

# Less is more at the Department of the Interior

An in-depth look at effective payment solutions in the public sector brought to you by MasterCard.

## A T - A - G L A N C E

Innovative all-in-one card program has simplified employees' jobs and streamlined the process.

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In turn, this has

- eliminated redundant functions
- permitted standardized payment policies and practices
- reduced management paperwork
- greatly simplified employee expense reporting

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Managing employee expenditures is a big challenge for any organization, especially one with 66,000 employees. But in merging its procurement, travel, and fleet programs into a single innovative payment card system, the U.S. Department of the Interior is redesigning the way government works.

The federal government saves millions of dollars annually by using multiple payment cards instead of purchase orders and cash imprest funds for everything from paper clips and plane tickets to computer equipment and construction projects. But to Debra Sonderman, director of the Interior Department's Office of Acquisition and Property Management, that's just the beginning.

The one-card solution has allowed the department to fundamentally redesign the way it operates.



Over the past year and a half, Interior has taken the use of government payment cards to the next level by combining the functionality of several different types of cards into a single piece of plastic. In a trailblazing program developed in partnership with Bank of America and MasterCard International, Inc. more than 80% of Interior's 66,000 employees use the Bank of America MasterCard Integrated Card Account for official travel, fleet, and commercial purchases — to the tune of over \$500 million a year. In fact, Interior uses its card program as a payment system and processes 90% to 95% of its micropurchases. In addition, over 50% of all payments, excluding payroll, are processed using the card. The innovative all-in-one card program has simplified employees' lives and streamlined the processing and reporting of purchases.

Just as important, the one-card solution has allowed the department to fundamentally re-engineer the way it operates, from the back office to the front lines. In doing so, it has greatly improved

employee satisfaction and productivity, enhanced process efficiency, and produced millions in bottom-line savings. "It has taken a lot of hard work, a lot of cooperation, and a lot of communica-

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**"People want to do the right thing. We've made it easier for them."**

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tion," says Sonderman, "but it has paid off." Interior has not only demonstrated how it can be done, but how to do it.

The impact of this innovative program is being felt far beyond Interior's doors. As the first U.S. government implementation of a one-card solution, it is being closely studied by other federal agencies and departments that see it as a model for their own operations. And as the world's most extensive one-card program, it is attracting the attention of

major corporations from the private sector that see it as an example of how to re-engineer an employee expense-management system on a massive scale.

By almost any measure, Interior's revolutionary achievement qualifies as a world-class best practice. "They have really done an unprecedented job of re-engineering or improving every process," says Ira Jekowsky, Vice President, Public Sector Payment Solutions, MasterCard International. "How they did that is one of the great untold stories in the federal government."

## **In Search of a Unique Solution**

The origins of the integrated card program date back to 1997, when Interior's contracts with separate issuers of its travel, purchasing, and fleet cards were nearing expiration. There was general recognition within the department that the multiple-card system needed to be rethought in light of the department's diverse operations.

As custodian of the nation's natural and cultural resources, Interior is home to such

agencies as the National Park Service, the U.S. Fish & Wildlife Service, the Bureau of Indian Affairs, and the U.S. Geological Survey. Its employees are based in every state, many in relatively rural locations. They often work independently or in small teams, and buy everything from airline tickets to fuel to uniforms to office supplies to fire-fighting support, computers, and cellular phones.

Interior's charge card task force surveyed 3,000 cardholders to get their input on improving payment practices. The results confirmed their suspicions. Although employees used their government cards whenever possible, they felt inconvenienced when merchants did not accept the appropriate card, forcing them to pay out of their own pockets and seek reimbursement later.

Moreover, many employees grumbled about the hassle of juggling more than one card. When Interior employees needed to travel, they had to use their travel cards. If they needed to buy equipment or supplies for a project, they used their purchasing cards. And if they drove government-owned vehicles, a third

card was used to fuel the vehicle. Their verdict: inefficient, inconvenient, and often frustrating.

The post-transaction paperwork was also a headache for both frontline employees and their bosses. Each type of purchase had its own set of rules and procedures. Purchasing card transactions were billed to the agency each month; individual cardholders were responsible for reconciling these charges with their individual records and certifying that all transactions were legitimate. Fleet card transactions were invoiced to area offices within each bureau monthly, with each area office responsible for reconciling the transactions and initiating payment to the fleet card provider.

Most, but not all, travel-related transactions were individually billed to each cardholder, who sought reimbursement and paid the card issuer directly.

If all this weren't complicated enough, Interior's accounting staff was required to map each of these transactions to one of up to 2.5 million project categories correlating

to Congressional budget appropriations. "It was, to put it kindly, a somewhat cumbersome procedure," says Sonderman.

Interior's team decided that the department should do more than simply find a new card vendor. It should use the opportunity to fundamentally rethink its operations. By taking advantage of new

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policies.**

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payment technologies, they concluded that the Interior could consolidate the three parallel card systems — travel, purchasing, and fleet — into a single accounting process. This would eliminate redundant functions, permit standardized payment policies and practices, reduce management paperwork, and potentially greatly simplify

employee expense reporting.

In February 1998, the task force met informally with representatives of the major card associations and with representatives from several prequalified financial institutions under the General Services Administration's SmartPay program. Out of these initial conversations, the task force developed five specific objectives that became part of a request for proposal that was sent to the prequalified financial institutions in April 1998. The objectives were: to increase acceptance of the card, improve tax exemption, leverage Interior's buying power, outsource transaction processing, and simplify administrative processes.

At the time that Interior released its request for pro-

posal, the task force had not been able to determine whether an integrated card was even possible. It did conclude, however, that single front-end and back-end processes were essential to meeting the goals they had laid out.

### **Putting a Proposal into Practice**

After meeting with the financial institutions and reviewing responses to the request for proposal, the task force made its first decision, which led to the implementation of a one-card program. Interior selected Bank of America as the card issuer. It was determined that Bank of America was best able to administer large, complex card programs, based partly

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on its powerful Internet-based processing and information reporting system called EAGLS (Electronic Account Government Ledger System). The department awarded Bank of America a 5-year contract in May 1998 that includes five one-year options that can extend the life of the contract to 10 years. After holding implementation meetings with bank and Interior representatives, two additional decisions were made in June 1998 that truly put Interior on the path of implementing a one-card program. Bank of America representatives had reviewed with the task force how a one-card program could and would work. And it was determined that only

### **Five objectives for a successful program:**

- 1. Increase acceptance of the card.**
- 2. Improve tax exemption.**
- 3. Leverage Interior's buying power.**
- 4. Outsource transaction processing.**
- 5. Simplify administrative processes.**

MasterCard® branded cards could offer the kind of true one-card program the department was looking for.

After months of planning, the program began in November 1998 with the issuance of some 70,000 Bank of America MasterCard cards to department employees and fleet vehicles, replacing the previous specialized cards. The setting up of electronic access and reporting systems, and the phasing in of electronic invoicing followed that.

Although all cards look alike, Interior controls how individual employees use them by setting up profiles with permitted merchant category codes, or MCCs, the four-digit numbers that all vendors must supply the bank when seeking charge authorization.

Most cardholders have the authority to charge travel-related expenses, nearly half can use them for small purchases, and all can use their cards for fuel purchases.

Transactions are billed centrally or to individual employees based on the merchant category code. Fuel, vehicle maintenance, car rentals, and

airlines are always billed centrally, making it easier for the department to take advantage of exemptions from sales taxes and other levies.

Restaurant meals and lodging are usually billed to employees, although at least one bureau is experimenting with central billing of hotel charges.

Each month, Bank of America sends employees a card statement that separates expenses that the employee is to remit directly to the bank from those that the Interior paid directly. For travel transactions, cardholders are responsible for reconciling their statement each month and filing a voucher within 15–30 days of travel. The vouchering process is currently paper-based, although there are pilots using electronic vouchering systems.

Employees are responsible for documenting all transactions incurred during a trip and requesting reimbursement for those that are individually billed. Once approved by the employee's supervisor, the travel voucher goes to the bureau's finance office for payment. In most cases, the reimbursement is

sent to the employees via electronic funds transfer. The employee then sends Bank of America a check. "People want to do the right thing," says Sonderman. "We've made it easier for them."

Enhanced expense management and reporting is a key to the success of the Interior system. Having a single system and program makes it easier to implement and manage spending policies and practices. When an employee is transferred or promoted, a new card does-

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n't have to be issued. By logging on to the EAGLS system, managers can activate or deactivate cards and adjust spending authority. EAGLS also generates a daily electronic report for each billing entity. Centrally billed transactions are automatically posted to the finance system and payment is released to the bank via EFT. Payments are typically turned around in three or four days — much faster than under the old system.

### **The Bottom Line**

The one-card redesign project has had a major financial impact for Interior and is likely to have an even bigger one in coming years.

One of the clearest benefits so far is in morale. In March 1999, the department surveyed employees to measure their level of satisfaction with all aspects of their jobs. What, they were asked, did they like most about working for Interior? Without prompting, the employees put the MasterCard® Government Integrated Card near the top of the list.

In terms of direct costs, reducing the number of

redundant processes from three card programs to one has greatly enhanced back-office productivity, enabling the agency to reduce administrative staffing levels. It has also reduced the paperwork load on managers and has given them a powerful tool. "Receiving daily files on centrally billed transactions allows them to know exactly where they stand on their budgets and provides greater accountability on spending," says Louis Goodson, Vice President at Bank of America and Interior's account manager. "It has improved their ability to manage their programs."

In addition, the adoption of central billing for most charges gives the department more leverage to negotiate with vendors. It also enables Interior to settle its accounts with Bank of America in days instead of weeks, producing significant savings for the bank, which are shared with the department. Some of those funds are being used to enhance systems architecture, improve computer security, install financial management software, train employees, and develop closer relation-

ships with vendors — all of which promise cost savings in years to come. "This program is a big winner for everyone — our employees, our vendors, our card issuer, and the taxpayer," says Sonderman. "That's hard to beat."

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## Cutting-Edge Government

Every ambitious executive aims to do something so well that it raises the bar in the quest for quality. The integrated payment card system spearheaded by the Interior Department's Debra Sonderman provides several examples of best practice management:

**Simplification** — Previously, the department had separate policies and procedures for travel, purchasing, and fleet expenditures. Consolidating them has slashed administrative overhead.

**Standardization** — A unified system makes it possible to implement and enforce a single set of standards and practices, reducing confusion and red tape, and increasing compliance.

**Improved Oversight** — Utilizing Bank of America's EAGLS system gives card administrators online access to card accounts and up-to-date transaction data, and the ability to generate reports to monitor spending and cardholder delinquency. Interior has reduced its delinquency by half from the previous travel card program.

**Better Travel Management** — A one-card solution enabled Interior to re-engineer the ways it pays travel costs. Bank of America now bills airline, car rental, and gasoline expenses directly to the department, resulting in significant cost savings for the government, including increased

tax-exemption potential. This method of billing also eliminated the need for costly travel agency reconciliation of airline charges.

**More Accurate Financial Management** — All transactions post daily to specific program and general ledger accounts based on the type of transaction. Cardholders and finance officers can allocate charges across multiple accounts using EAGLS. New allocations are also posted electronically to Interior's bureau finance systems.

**Vendor Outreach** — Interior is using the card at small, minority and women-owned businesses as a purchasing and payment tool to improve these merchants' cash flow.

**Decision Support** — Interior is using the consolidated program information for vendor and government contractor negotiations, and to target new vendors to accept the card where checks are currently written.

**Centrally Billing Hotels** — One agency within the Department of the Interior designed their program to centrally bill lodging transactions. This reduces the amount of money required to be reimbursed from filed travel vouchers and allows Interior to get better data on how it spends its travel dollars.

