct deposit on January 1, 1999, so that would work out to precisely $300 million a year in cost savings. There still should be some cost savings for vendor payments as well, so I think you are talking about a cost savings of roughly $325 to $350 million a year.

Mr. HORN. So if we add that to the Government's $500 million over 5 years, and this is $300 million a year, you are saying, basically, annually. You would be doing pretty well, almost get us up to $1 billion at that rate.

Let me ask Ms. Saunders, you used the term "alternative financial providers" in your testimony. I assume this refers to check cashing outlets among other institutions, and Ms. Nichelson described a partnering arrangement between a bank and check cashing outlet. As I understand it, you don't mind a bank going into any place if it is going to render service to the community.

Ms. SAUNDERS. That is right.

Mr. HORN. And sort of an outreach approach, which I think is an intriguing idea.

Do you have any other thoughts on banks and where they ought to go and spend some of their time with the customers?

Ms. SAUNDERS. The consumers and community advocates feel strongly—we are very much hopeful that EFT–99 will be the—finally be a true opportunity to get the unbanked people and banks together. We think that if Treasury takes the initiative and holds the line and, in fact, uses this opportunity, the unbanked will have the use of banks for several new ways. One, they will be able to develop savings accounts, and we have already seen—there is a trial, EFT trial in Texas that Treasury has been going through for several years. And even though the people in that trial have been traditionally unbanked and living month to month, they have seen the development of many savings accounts little bits saved month to month, whereas before there were no savings accounts, so the development of savings accounts is a very important opportunity.

Second, the possibility the individuals will begin to see the banks as their financial institution, so they turn to the banks, rather than the alternative providers, for other services, is very important.

And, third, by using the banks, they will be able to use the electronic payment system more readily. We are just at the beginning of the electronic payment system. Some of us now use modems to pay our bills. But low-income people pay cash or by money orders. If they use banks to—if they see banks as their financial provider, they may also begin to participate in the electronic banking process.

Mr. HORN. Let me quote, Ms. Saunders, from your prepared statement. "If alternative providers of financial services are permitted to be conduits of Federal payments, that would constitute the Federal Government's blessing of grossly abusive practices against low-income people."

Let me lay out a scenario for you, an alternative financial service provider charges the same or less than a bank for an ATM card and is more convenient to the customer's house. Do you have any reaction to that?

Ms. SAUNDERS. The question is to whom—with whom does the individual have the account. If the individual has the account at the bank and chooses to use the ATM, the bank's ATM, or the network's ATM machine at the check casher, that is just fine, but it is not only the fees charged for the access to the Federal money, it is all of these other issues as well. So, yes, my and the other group's answer is unequivocally, we still would go with the bank's and only the bank's.

Mr. HORN. Ms. Saunders, your concerns seem to be focused on individuals also without bank accounts, and is that a fair characterization? Do you have any comments on those with bank accounts who do not use direct deposit currently?

Ms. SAUNDERS. I think that those people who have bank accounts and do not use direct deposit will find that their Social Security check or their other Federal payment will be automatically deposited in their bank account. I cannot imagine that Treasury would force them to use a default system that does not use their already existing bank account.

Mr. HORN. Mr. McEntee, I note you are part of a public education partnership with Treasury's Financial Management Service, which has high praise from us, the Social Security Administration, a well-organized group, and the Department of Veteran's Affairs. Can you describe that effort, what is happening with it?

Mr. MCENTEE. Yes, we have a multifaceted effort under way to provide education to financial institutions and their customers and the unbanked as well. As I mentioned before, the focus is to get banks educated through conferences, seminars, and we are actually running a major nationwide seminar here in Washington, DC, in September where all the major trade associations representing the banking industry are cosponsoring that effort, and there are several Federal Government agencies that will be speaking at that conference.

As I mentioned before as well, we think the key to communicating to consumers will be partially met through public service announcements and video news releases, and we are working with those Government agencies to produce those right now.

Mr. HORN. Very good.

Do any of you have questions of each other, after listening to the testimony, anything you want to add? Anything I should have asked if I knew what I was talking about?

Ms. SAUNDERS. You clearly know what you are talking about.

Ms. NICHELSON. Clearly.

Mr. MCENTEE. I think you are asking all the right questions.

Mr. HORN. Without objection, I guess, I have got here the American Bankers Association, the National Association of Check Cashers have sent statements into the subcommittee for inclusion into the record. I am sorry our witnesses haven't had a chance to see them, but without objection, we will put them in the record at this point.

[The information referred to follows:]

06/17/97 16:54 ☎2028423275 SELLERY →→→ GMIT & NSIACJ 001/005

NaCCA
National Check Cashers Association, Inc.
Financial Services for America's Local Communities

June 17, 1997

Mr. Mark Brasher
Subcommittee on Government Management,
Information and Technology
US House of Representatives
Washington, D.C. 20515

VIA FACSIMILE

Dear Mark:

It was good to speak to you yesterday. Attached is a copy of the most recent correspondence from the National Check Cashers Association regarding EFT 99. I'd appreciate it if it could be made part of the hearing record.

Thanks for your assistance.

Sincerely,

Larry
Lawrence Sabbath
Enclosure

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Court Plaza North, 25 Main Street, P.O. Box 647, Hackensack, N.J. 07602 Ph: (201)-777-9870 Fax: (201) 773-6983
1023 15th Street, N.W., Seventh Floor, Washington, D.C. 20005 Ph: (202) 289-1780 Fax: (202) 842-3275

NaCCA

National Check Cashers Association, Inc.

Financial Services for America's Local Communities

April 8, 1997

FEDERAL EXPRESS
Russell D. Morris
Commissioner
Financial Management Service
401 14th Street S.W.
Washington, D.C. 20227

Dear Commissioner Morris:

The National Check Cashers Association submitted timely comments regarding proposed Regulations under 31 CFR Part 208 on November 25, 1996. We are taking this opportunity to discuss supplemental information we believe will be helpful to the Financial Management Service as it develops proposed implementation regulations for Phase II.

Introduction

Since enactment of the "Debt Collection Improvement Act of 1996", the check cashing industry has been exploring viable alternatives to assist in the delivery of Federal payments pursuant to the Act.

We are taking the challenges and opportunities the Act provides very seriously.

We have formed and funded a national task force which has been meeting to explore and evaluate all options for an appropriate Industry strategic response to the federal payment mandate.

There are approximately 5,400 check cashing outlets in the United States serving up to ten million individual customers annually. They cash approximately 150 million checks per year with an actual value of 45 billion dollars.

The check casher customers prefer to pay as they go and deal primarily in cash. This is a segment of the population with whom banks historically have had poor relations. Rather than compelling citizens and banks to deal with each other directly, a situation which is attractive to neither, check cashers stand ready to provide access to government payments for any citizen who prefers to do business on a transaction basis rather than on an account relationship basis.

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Financial Services for America's Local Communities

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We submit, that in order to deliver federal payments to those who are unbanked or choose to use alternatives to banks, the Regulations need to allow our industry to participate as authorized agents, as well as end points, under reasonable and non-onerous requirements. And, the Regulations need to allow for an economically viable cost of delivery, for the customer and the delivery system.

Our Customer Base

The check cashing industry provides services to a segment of the population that is not well served by depository institutions. In some instances, there simply is a lack of bank facilities in the neighborhood. In other instances, people have chosen to utilize cash and prefer to do business on a transaction, rather than an account basis. Survey information reveals many reasons for this preference, ranging from distrust of banks, to fear of overdrafts, to an immediate need for funds. These customers prefer to "pay as they go", rather than pay often uncertain bank charges.

It is interesting to note that check cashers have been able to establish successful businesses even in some locations where there are banking alternatives. A survey done by the Roper Organization has shown that 67% of our customers have bank accounts, but choose to utilize our services.

As an industry, we are prepared to provide an option to citizens to access federal payments through our facilities at a reasonable cost. To be effective, such a system must be economically viable, and without artificially imposed constraints.

Experience In Delivery Of Government Benefits

As cited in our public comments, our industry is experienced in working with government agencies to provide services to the public in an efficient and effective manner. Check cashers were among the first entities to provide electronic benefits to recipients of welfare. In 1985, the New York City EPFT (Electronic Payment File Transfer) System was implemented and has provided more than a million individuals monthly with cash payments or food stamps, primarily through check cashing outlets, and has reduced fraud over its history to virtually zero. In fact, under that system, check cashers indemnify the government against losses due to wrongful payouts.

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But we provide other services as well for local and state governments. Many of our locations sell transit tokens, provide vital statistic information, collect rent for public housing authorities and renew license tags. These ancillary services are not only a convenience for our customers, but also save substantial money for the state agencies, as they can reduce the need for additional offices.

The services we provide result in a high degree of customer satisfaction. Our customers appreciate the fast and efficient service and the breadth of those services provided under one roof, as demonstrated by a great deal of repeat business. The value of check cashers to provide other services has been recognized not only by government agencies, as described above, but also by major businesses. We are substantial agents for Western Union, providing more than 40% of their volume although numbering only about 16% of their agents. Recently, NYNEX chose check cashers for the electronic payment of utility bills, as many other utilities have done around the nation. Check cashers process millions of over the counter telephone payments each month. In fact, recognizing the vital services our industry provides, several major banks have even attempted (although not successfully) to operate check cashing subsidiaries.

Our Role In Federal Payment Delivery

As shown above and in our previous comments, check cashers provide a myriad of services that would not likely be duplicated under one roof in any other business. As the Department develops the rules to implement the Debt Collection Improvement Act, it is appropriate to permit creation of a system to allow customers to receive benefits where they have voted to do so with their feet and their dollars. We believe that whatever rules are finally adopted they should allow a fee for service. Check cashers do not provide financial services as a sideline. It is our primary business. But, by the same token, we do not provide such services only if and when excess cash is available or it suits our fancy since we have no other customers at the moment. This is our business and it gets our full attention, the full dedication of our staff, the benefit of thoughtful and experienced design and maintenance of our facilities.

We are now exploring several options for serving our customers who receive federal payments. We are looking at a variety of alternatives, including alliances with financial and non-financial institutions, development of an alternative institution which would allow the industry to serve as an authorized agent and end point. Therefore, it is vital that the Regulations allow for the flexibility for providing these alternatives.

Freedom of choice is a primary tenet of a market economy and the restructuring of the Federal Payment System should support the maintenance of this right of the American citizen. The existence of many banking "models" within our financial services delivery system -- commercial

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banks, savings and loans, credit unions, non-insured money market funds -- demonstrates the market's demand for a variety of choices. Most of our customers choose our services over other alternatives; their choices should be respected and honored.

Our Association would like the opportunity to meet with you to discuss these possibilities and also to describe programs already in place which could be incorporated as part of the solution for the 1999 mandate.

Thank you for your consideration.

Sincerely,

STEPHEN WOLF
Chairman

SW/lm

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Mr. HORN. So if there are no other questions, what I would like to have is the staff list of who has helped on this hearing. J Russell George, the staff director and chief counsel in back of me here; Mr. Mark Brasher, professional staff member that prepared for this hearing; Andrea Miller, the faithful clerk to our majority staff; And Grant Newman, the intern. We have to have an intern category, folks, this is summer almost. So Mr. Newman, we appreciate your help, and if the teacher doesn't think so, tell him to read the hearing record. OK; David McMillen, professional staff member for the minority, he is downstairs, Jean Gosa, clerk for the minority, and our three court reporters that have been in and out today, Katrina Wright, Vicky Stallsworth, and Tracy Petty.

I thank the three of you again for the excellent statements you submitted and the summary of your testimony and your response to our questions. Thank you very much for coming.

With that, we are adjourned.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

The American Bankers Association (ABA) is pleased to submit our views on the implementation of the electronic funds transfer provisions of the Debt Collection Improvement Act included in the Omnibus Consolidated Recission and Appropriations Act of 1996. The ABA is the only national trade and professional association serving the entire banking community, from small community banks to large bank holding companies. ABA members represent approximately 90 percent of the commercial banking industry's total assets, and about 94 percent of ABA members are community banks with assets less than $500 million.

The Treasury Department is actively implementing the provisions of the electronic funds transfer provisions of the Debt Collection Improvement Act. These provisions will result in a drastic reduction in the number of paper checks that will be issued by the federal government. These payments include not only Social Security, Railroad Retirement and other income-type payments, but also federal vendor payments of all kinds from defense contractors to janitorial services. Ideally, eventually there will be no more paper federal checks, since federal law requires that after January 1, 1999, all federal disbursements will be made by electronic transfer.

The Treasury Department is also currently implementing other electronic banking mandates included in other legislation. These are the Electronic Federal Tax Payment System (EFTPS) required by NAFTA, and the Electronic Benefits Transfer provisions of the Welfare Reform Act of 1996. Taken together, these three electronic banking initiatives will transform the way the federal government conducts its banking.

EFT-99 is the program that Treasury will use to implement the direct deposit requirement of the Debt Collection Improvement Act, and it addresses three large segments of federal government payees: federal government contractors, benefit recipients who have bank accounts and benefit recipients who do not have bank accounts. The payments to federal government contractors will also require a bank to process an electronic data interchange (EDI) stream along with the financial transaction. Further, federal agencies must review and change their methods of paying vendors. The banking industry is making efforts to become EDI-capable so that the important remittance information can be passed on to federal government contractors. How the EDI stream will be handled is not clear. Additional reviews are currently being done to determine how payment notifications can be forwarded to the contractors using EDI, electronic mail or the Internet.

The second segment of direct federal payments are benefit payments to individuals who have bank accounts. Each financial institution is concerned about their customers who now deposit a paper federal benefit check. By the end of 1998 those customers will have to designate a financial institution into which the benefit will be deposited, which does not have to be their current institution. All financial institutions are taking steps to move their customers to direct deposit. In September, all benefit checks will have a notice to the recipients that they will have to convert to direct deposit, and we expect that a large number of individuals will question their bank on how to convert to direct deposit. Treasury has developed a program to permit the enrollment of direct deposit through the automated clearing house system. This program, *QuickStarts*, is being used by an increasing number of financial institutions and should allow for a much smoother conversion to direct deposit.

The third part of the new system addresses those receiving benefits who do not have a bank account. There are an estimated 10 million individuals who receive federal cash benefits of all types every month but who do not have a banking relationship. Benefit payments to those without accounts average $400 a month.

The Treasury Department has asked all the banking trade associations for help in an outreach program. The ABA has undertaken a number of activities, including over thirty seminars conducted with the state banking associations and the Treasury Department. These day-long seminars go into detail on all of Treasury's electronic programs, and over 1,200 banks have been reached through these programs. Other activities that the ABA has undertaken are communications efforts over its banking television network, articles in the *ABA Banking Journal*, and speakers at various ABA meetings. Future efforts will include a broad outreach program using community and church groups, video news releases in the fall, and a jointly-sponsored program in September for financial institutions in Washington. Other activities will be undertaken as the need becomes apparent.

As an additional part of its response to these initiatives, the ABA formed an Electronic Account Working Group to address the best ways to get those receiving government benefits by a paper check to move to direct deposit, whether or not they currently have an account. We have also been actively engaged with the Treasury Department in our effort to understand the attitudes and needs of those who do not currently have bank accounts.

A meeting was held in the spring to review the Treasury Department's research on those who do not have bank accounts and to discuss potential depository account types that might serve the needs of this group of federal benefit recipients. Representatives of the Treasury Department discussed some of the results of their research on the "unbanked." The initial results indicate that many of those without banking relationships have had bank accounts in the past but had closed the accounts for a variety of reasons.

Their research also shows that approximately 60 percent of individuals who receive checks, but who do not have accounts, actually go to a bank to cash their benefit checks. The rest cash their checks at grocery stores (20 percent), other retail outlets (12 percent) and check cashers (8 percent). Treasury's full report on the "unbanked" will be made public when it is concluded.

The ABA Working Group discussed the efforts of the banking industry to attract the "unbanked" through the use of low-cost paper-based bank accounts. Generally, the "unbanked" have not been attracted to these accounts. Treasury has suggested to the banking industry a purely electronic account type called "Direct Deposit Too." "Direct Deposit Too" is not a mandated account, but a suggested approach to the "unbanked" that the banking industry may want to consider. This suggested model account would receive the federal benefit, which would be accessed by a card through automated teller machines (ATMs) and Point of Sale (POS) terminals. There would be no paper checks issued, and risk would be reduced because the majority, if not all, of the transactions would be made on-line. There would be no outstanding amounts payable on the account.

Several pilot programs have been done using purely electronic accounts. The current federal pilot program for benefit recipients without accounts in Texas has shown that more than 30,000 benefit recipients voluntarily signed up for an electronic type of depository account. This was 5 percent of the total "unbanked" benefit recipients in Texas. The pilot showed that the recipients liked the depository product when they got it. Further, no significant operating problems with this account form has been reported. The pilot has also shown that compliance costs of Regulation E are within a normal range and are less than the reclamation costs (of the paper-based systems). The Treasury Department is ending the pilot program in Texas, and is asking banks in Texas to offer a competitive alternative product. So far, 120 banks in Texas have indicated an interest in offering such a depository product to the existing pilot participants.

In an effort to further delineate the advantages of a purely electronic account form and to develop additional outreach to those who need accounts, the ABA Electronic Account Working Group considered different approaches that might serve the needs of those who do not have accounts. The Working Group has recommended that purely electronic account forms be considered by financial institutions, and sees an opportunity in offering them to serve a broader number of individuals. The ABA believes that the attributes of the accounts should be tailored to specific markets served, or potentially served, by any particular institution. The electronic accounts would not be solely directed at the "unbanked," but the features of such an account would generally be attractive to them. The Group listed attributes that would reduce risk and cost for both the consumer and the financial institution. The suggested model electronic accounts would need regulatory review, and several regulations would need to be modified to have them fully implemented.

Purely electronic accounts raise some regulatory concerns. The transition from a paper-based to an electronic payments system promises to be a challenge for businesses, consumers, policymakers and financial institutions. The public policy challenges presented by this payments system transition are great. The existing payments system has a substantial body of law and regulation that defines how business is done. While the pressures which led to the development of the current regulatory structure will still exist, translating laws and regulations that govern paper-based systems into a workable framework for emerging electronic systems will be difficult. In some cases, an entirely new regulatory approach may be required and appropriate.

Consumer protections are an important part of any financial service, but the development of accounts that are not paper-based should permit different methods of meeting this important goal. The liability protections would be the same, but the communications process, in particular the use of a paper periodic statement, can be different, as transactions can be reported on demand from an ATM, a voice response unit or a computer. Developing a cost-effective purely electronic account would require some legislative and regulatory change.

The Working Group has identified several areas of regulatory concern. These include:

1. "Know Your Customer" potential regulation. This new responsibility may make it very difficult for a bank to offer an electronic account on a non-branded agent basis.

2. Regulation E (Electronic Funds Transfer Act). Concerns include a number of items, including the requirement to furnish a statement.

3. Regulation DD may present a conflict on advertising. Reg DD may prohibit calling an account "free" if the bank charges for any optional or additional services requested by the customer.

4. The Community Reinvestment Act is a concern; particularly the possibility that field examiners would require the voluntary actions of an institution to be mandatory.

5. Potential statutory difficulties were identified if using a non-branded approach, including being able or required to say the deposit had FDIC insurance.

6. State statutory conflicts could also arise over contract provisions in the account, particularly dormant accounts. Since an electronic account with a direct deposit would have, in most instances, a monthly receipt of a deposit, the account would never be dormant, even if there were no other transactions.

Consideration of these changes in these areas would make purely electronic accounts more cost effective for lower income individuals and banks. The development of purely electronic accounts presents a challenge and an opportunity to simplify some procedures. The immediate ability of electronic communications to give up-to-the-minute information provides consumers greater access to their accounts through ATMs, voice response units or personal computers.

It is important to realize that purely electronic accounts are not "second class" accounts. Some have suggested that the "Direct Deposit Too" account and similar electronic-based accounts to deliver benefits creates a second tier. We do not agree. They do create a new way to conduct financial transactions, but they are certainly not "second class" accounts. The use of purely electronic means to deliver and use funds gives individuals additional security in delivering the benefit and allows them to keep their funds in a safe place. The choice of an electronic or paper-based account is an individual choice that depends on the needs, preferences and convenience of the individual.

We must be realistic in our approaches as well. Many of those who do not have bank accounts do not want a bank account. Preliminary research shows that many have had bank accounts, but have decided that they do not need them, or that they are more confident in using other financial intermediaries to serve their financial needs. While these preferences may be rooted in their experience with paper-based deposit accounts, satisfaction with an alternative financial management system is a preference that we cannot ignore. Creating a new electronic account with benefits the "unbanked" will actually use should be a priority in implementing this conversion. We believe that many individuals would return to mainstream banking if they could choose a product that fits their needs and is convenient to use.

Contrary to what some have stated, financial institutions will not generally have a significant "float" advantage if the funds of the "unbanked" are deposited in a bank. A "float" is free money. These deposits would not be free money. The money deposited in an agent bank would be covered by deposit insurance and would most likely pay some amount of interest. Experience has also shown the funds deposited in accounts of the "unbanked" are almost immediately withdrawn in their entirety. They would not be any different from the deposits of other individuals.

A purely electronic account would not be subject to fee levels that some groups have forecast. One estimate of $14 per month included $4.50 in fees for POS transactions, which are not charged; and a $3.00 fee from the accountholder's bank for withdrawing funds from the account, which is unlikely. An electronic account seeks to reduce risk and cost to both the accountholder and the financial institution. These savings are passed onto the accountholder. Currently, the majority of institutions have low-cost accounts, and, while some fee would be necessary, an electronic account should be lower in cost than these.

The Treasury Department will shortly issue a proposed rule on who may serve as an authorized agent for receiving direct deposits of the "unbanked." This anticipated rule on authorized agents will be an important rule that provides guidance in answering some of these concerns. It potentially will be a guide to those outside of the payments system for serving those who need accounts into which benefits would be deposited. Ideally, the rule would seek to encourage cooperative partnerships between banks and third-party agents, and would look to re-examine existing regulations so that the private sector can provide a product that the "unbanked" will actually want to use. This rule will be proposed very soon, and the industry will need to examine and comment on it.

Another reality of implementation is the potential reaction from individuals, both with and without accounts, as they finally realize that direct deposit applies to them. Many benefit recipients can be expected to resist the conversion to direct deposit, and will want to continue receiving a check or to modify the effective date or other requirements of EFT-99.

The Treasury Department's electronic banking initiatives are very significant, and their scope is almost unprecedented. For example, after 20 **years** of availability, 54% of all Social Security recipients receive their benefit by direct deposit. Under the timetable laid out in EFT-99, the other 46%, who now receive a paper check, will have to convert to direct deposit in 18 **months**. Clearly, a great deal of movement to direct deposit must take place within a relatively short time frame. While the Treasury Department is to be commended for its diligence in initiating the direct deposit initiative, and the banking industry is becoming ready to accept the challenges ahead, the task is very large.

All citizens are potentially affected by these changes, and they will become accustomed to accomplishing financial transactions using electronic means. Once the federal sector is converted, the states and the private sector are likely to follow. The regulatory and legal structures that have governed our paper-based industry will continue to be important, but increasingly, a fresh approach will be needed to allow the conversion to reach its full potential.

EFT-99 presents many challenges. The way every citizen of the United States completes a financial transaction with the federal government — except for a personal tax refund — will be significantly changed. These changes not only affect the way we use the financial system, they have implications for the way society will view electronic transactions and electronic commerce. The three electronic banking initiatives Treasury is implementing are, in many ways, the actual beginning of the widespread conversion of the financial services industry from paper to electronics.

ABA Answer to Q. 11:

The Association has undertaken a review of its files to determine whether it has received any federal grants or contracts (including subgrants or subcontracts) it has received since October 1, 1994, and if so, the source(s) and amount(s) involved. While we have not been able to complete our review in the short time available since House Rule XI, clause 2(g) was made applicable to House Banking Committee testimony, an initial review of our records indicates that the ABA has received the following federal grants/contracts:

(1) Department of Housing and Urban Development (HUD) three-year contract to survey mortgage lending (1995) – $73,475 (first year); $110,832 (second year); $116,364 (third year).

(2) Office of Comptroller of the Currency (OCC) software license and usage agreement involving management simulation software (1995) – $50 per participant.

(3) Federal Deposit Insurance Corporation (FDIC) contract to assist compliance examinations (1996) – overall contract amount determined by scope of use, not to exceed $18,225.

(4) OCC license fee for use of ABA's COMPQUEST CD-ROM program on banking law, regulation and other information (1996) – $150,000.

DISCLOSURE REQUIREMENT
Required by House Rule XI, clause 2(g)

1. **Name:** (Comments filed for the record)

2. **Business Address:** 1120 Connecticut Avenue, N.W., Washington, DC 20036

3. **Business Phone Number:** (202) 663-7504

4. **Organization you are representing:** American Bankers Association

5. **Any training or educational certificates, diplomas or degrees which add to your qualifications to testify on or knowledge of the subject matter of the hearing:**

6. **Any professional licenses or certifications held which add to your qualifications to testify on or knowledge of the subject matter of the hearing:**

7. **Any employment, occupation, ownership in firm or business, or work related experiences which relate to your qualifications to testify on or knowledge of the subject matter of the hearing:**

8. **Any offices, elected positions, or representational capacity held in the organization on whose behalf you are testifying:**

9. **Any other information you wish to convey to the Committee which might aid the members of the Committee to better understand the context of your testimony:**

10. **Any federal grants or contracts (including subgrants or subcontracts) which you have received since October 1, 1994, the source and the amount of each grant or contract:**

11. **Any federal grants or contracts (including subgrants or subcontracts) which were received since October 1, 1994 by the organization(s) which you represent at this hearing, including the source and amount of each grant or contract:**

See attached