

A Performance Audit of the State Credit Card Processing Fees

A Review of the Statewide Contract,
USHE Institutions, and Local Education
Agencies

Office of the Legislative
Auditor General

Report to the UTAH LEGISLATURE







THE MISSION OF THE LEGISLATIVE AUDITOR GENERAL IS TO
AUDIT · LEAD · ACHIEVE
WE HELP ORGANIZATIONS IMPROVE.

Audit Subcommittee

President J. Stuart Adams, Co-Chair
President of the Senate

Senator Evan J. Vickers
Senate Majority Leader

Senator Luz Escamilla
Senate Minority Leader

Speaker Mike Shultz, Co-Chair
Speaker of the House

Representative Jefferson Moss
House Majority Leader

Representative Angela Romero
House Minority Leader

Audit Staff

Kade R. Minchey, Auditor General, CIA,
CFE

Brian Dean, Manager, CIA, CFE

Hillary Galvin, Audit Lead

Spencer Hadley, Audit Staff

Office of the Legislative Auditor General





Office of the Legislative Auditor General

Kade R. Minchey, Legislative Auditor General

W315 House Building State Capitol Complex | Salt Lake City, UT 84114 | Phone: 801.538.1033

Audit Subcommittee of the Legislative Management Committee

President J. Stuart Adams, Co-Chair | Speaker Mike Schultz, Co-Chair

Senator Evan J. Vickers | Representative Jefferson Moss

Senator Luz Escamilla | Representative Angela Romero

October 15, 2024

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report:

“A Performance Audit of State Credit Card Processing Fees” [Report #2024-18].

An audit summary is found at the front of the report. The scope and objectives of the audit are included in the audit summary. In addition, each chapter has a corresponding chapter summary found at its beginning.

This audit was requested by Representative Steve Eliason.

Utah Code 13-12-15.3(2) requires the Office of the Legislative Auditor General to designate an audited entity's chief executive officer (CEO). Therefore, the designated CEO for the Department of Government Operations is Commissioner Marvin Dodge. The designated CEO for the Utah System of Higher Education is Commissioner Geoffrey Landward. The designated CEO for the Utah State Board of Education is Superintendent Sydnee Dickson. All have been notified that they must comply with the audit response and reporting requirements as outlined in this section of *Utah Code*.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

Kade R. Minchey, CIA, CFE

Auditor General

kminchey@le.utah.gov





► AUDIT REQUEST

This audit was requested by a member of the Legislature in March 2024. It was prioritized by the Legislative Audit Subcommittee in April 2024. The scope of the audit was defined in the request letter to focus on state agencies, as well as Local Education Agencies and Utah System of Higher Education institutions.

► BACKGROUND

Credit card acceptance involves a range of participants and fees, including card brand fees, interchange fees, and processing fees. Many of these fees are non-negotiable and may not be transparent in a credit card processing contract. The effective rate of an individual transaction can be impacted by a variety of variables including type of vendor, card brand, rewards level, issuing bank, and cardholder presence. Vendors may also be subject to many other fees including but not limited to batch fees, potential penalties, or fees associated with point-of-sale systems, payment gateways, and encryption.

CREDIT CARD PROCESSING FEES

► KEY FINDINGS

- ✓ 1.1 The State is Likely Getting the Best Rate for Credit Card Processing
- ✓ 1.2 The State Could Experience Significant Savings if More Schools Joined the State Contract
- ✓ 1.3 LEAs and USHE Institutions Should Conduct a Cost-Benefit Analysis
- ✓ 1.4 Factors Other Than Cost Influence LEAs and USHE Institutions in Their Selection of Credit Card Processors



RECOMMENDATIONS

- ✓ 1.1 The Division of Purchasing should negotiate to receive more transparent quarterly reports from vendors moving forward.
- ✓ 1.2 The Division of Finance and the Division of Purchasing should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.
- ✓ 1.7 The Legislature should consider if it wants to add language to statute to create an exemption for Local Education Agencies to pass through credit card processing fees, regardless of the terms of the state contract.
- ✓ 1.9 The Utah System of Higher Education should oversee efforts among schools to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.

REPORT SUMMARY

The State is Likely Getting the Best Rate for Credit Card Processing

The Division of Purchasing negotiated a statewide cooperative contract for credit card processing with Chase Paymentech. Executive branch agencies in Utah are required to participate in the statewide cooperative contract. Public agencies that are not members of the executive branch may choose to opt-in to the state negotiated contract and receive the same rates. We compared the processing and other related rates and fees of the state contract to the rates and fees found in a sample of contracts from LEAs and USHE institutions across the state. We found that many LEAs and USHE institutions do not participate in the state contract, and instead mostly enter into individual contracts with higher rates.

Credit Card Processing Contracts by Category

Few public and higher education institutions are currently using the state contract. Local Education Agencies were the least likely to adopt the contract, citing a handful of common reasons including integration with student information systems and the availability of processors that tailor specifically to educational entities.

The State Could Experience Significant Savings if More Schools Joined the State Contract

The state's contract with Paymentech has two tiers specific to the processing fee. Tier 1 is 3 cents per transaction, while the Tier 2 is 2.5 cents per transaction. Adding participants could push the state to Tier 2 levels. Based on data from executive branch agencies alone, the state could save over \$77,000 per year if transactions reached Tier 2 levels. Non-executive branch agencies currently utilizing the contract, like many municipalities and special service districts, would also experience savings associated with Tier 2 status, although without data, we cannot calculate an amount. In general, the state would collectively experience savings throughout both local and state government.

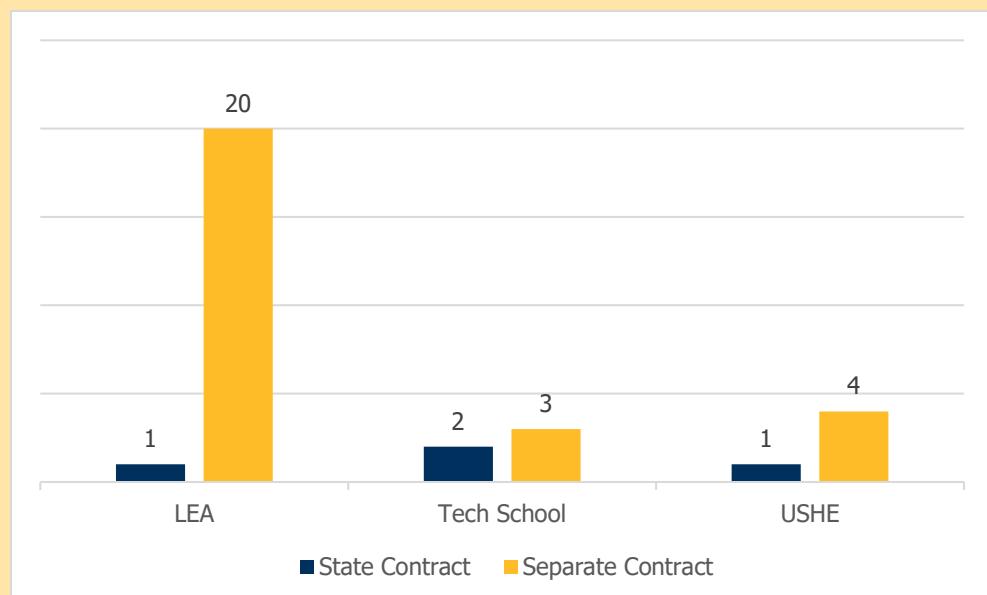


Table of Contents

Chapter 1 More Widespread Adoption of State Cooperative Contract for Credit Card Processing Should Result in a Cost Savings	1
1.1 The State is Likely Getting the Best Rate for Credit Card Processing.....	1
1.2 The State Could Experience Significant Savings if More Entities Joined the State Contract.....	4
1.3 LEAs and USHE Institutions Should Conduct a Cost-Benefit Analysis.....	7
1.4 Factors Other Than Cost Influence LEAs and USHE Institutions in Their Selection of Credit Card Processors.....	9
1.5 Schools Could Leverage Their Combined Purchasing Power by Negotiating a Single Contract for Credit Card Processing	12
Complete List of Audit Recommendations	15
Appendices	19
A. Contract Rates by Dollar Amount by De-Identified LEAs/USHE Institutions	21
B. State Cooperative Contract with Chase Paymentech Rates by Purchase Amount	25
C. Title	Error! Bookmark not defined.
Agency Response Plan	29





Chapter 1

More Widespread Adoption of State Cooperative Contract for Credit Card Processing Should Result in a Cost Savings

1.1 The State is Likely Getting the Best Rate for Credit Card Processing

The Division of Purchasing negotiated a statewide cooperative contract for credit card processing with Chase Paymentech. Executive branch agencies in Utah are required to participate in the statewide cooperative contract. The logic behind this requirement is that the state as a whole can negotiate more favorable terms and rates than individual agencies, based in its collective buying power. Public agencies that are not members of the executive branch may choose to opt-in to the state negotiated contract and receive the same rates; these agencies include Local Education Agencies (LEAs), Utah System of Higher Education (USHE) institutions (including both degree-granting colleges and universities and post-secondary technical schools) special service districts, counties, and municipalities. We found that many LEAs and USHE institutions do not participate in the state contract, for a variety of reasons, and instead mostly enter into individual contracts with higher rates.



Non-executive branch agencies have the option to opt-in to the statewide cooperative contract and receive the same rates.

We compared the processing and other related rates and fees of the state

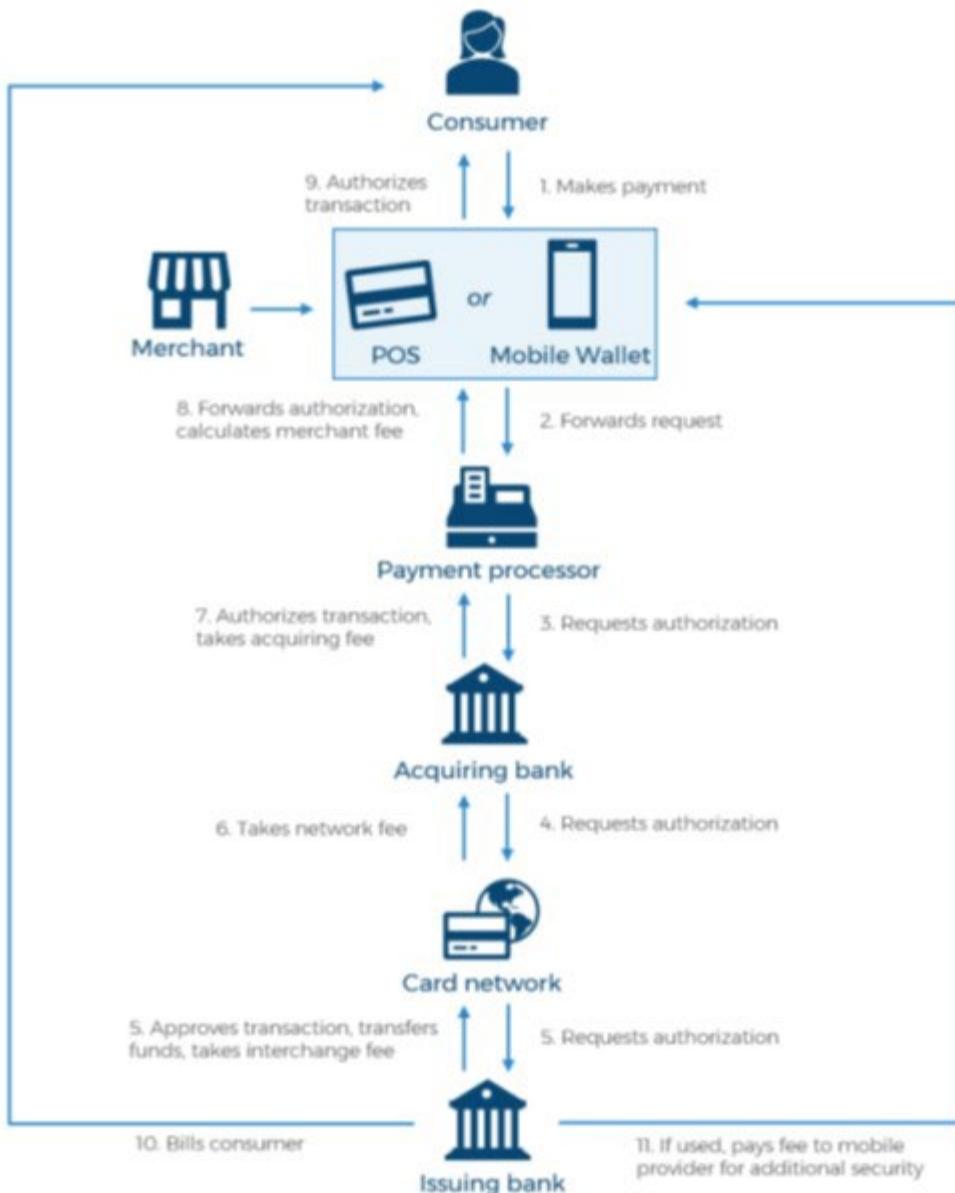
cooperative contract to the rates and fees found in a sample of contracts from LEAs and USHE institutions across the state. It is important to note that non-processing fees associated with credit card acceptance are taken by other entities, including the card brand and issuing bank, and are typically non-negotiable and may not be delineated in the processing contract. The following figure illustrates the payment process and associated fees.

Scan for State Contract





The Payment Process



Source: Skift Research, adapted from Bloomberg



Quarterly Reports for State Contract Do Not Provide Enough Detail, Making Analysis Difficult

Quarterly reports collected by the Division of Finance do not provide enough detail for thorough analysis. These reports are required in the language of the contract with Paymentech. The reports are incomplete—for instance, failing to include the number of transactions.

Also, the terms of the contract do not require the vendor to include total fees assessed, making it impossible to calculate the state's overall effective rate, which is calculated by dividing total fees over total transaction amount. The calculation of an effective rate would have made it easier for non-executive agencies such as LEAs and USHE institutions to compare their current contracts and determine potential cost savings associated with adopting the state contract. The quarterly reports are also unclear, raising questions about their value to the state. In the future, the state should negotiate contract terms that require more transparent reporting.

 **Collecting more detailed reports from the vendor would have improved analysis.**

RECOMMENDATION 1.1

The Division of Purchasing should negotiate to receive more transparent quarterly reports from vendors moving forward.

The State Appears to Have Followed Best Practices in their Contract Negotiations, Though Oversight of the Contract Can Improve

The Division of Purchasing followed the procurement process as laid out in statute when soliciting bids and entering a contract with Paymentech. In general, *Utah Code 63G-6a* requires the Division of Purchasing to

- Ensure transparency in the public procurement process
- Ensure the fair and equitable treatment of all persons who participate in the public procurement process
- Provide increased economy in state procurement activities
- Foster effective broad-based competition within the free enterprise system



The Division of Purchasing assembled a team of representatives from several other state agencies, including the Division of Finance, the Treasurer's Office, the Tax Commission, and the Department of Alcoholic Beverage Services (DABS¹). DABS and the Tax Commission were included because of the high volume of credit card transactions. The committee issued a Request for Proposals (RFP) because issues other than cost were considered. The state received four bids that met the specifications of the RFP, of which Paymentech scored the highest on a number of weighted variables, including cost.

Because of the time associated with programming and configuring payment gateways, point-of-sale systems, and other software systems across all executive branch agencies with a new credit card processor, a ten-year contract was deemed appropriate. According to the Division of Purchasing, the procurement process and the possibility of transitioning to a new vendor can be very time consuming—another factor that the Division of Purchasing likely considered when determining the duration of the contract. The Division of Purchasing informed auditors that given the contract's upcoming expiration in 2027, the parties will likely begin the solicitation process again soon.

1.2 The State Could Experience Significant Savings if More Entities Joined the State Contract

The state could save half a penny on every transaction if total transactions reach a certain amount. The state's contract with Paymentech has two tiers specific to the processing fee. Tier 1 is 3 cents per transaction, while the Tier 2 is 2.5 cents per transaction.² Adding participants could push the state to Tier 2 levels. Based on data from executive branch agencies alone, the state could save over \$77,000 per year if transactions reached Tier 2 levels. Non-executive branch agencies currently utilizing the contract, like many municipalities and special service districts, would also experience savings associated with Tier 2 status, although without data, we cannot calculate an amount. In general, the state of Utah would collectively experience savings throughout both local and state government. The state should make more of an effort to raise awareness of the



Based on data from executive branch agencies alone, the state could save \$77,000 per year if transaction totals reach Tier 2 levels.

Savings throughout the public sector would also be achieved for those participating in the state cooperative contract.

¹ DABS was operating under the name “the Department of Alcoholic Beverage Control (DABC)” at the time the contract was signed in 2017.

² This fee does not include the various other, non-negotiable fees that are also assessed on transactions.



existence of this contract. We found that most LEAs and USHE institutions that we contacted were not aware of the existence of the statewide contract nor their eligibility to participate.

Insufficient Promotion of Contract by State Agencies Has Contributed to the Lack of Participation by LEAs and USHE Institutions

Neither the Division of Purchasing nor the Division of Finance have taken part in any major advertising of the existence of this contract nor its availability beyond the executive branch. The contract with Paymentech is, however, searchable on the state's website for available cooperative contracts. The Utah State Board of Education (USBE)'s website shares several cooperative contracts but makes no mention of the availability of this particular contract. We also did not find evidence of USHE promoting this contract. Any or all of these agencies can do more to educate about the contracting options available and the associated benefits.

Almost Sixty Percent of Respondents Were Unaware of the State Contract

Efforts to determine which USHE institutions and LEAs were using the statewide cooperative contract to process credit cards included a statewide survey and multiple interviews. Of the 31 survey respondents and interviewees,



Of the 31 survey respondents and interviewees, only nine stated that they were aware of the contract.

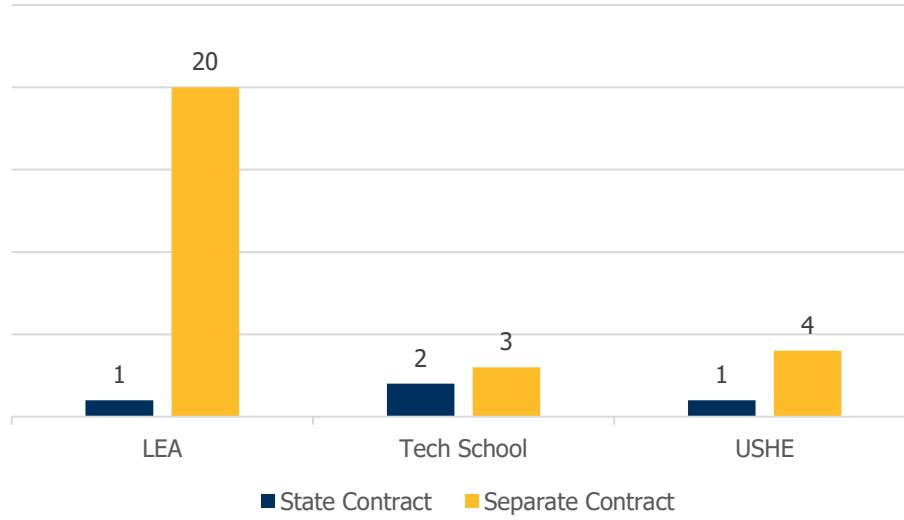
only nine stated that they were aware of the contract. Based on the confusion we encountered from some institutions and the challenges we experienced trying to collect copies of current contracts, it's possible that credit card processing is a lesser priority for some and not regularly re-evaluated. Of the 57 entities that we

reached out to, only 31 responded, despite multiple attempts.

Of the nine LEAs and USHE institutions that were aware of the state cooperative contract, only four opted to participate in it. Figure 1.1 shows the breakdown of participation by category.



Figure 1.1 Contract Breakdown by Type of Institution. Participation in the state contract is fairly low, especially among the LEAs and USHE degree-granting institutions we reviewed.



Source: Auditor generated.

Additional outreach and education from the Division of Purchasing and the Division of Finance, as well as USBE and USHE, may have led to more LEAs and USHE institutions opting into the state contract and experiencing lower rates, leading to cost savings.

RECOMMENDATION 1.2

The Division of Finance and the Division of Purchasing should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.



RECOMMENDATION 1.3

The Utah State Board of Education, in cooperation with the Division of Finance and the Division of Purchasing, should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

RECOMMENDATION 1.4

The Utah System of Higher Education, in cooperation with the Division of Finance and the Division of Purchasing, should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

1.3 LEAs and USHE Institutions Should Conduct a Cost-Benefit Analysis

The Division of Purchasing was likely able to secure one of the least expensive credit card processing contracts in the state, due to its collective purchasing power. While we were unable to obtain all the contracts that we requested from USHE institutions and LEAs, we reviewed several contracts from some of the larger educational entities in the state. Of those contracts, only the University of Utah with its healthcare system was able to negotiate fairly comparable terms. Summaries of our analyses can be found in Appendix A and B.

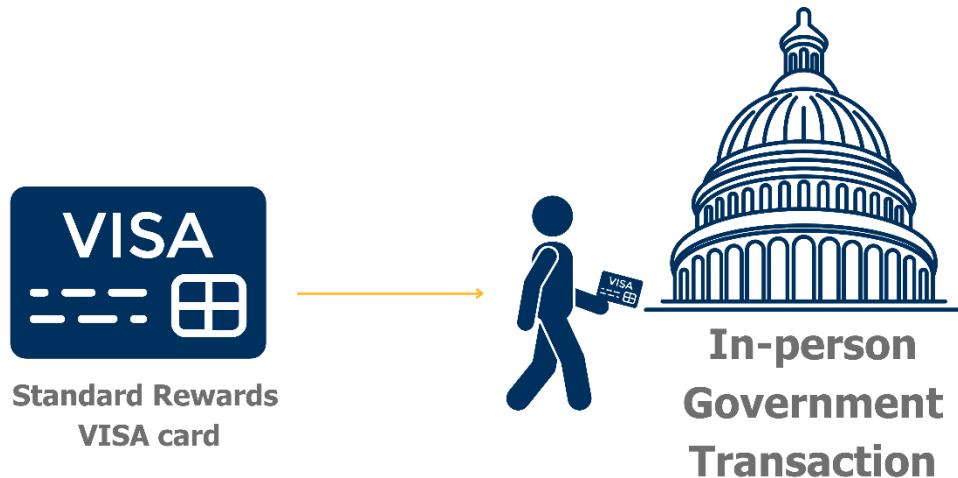
Smaller LEAs were typically subject to less favorable rates, likely based on their size relative to larger LEAs, USHE institutions, and the state. While factors other than cost are typically considered when entering into a contract, smaller entities would benefit from assessing potential savings associated with transitioning to the state cooperative contract. Costs associated with reprogramming software and/or the possibility of needing to purchase new equipment or software compatible with Paymentech must also be considered before a USHE institution or LEA decides to utilize the state cooperative contract. Some non-cost factors to consider are discussed in the next section of the report.

LEAs and USHE Institutions Should Compare their Processing Contract and Rates to the State Contract

LEAs and USHE institutions can use Appendix B to get an idea of what their rates would look like under the Paymentech contract. The analysis calculates the rate of a single transaction at various price points to reflect the fact that LEAs, technical colleges, and degree-issuing colleges likely have different average



tickets. Because of the numerous factors that cause the rate to vary, our analysis was based on an in-person, standard rewards Visa credit card purchase at a government interchange rate.³



Source: Auditor generated.

Rates for other scenarios can be calculated by looking at the state contract and published brand and interchange fees.



LEAs and USHE institutions can use a few different methods to compare their credit card rates.

LEAs and USHE institutions with less transparent contracts should also calculate their effective rates, which will reflect the influence of all variables that affect the rate charged on each credit card transaction, including card brand, issuing bank,⁴ and applicable

interchange.

RECOMMENDATION 1.5

The Utah State Board of Education should ensure that Local Education Agencies conduct a cost-benefit analysis regarding joining the cooperative contract.

³ There are hundreds of interchange rates for Visa alone, based on factors like type of merchant, whether the card is present, and the rewards tier.

⁴ The issuing bank may provide a discount if it is also the processor for the merchant.



RECOMMENDATION 1.6

The Utah System of Higher Education should ensure that higher education entities conduct a cost-benefit analysis regarding joining the cooperative contract.

1.4 Factors Other Than Cost Influence LEAs and USHE Institutions in Their Selection of Credit Card Processors

Despite many LEAs and USHE institutions stating that they were unaware of the state cooperative contract, several expressed additional reasons aside from cost as to why they contract with a different processor. While it was not possible to verify the validity of all the concerns given, we recognize that issues such as compatibility, functionality, and the ability to pass fees through to the customer must also be considered when conducting a cost-benefit analysis.

Educational Entities Look for Processors They Believe Will Offer Integration with Various Software Needs

Eleven of the 31 LEAs and USHE institutions that we reviewed cited integration with receipting or accounting software as a factor they considered in their decision to contract with their current processor. Five stated that their credit card processing is done through their financial institution. Other reasons included ease of online payments and integration with other non-processing software that interfaces with student information systems.



Aside from lack of awareness, LEAs and USHE institutions cited several common concerns regarding participating in the state contract.

Of the 31 educational entities we looked at, only three USHE institutions (two technical colleges and one degree-granting institution) and one LEA have opted in to the state contract. We spoke more in-depth with two institutions using the state contract, and they reported limited compatibility issues and overall satisfaction with the state's credit card processor, reinforcing the value of engaging in a thorough cost-benefit analysis, as discussed in the previous section.

Some Processors May Offer Additional Education-Specific Benefits to Schools

Some LEAs have opted to choose education-specific software that provides additional functions. An example of an education-specific service that may not



integrate well with the state contract is preloaded school lunch money accounts for LEAs. Also, Paymentech has stated that it has limited options for payment gateways specific to the acceptance of tuition payments, so a USHE institution may need to use a third party. Overall, Paymentech estimated that they can offer about 90% of the services offered by other processors on the market.

Some Non-Processing Software Used by Educational Entities May Require the Purchaser to Use a Specific Processor

Education software providers may require schools to use a specific processor if they want to use their product. The processor may be built in or there may be an exclusivity clause in the contract with the software company. The Paymentech credit card processing contract with the state also contains an exclusivity clause, but there are avenues laid out in the Paymentech contract to authorize exceptions if deemed necessary. For example, the Department of Agriculture's Brand Inspectors are allowed to use Square for mobile payments in rural areas because at the time the contract was negotiated, Paymentech did not have a reliable option for remote payments in areas with little access to cell service or wi-fi.

The State Contract Prohibits Passing Fees on to Customers Unless Statute Creates an Exemption

The Paymentech contract does not allow the agency to pass processing fees on to the consumer. While some entities, including the Tax Commission, municipalities, and special service districts have been granted specific exceptions



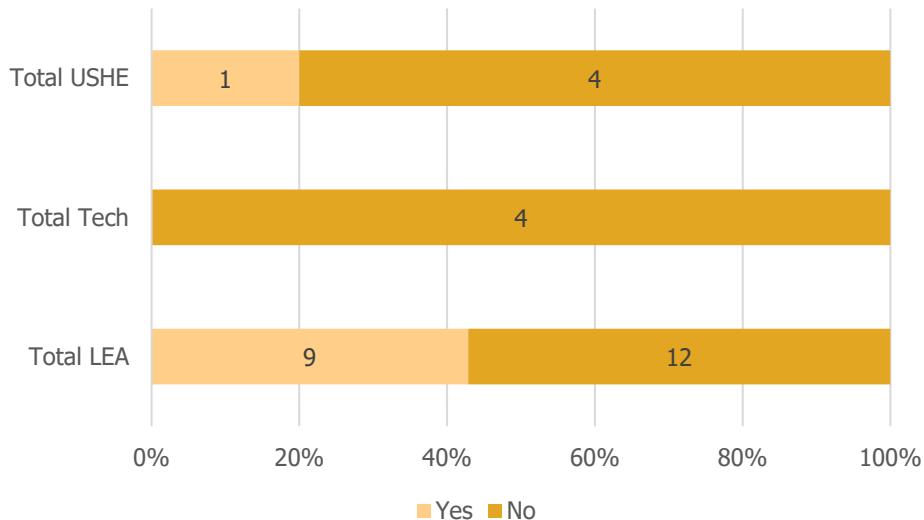
Many schools pass credit card processing fees onto to the cardholder and therefore do not currently have to account for these fees in their annual budgets.

in state statute, *Utah Code* is silent on credit card fees for public and higher education, meaning each entity can currently make their own decision as to whether to pass through fees to the cardholder. Thus, opting into the state contract would prohibit the charging of a processing fee to the customer. In contrast, entities like the Tax Commission that have specific language in statute allowing pass-through fees can opt in and not comply with that section of the contract because

state statute supersedes any language in a contract. Figure 2.1 shows which entities are passing through the processing fee.



Figure 1.2 Some Entities Pass Credit Card Processing Fees Through to the Cardholder. Between LEAs, technical colleges, and USHE degree-issuing institutions that we reviewed, LEAs are more likely to pass through fees.



Source: Auditor generated.

About a third of LEAs and USHE institutions that we spoke with pass through processing fees to the student or the parent. Therefore, adopting the statewide contract could have a negative impact on their budgets, because they would have to now absorb those fees. However, the ability to pass through fees could also disincentivize educational entities from re-evaluating their contracts regularly, since the fees would not factor into their annual budgets. If the Legislature wants to consider the potential benefits of more LEAs and USHE institutions adopting the state contract, it should work with USBE and USHE to determine if granting an exception in statute, especially for anyone that joins the state contract, would be effective.

RECOMMENDATION 1.7

The Legislature should consider if it wants to add language to statute to create an exemption for Local Education Agencies to pass through credit card processing fees, regardless of the terms of the state contract.



RECOMMENDATION 1.8

The Legislature should consider if it wants to add language to statute to create an exemption for Utah System of Higher Education institutions to pass through credit card processing fees, regardless of the terms of the state contract.

1.5 Schools Could Leverage Their Combined Purchasing Power by Negotiating a Single Contract for Credit Card Processing

As discussed in the previous section, compatibility challenges and a desire for a processor more compatible with specific education software were referenced as rationale to seek out other credit card processors. However, LEAs and USHE institutions could still benefit from exploring the option of creating their own cooperative contracts to increase their buying power and negotiate lower rates. In the past, USBE has worked with the Division of Purchasing in areas outside of credit card processing to negotiate cooperative contracts. Negotiating a cooperative contract could allow LEAs to opt-in if they choose.

USBE has experience negotiating cooperative contracts for LEAs to consider for things like curriculum, textbooks, language learning software, food, and safety systems. Technical colleges have also collaborated with each other, coordinating student information systems among the eight schools.⁵ This could indicate a willingness for further cooperative contracting, specifically for credit card processing since compatibility with student information systems has been cited as a potential barrier. Increasing shared services across USHE institutions is a current initiative advocated for by the Utah Legislature. Credit card processing may present an opportunity for such collaboration and lead to cost savings.



If schools determine that they want more education-specific processing software, USBE and USHE should consider exploring contracts that meet the needs of their members.

⁵ Incidentally, one technical college on the state contract noted successfully integrating its student information system with Chase Paymentech.



RECOMMENDATION 1.9

The Utah System of Higher Education should oversee efforts among schools to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.

RECOMMENDATION 1.10

The Utah State Board of Education should oversee efforts among LEAs to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.





Complete List of Audit Recommendations





Complete List of Audit Recommendations

This report made the following ten recommendations. The numbering convention assigned to each recommendation consists of its chapter followed by a period and recommendation number within that chapter.

Recommendation 1.1

The Division of Purchasing should negotiate to receive more transparent quarterly reports from vendors moving forward.

Recommendation 1.2

The Division of Finance and the Division of Purchasing should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

Recommendation 1.3

The Utah State Board of Education, in cooperation with the Division of Finance and the Division of Purchasing, should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

Recommendation 1.4

The Utah System of Higher Education, in cooperation with the Division of Finance and the Division of Purchasing, should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

Recommendation 1.5

The Utah State Board of Education should ensure that Local Education Agencies conduct a cost-benefit analysis regarding joining the cooperative contract.

Recommendation 1.6

The Utah System of Higher Education should ensure that higher education entities conduct a cost-benefit analysis regarding joining the cooperative contract.

Recommendation 1.7

The Legislature should consider if it wants to add language to statute to create an exemption for Local Education Agencies to pass through credit card processing fees, regardless of the terms of the state contract.

Recommendation 1.8

The Legislature should consider if it wants to add language to statute to create an exemption for Utah System of Higher Education institutions to pass through credit card processing fees, regardless of the terms of the state contract.

Recommendation 1.9

The Utah System of Higher Education should oversee efforts among schools to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.

Recommendation 1.10

The Utah State Board of Education should oversee efforts among LEAs to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.



Appendices



A. Contract Rates by Purchase Amount for LEAs and USHE Institutions



The chart below shows the per-transaction rate at various price points for several LEAs and USHE institutions based on the terms of their contracts.

School/LEA	Purchase Amount					
Purchase Amount:	\$10	\$50	\$100	\$500	\$1,000	\$2,000
College/University	3.29%	2.00%	1.84%	1.71%	1.70%	1.69%
College/University			2.60%*			
College/University	3.09%	2.12%	2.00%	1.90%	1.89%	1.89%
Tech School	5.49%	2.92%	2.60%	2.34%	2.31%	2.30%
Large LEA	4.66%	2.28%	1.98%	1.74%	1.71%	1.69%
Large LEA	3.39%	3.39%	3.39%	3.39%	3.39%	3.39%
Large LEA	3.10%	3.10%	3.10%	3.10%	3.10%	3.10%
Medium LEA	5.80%	4.04%	3.82%	3.64%	3.62%	3.61%
Medium LEA	5.32%	2.41%	2.04%	1.75%	1.72%	1.70%
Small LEA	5.74%	4.77%	4.65%	4.55%	4.54%	4.54%
Small LEA	6.03%	4.34%	4.13%	3.96%	3.94%	3.93%

*Cost plus BP on annual volume and average ticket or equal to \$0.80 per transaction. We chose to show the percentage based on their average ticket of \$100.00. This school does not pass through fees to card holders.

Because of the differences in content and composition of contracts reviewed in this audit, we decided to look at single transactions at several price points so that educational entities can compare their average ticket to the associated fee. This chart includes all per-transaction fees assessed and not just fees assessed by the processor, because not all contracts separate out the individual processing fee. Assumptions made in this analysis are that it is a Visa standard reward credit card, used for an in-person transaction, applying government Visa interchange rate, in which the card is not issued by the processor's bank. All these variables affect the total rate charged on a single transaction. These are the same assumptions we used to conduct the analysis in Appendix B.



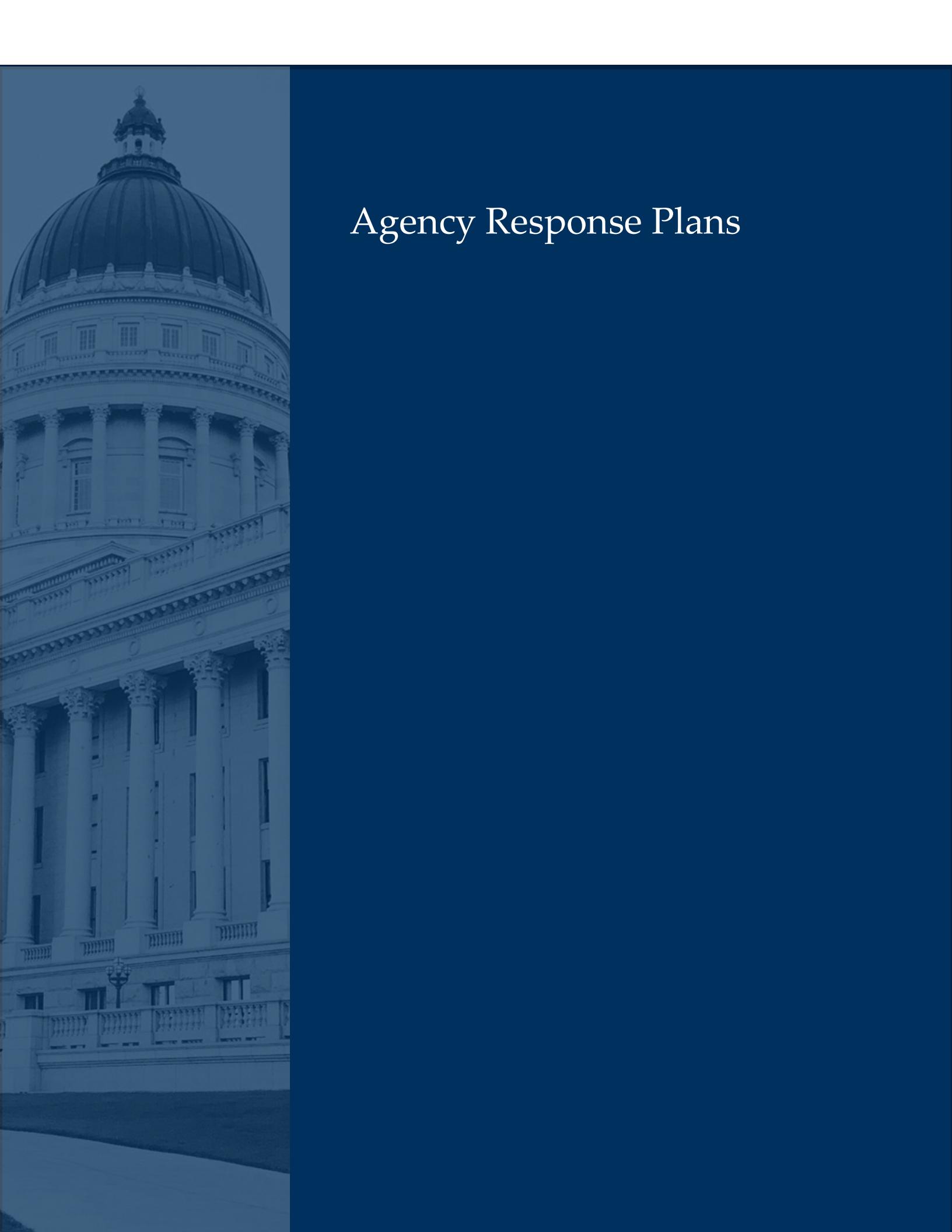
**B. State Cooperative Contract with Chase Paymentech Rates
by Purchase Amount**



| Purchase Amount |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| \$10 | \$50 | \$100 | \$500 | \$1,000 | \$2,000 |
| Visa Gov't Interchange 0.0155% |
| \$0.16 | \$0.78 | \$1.55 | \$7.75 | \$15.50 | \$31.00 |
| Visa Gov't Interchange Fee |
| \$0.10 | \$0.10 | \$0.10 | \$0.10 | \$0.10 | \$0.10 |
| Visa Brand Assessment 0.0013% |
| \$0.01 | \$0.07 | \$0.13 | \$0.65 | \$1.30 | \$2.60 |
| Visa Brand Network Fee |
| \$0.0195 | \$0.0195 | \$0.0195 | \$0.0195 | \$0.0195 | \$0.0195 |
| Visa Financial Transaction Fee |
| \$0.0018 | \$0.0018 | \$0.0018 | \$0.0018 | \$0.0018 | \$0.0018 |
| Chase Processing Fee |
| \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.03 |
| Total Fees |
| \$0.32 | \$0.99 | \$1.83 | \$8.55 | \$16.95 | \$33.75 |
| Effective Rate |
| 3.19% | 1.98% | 1.83% | 1.71% | 1.70% | 1.69% |

The chart above shows the breakdown of fees at various transaction totals for the Chase Paymentech state cooperative contract. Unlike some other contracts we reviewed, the state contract identifies the actual processing cost of three cents per transaction (seen in bold). However, because several contracts provided by LEAs and USHE institutions (see Appendix A) did not break out the specific processing cost, we needed to compare contracts including all the fees assessed during a credit card transaction, including the non-negotiable card brand fees.

Because of the differences in content and composition of contracts reviewed in this audit, we decided to look at single transactions at several different price points. Assumptions made in this analysis are that it is a Visa standard reward credit card, used for an in-person transaction, applying government Visa interchange rate, in which the card is not issued by the processor's bank (in this case Chase). All these variables affect the total rate charged on a single transaction. These are the same assumptions we used to conduct the analysis in Appendix A.



Agency Response Plans





State of Utah

SPENCER J. COX
Governor

DEIDRE M. HENDERSON
Lieutenant Governor

MARVIN L. DODGE
Executive Director

MARILEE P. RICHINS
Deputy Director

DAVID DYCHES
Deputy Director

October 2, 2024

Kade R. Minchey, CIA, CFE, Auditor General
Office of the Legislative Auditor General
Utah State Capitol Complex
Rebecca Lockhart House Building, Suite W315
PO Box 145315
Salt Lake City, UT 84114-5315

Dear Mr. Minchey,

Thank you for the opportunity to review and discuss the findings and recommendations of the recently completed credit card processing fee audit. As always, we appreciate the professionalism and observations of your audit team and commend them for their role in making state government better.

Outlined below is the Department of Government Operations response to the draft audit report. We concur with the assessments outlined and look forward to sharing the final report as we reach out to other governmental entities to market this state contract and encourage their utilization as outlined.

We stand prepared to address any follow up questions that may arise.

Best regards,

Marvin L. Dodge
Executive Director

Chapter 1

Recommendation 1.1: We recommend the Division of Purchasing should negotiate to receive more transparent quarterly reports from vendors moving forward.

Department Response:

- Who:** Windy Aphayrath, Division Director, waphayrath@utah.gov 385.302.1598
- What:** 1) The Division of Purchasing ("State Purchasing") has obtained resubmissions of the contractor's quarterly reports that follow the requisite format with the required information. 2) State Purchasing will develop training materials for contractors giving clear instructions on the quarterly report information, format, and submission requirements.
- How:** 1) State Purchasing provided training to the contractor's new contract manager to clarify necessary information fields and required formatting. Submission of reports training was also provided. 2) State Purchasing will create training document(s) to provide contractors with a step-by-step guidelines for completing the quarterly report template, identifying the eligible users, and associated invoice amounts. The training document will also contain an example of a successfully completed quarterly report for reference. This document will be sent out to contractors of newly executed state cooperative contracts and will also be posted on the State Purchasing website for download by relevant contractors.
- Documentation:** 1) The contractor's resubmitted quarterly reports with the requisite information are available and the information from those were previously provided to the audit team. 2) The training documentation will be available by request and on the State Purchasing website for contractors to download as necessary.

Timetable:

Rec #	Milestone Task	Milestone Due Date	Milestone Complete Date
1.1.a	Obtain resubmission of quarterly reports from PD1896 containing all required information in standard format		COMPLETE
1.1.b	Receive future quarterly reports from PD1896 with required information in standard format	10/31/2024	

1.1.c	Identify steps for a contractor to submit a quarterly report	10/31/2024	
1.1.d	1st draft of training document complete	11/22/2024	
1.1.e	Final draft of training document complete	12/13/2024	
1.1.f	Training document posted to Division website	12/27/2024	
1.1.g	Training document sent out to all current state cooperative contract vendors	01/07/2024	
1.1.h	Incorporate sending out training document to all newly executed state cooperative contract vendors	01/15/2024	

5. **When:** State Purchasing will have the recommendation and additional tasks fully implemented by January 15, 2025.

Chapter 1

Recommendation 1.2: We recommend the Division of Finance and the Division of Purchasing, in cooperation with USBE and USHE should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

Department Response:

6. **Who:** Windy Aphayrath, Purchasing Division Director, waphayrath@utah.gov 385.302.1598 ; Van Christensen, Finance Division Director, vhchristensen@utah.gov 801.808.0698

7. **What:** The Division of Purchasing ("State Purchasing") currently participates as a member on both the Utah Procurement Advisory Council ("UPac"), consisting of procurement directors from the State's institutions of higher education and USHE, and the Education Procurement Advisory Council ("EdPac"), consisting of procurement directors from 14 school districts across the State and the Utah State Board of Education ("USBE"). State Purchasing also conducts annual regional meetings in rural locations throughout the State to educate local public entities on the current state of public procurement, available State Purchasing services, and to discuss any other procurement-related topics the local entities may have concerns with.

8. **How:** State Purchasing will continue to engage with EdPac, UPac, and regional meetings, and invite State Finance. This will also include having State Finance integrated into any presentation materials. The UPac and EdPac meetings provide a unique opportunity for outreach and State Purchasing will request for state cooperative contracts to be included as an agenda topic at least once per year with each group and for State Finance to be invited to that same meeting. This will allow State Finance to have time on the agenda to engage the members and educate on how State Finance may provide additional support related to finance-related state cooperative contracts. As State Purchasing schedules regional meetings across the State, State Finance will be invited and may attend as available. As part of these meetings, State Purchasing shares a presentation to educate about itself, but will also coordinate with State Finance to include contact information and what State Finance may be able to support on finance-related state cooperative contracts. Regional meeting attendees may contact State Finance directly for support, or provide their information to the meeting facilitators to share with State Finance. State Finance will contact regional meeting attendees based on cited interests for support.
9. **Documentation:** The implementation of the recommendations will be documented through organization meeting minutes and presentation materials.

10. **Timetable:**

Rec #	Milestone Task	Milestone Due Date	Milestone Complete Date
1.2.a	State Finance included on EdPac and UPac future agendas	10/11/2024	
1.2.b	State Finance information incorporated into regional meeting presentation materials	10/18/2024	
1.2.c	State Purchasing schedules regional meetings - provides dates to State Finance	Ongoing*	

**State Purchasing schedules regional meetings throughout the year every year and will include State Finance in the planning of each meeting.*

11. **When:** State Finance and State Purchasing will fully implement the recommendation by October 31, 2024.

October 2, 2024

Kade Minchey, CIA, CFE, Auditor General
Office of the Legislative Auditor General
Utah State Capitol Complex
Rebecca Lockhart House Building, Suite W315
PO Box 145315
Salt Lake City, UT 84114-5315

Dear Mr. Minchey,

Please find the required response to report *2024-18 A Performance Audit of Credit Card Processing Fees* below.

We appreciate the findings in the report as identified risks that must be assessed and responded to appropriately. We further acknowledge the related recommendations in the report as recommended risk responses.

Finding*	Finding Description	Risk Assessment	Risk Responses
Finding 1.2	The State Could Experience Significant Savings if More Schools Joined the State Contract	Low	See Response to Recommendation 1.3
Finding 1.3	LEAs and USHE Institutions Should Conduct a Cost-Benefit Analysis	Low	See Response to Recommendation 1.5
Finding 1.10	Schools Could Leverage their Combined Purchasing Power by Negotiating a Single Contract for Credit Card Processing	Low	See Response to Recommendation 1.9

**Other findings in the report are not addressed to the Utah State Board of Education*

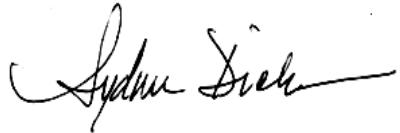
This response is provided in accordance with Utah Code Annotated (UCA) 36-12-15.3, with recognition that given protections of draft audit reports under the Government Records Access and Management Act (UCA 63G-2-305, [GRAMA]), the Utah State Board of Education (Board) has not had the opportunity to review the report nor the response. Therefore, the response may be revised subject to Board direction; any changes will be identified in the audit response update required in accordance with UCA 36-12-15.3(6).

Mr. Kade Minchey

October 2, 2024

Page 2

With appreciation,



Sydnee Dickson, Ed.D.
State Superintendent of Public Instruction
Utah State Board of Education

cc: Molly Hart, USBE, Vice Chair and Audit Committee Chair
Scott Jones, USBE, Deputy Superintendent of Operations
Patty Norman, USBE, Deputy Superintendent of Student Achievement
Debbie Davis, USBE, Chief Audit Executive
Micheal Iwasaki, USBE, Director of Procurement

enc. Risk Responses

Finding	Finding Description	Risk Assessment
Finding 1.2	The State Could Experience Significant Savings if More Schools Joined the State Contract	Low

Recommendation 1.3

The Utah State Board of Education, in cooperation with the Division of Finance and the Division of Purchasing, should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

USBE Response (addresses both Recommendations as they are the same)

Option 1 – Will Implement Recommendation

Who: Scott Jones, Deputy Superintendent of Operations,
Scott.Jones@schools.utah.gov

Michael Iwasaki, USBE Director of Purchasing and Contracts
Michael.Iwasaki@schools.utah.gov

What: USBE will engage in outreach to make LEAs aware of their eligibility to participate in the cooperative contract.

How: USBE will notify:
1. LEA leadership through the established email protocol
2. LEA procurement professionals at an EdPAC meeting.

Documentation: Meeting agendas and email

Timetable: 1. By November 1, 2024
2. By November 15, 2024

When: Corrective action will be completed by: December 31, 2024

Finding	Finding Description	Risk Assessment
Finding 1.3	LEAs and USHE Institutions Should Conduct a Cost-Benefit Analysis	Low

Recommendation 1.5

The Utah State Board of Education should ensure that Local Education Agencies conduct a cost-benefit analysis regarding joining the cooperative contract.

USBE Response

Option 2 – Will Implement an Alternative Action

Explanation: Utah Code 63G-6a recognizes LEAs as independent procurement units (i.e., educational procurement units). Additionally, Utah Code 53E-3-401 states that “The state board may not govern, manage, or operate school districts, institutions, or programs unless authorized by statute” rather this is a responsibility of local governing boards and administration. Therefore, specific to this recommendation, USBE will defer accountability for ensuring a cost-benefit analysis to LEA governing boards and administrations.

Who:

Scott Jones, Deputy Superintendent of Operations,
Scott.Jones@schools.utah.gov

Michael Iwasaki, USBE Director of Purchasing and Contracts
Michael.Iwasaki@schools.utah.gov

Alternative Action:

USBE will ensure that LEAs are aware that a cost-benefit analysis is prudent and should be considered for the benefit of the state and public education system. To ensure efficient and effective use of LEA personnel time when completing the analysis, as indicated in the audit, USBE will make LEAs aware that the current cooperative contract expires in 2027, and a new solicitation is anticipated.

How:

USBE will notify:

1. LEA leadership through the established email protocol
2. LEA procurement professionals at an EdPAC meeting.

Documentation:

Meeting agendas and email

Timetable:

1. By November 1, 2024
2. By November 15, 2024

When:

Corrective action will be completed by: December 31, 2024

Finding	Finding Description	Risk Assessment
Finding 1.5	Schools Could Leverage their Combined Purchasing Power by Negotiating a Single Contract for Credit Card Processing	Low

Recommendation 1.10

The Utah State Board of Education should oversee efforts among LEAs to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.

USBE Response

Option 2 – Will Implement an Alternative Action

Explanation: Utah Code 63G-6a recognizes LEAs as independent procurement units (i.e., educational procurement units). Additionally, Utah Code 53E-3-401 states that “The state board may not govern, manage, or operate school districts, institutions, or programs unless authorized by statute” rather this is a responsibility of local governing boards and administration. Therefore, specific to this recommendation, USBE will defer oversight of LEA effort to consider leveraging LEA combined purchasing power to negotiate a single contract for LEAs for credit card processing to LEA governing boards and administrations.

Who: Scott Jones, Deputy Superintendent of Operations,
Scott.Jones@schools.utah.gov

Michael Iwasaki, USBE Director of Purchasing and Contracts
Michael.Iwasaki@schools.utah.gov

Alternative Action: USBE will ensure that LEAs are aware that, when considering if joining the state cooperative contract is cost-beneficial, they should also consider the option to leverage LEA combined purchasing power to negotiate a single contract for LEAs for credit card processing.

How: USBE will notify:
1. LEA leadership through the established email protocol
2. LEA procurement professionals at an EdPAC meeting.

Documentation: Meeting agendas and email

Timetable: 1. By November 1, 2024
2. By November 15, 2024

When: Corrective action will be completed by: December 31, 2024





October 3, 2024

Kade Minchey, CIA, CFE
Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, Utah 84114

Mr. Minchey,

Thank you for the opportunity to review the Audit of Credit Card Processing Fees. We appreciate the work that went into this and the identification of potential cost-savings that may be realized through adoption of the State Cooperative Contract for Credit Card Processing.

We agree with the auditors' recommendations, and we will work with the Utah System of Higher Education (USHE) Institutions to implement the recommendations as outlined in the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Geoff Landward".

Geoff Landward, Commissioner

USHE Response to the Audit of Credit Card Processing Fees

Recommendation 1.4

The Utah System of Higher Education, in cooperation with the Division of Finance and the Division of Purchasing, should engage in outreach to make entities aware of their eligibility to participate in the cooperative contract.

Response: *We agree. The Commissioners office will communicate via meetings and correspondence with Chief Financial Officers, Vice Presidents of Administrative Services, and Purchasing Officers at each Higher Education institution, to raise awareness of the cooperative contract and institution's eligibility to participate.*

Recommendation 1.6

The Utah System of Higher Education should ensure that higher education entities conduct a cost-benefit analysis regarding joining the cooperative contract.

Response: *We agree. We will request and review a cost-benefit analysis prepared by each USHE Institution. As part of the review process, we will request each USHE institution identify their plans moving forward regarding potential participation in the cooperative contract.*

Recommendation 1.9

The Utah System of Higher Education should oversee efforts among schools to consider the potential benefits and/or drawbacks of collaborating to negotiate better credit card rates.

Response: *We agree. As part of the outreach and cost/benefit analysis initiatives we will coordinate with the institutions to expand on the collaboration and shared services opportunities to explore the negotiation of better credit card rates.*





THE MISSION OF THE LEGISLATIVE AUDITOR GENERAL IS TO
AUDIT · LEAD · ACHIEVE
WE HELP ORGANIZATIONS IMPROVE
