



MEMORANDUM

To: Members of the Banking Subcommittee of the Cash Management Policy Board
Cc: Jason Staib, Deputy Attorney General; Liza Druck Davis, Deputy State Treasurer
From: Colleen Davis, State Treasurer
Sent: August 14, 2019
Subject: Merchant Services

BACKGROUND

State agencies accept over \$1.5 billion annually via electronic payments. Since January of this year, the Office of the State Treasurer (“OST”) has been assessing, on a holistic basis, the State’s contracts and practices with respect to “merchant services”—the services through which State agencies accept credit and debit card and ACH transactions. The State uses multiple vendors to perform various discrete merchant service functions. No single State agency or board has comprehensive statutory authority over, or operational expertise needed to manage, every aspect of the State’s merchant service operations and contracts.

Presently, front-end gateway services— *i.e.*, the transfer of credit, debit and other payment information from where payment is received (such as a website, virtual terminal, credit card reader or mobile device) to the payment processor—are primarily being provided by Govolution LLC (“Govolution”) under a contract with OST, as the successor to the Department of Technology and Information. Bank of America Merchant Services (“BAMS”) provides payment processing and settlement services pursuant to a contract authorized by the Cash Management Policy Board (the “CMPB”).

Under the BAMS contract, with respect to credit and debit card transactions, the State is required to be compliant with the security standards promulgated by the Payment Card Industry (“PCI”) Security Standards Council. Violations of those standards may subject a merchant to fines and could result in the suspension of credit/debit card processing capabilities. Failure to adhere to PCI standards could compromise sensitive cardholder data.

In January 2019, OST retained a vendor, Arrow Payments, to provide an initial, high-level assessment of the State’s merchant services practices. Arrow’s assessment noted various PCI-related issues that could be addressed in the near term. OST is working with the various State agency merchants to assist them with annual PCI compliance requirements. For this current period, OST has retained a vendor, Campus Guard, to assist with the completion of self-assessment questionnaires and other compliance requirements.

In the future, OST will need to pursue an RFP for gateway services. With the initial term of the BAMS contract expiring in November of next year, the CMPB may desire to issue an RFP for payment processing in 2020. There may be an opportunity for OST and the CMPB to merge both gateway and payment processing services into a single, joint RFP to minimize administrative burdens and potentially maximize operational efficiencies.

RECOMMENDATIONS

1. Retain Campus Guard to Perform a PCI Assessment.

Given Arrow's preliminary assessment, OST believes that the PCI-related practices of the State's various agency merchants warrant deeper scrutiny and a full assessment by an outside consultant. OST believes that Campus Guard is well suited to provide such assessment to the State and will be able to perform those services for under \$50,000, the procurement threshold for professional services. OST recommends that the CMPB authorize OST to retain Campus Guard as set forth above.

2. Procure a Merchant Services Consultant.

Going forward, the CMPB may desire to take a more active and informed role in overseeing the State's payment processing contract(s) and operations and PCI compliance practices. To do so, the CMPB will need to expand existing membership to include one or more individuals with subject matter expertise, or procure an advisory consultant with industry expertise. To the extent the CMPB opts for the latter approach, OST recommends that the CMPB authorize and direct OST to issue an RFP for a merchant services consultant. OST notes that, depending on the scope of the engagement, OST may be able to leverage the consulting agreement to obtain expertise with respect to gateway services.