

*The Federal
Purchase
Card:
Use, Policy and
Best Practice*

First Report in a Four-Part AGA
Purchase/Travel Card Series

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THE FEDERAL PURCHASE CARD:

Introduction

This report summarizes the findings of an AGA CPAG Research Program study of purchase card (government issued charge cards used for purchases) use by federal government agencies. The subsequent three phases of this AGA study series will provide similar reviews of purchase card use by state and local governments; the travel card—government issued charge cards used for travel—by federal government agencies; and the travel card used by state and local governments.

Federal government agency use of purchase cards began in the late 1980s as a means of procuring small items in a more efficient and effective manner. After a pilot program carried out by the Department of Commerce with other agencies in 1986 indicated significant advantages of purchase cards, federal purchase card use began to expand. In 1989, the Office of Management and Budget asked the General Services Administration (GSA) to manage the purchase, travel and fleet charge card programs because of its governmentwide procurement authority. Use of the purchase charge card grew rapidly after the National Performance Review identified it as an effective means of improving the efficiency of federal procurement of smaller dollar procurements or “micro-purchases” (purchases under \$2,500).

Use of the purchase card grew rapidly throughout the 1990s as federal agencies found that the purchase card reduced paperwork associated with small item acquisitions and enhanced federal agency responsiveness. By reducing paperwork and the time involved in small purchases, both costs savings and service delivery were enhanced with the use of the purchase card.

The expansion of the purchase card can be measured in three ways including:

- the number of purchase cards issued to individuals;
- the number of federal transactions that involve the use of the purchase card; and
- the total dollar value of purchase card transactions.

All of these purchase card metrics increased rapidly during the 1990s. Total transactions in FY 2005 were estimated to be 25 million, while the value of federal government purchases with the purchase card increased to more than \$17 billion. Meanwhile, the number of federal employee purchase cardholders reached a maximum of about 680,000 in FY 2000 and have since dropped to about 300,000.

This study was designed to provide a federal government wide review of the use of the purchase card including reasons for use, actual use, policies regarding use and employee card authorizations, best practices, purchase card management innovations, and an updated assessment of the financial implications of the program, including a cost benefit analysis using agency assessments of cost savings of purchase cards as compared to use of purchase orders. The study was carried out by means of a web-based survey of the 25 largest federal departments and agencies. The survey was sent to Chief Financial Officers (CFOs) and Chief Acquisition Officers (CAOs). Fifteen federal agencies responded to

the survey and ten of those responses were usable. This research report describes the results of that survey.

The Federal Purchase Card: Use, Policy and Best Practice

Federal government agencies began using the purchase card in the 1980s as a way to acquire small-dollar items in a more efficient manner. Based on observations from pilot programs and related studies, use of the purchase card grew rapidly and has gained wide acceptance among federal government departments. It is used as a means of improving procurement efficiency by reducing or eliminating paperwork associated with requisitions, purchase orders and invoices for small-dollar acquisition transactions.

For example, under the purchase order system, a simple purchase of office supplies involved several steps. First, a requisition was prepared, reviewed and signed in the originating office. Next, additional approval signatures were required of individuals throughout the organization. Once these processes were complete, the purchase order could be issued. All of these steps are eliminated with the purchase card. As a result, the staff can go to a local supplier and acquire the needed items in the same day. Due to the cost savings associated with paper and process reductions, the use of purchase cards has grown rapidly in both the public and private sectors, becoming first a “best practice” and now a “common practice.”

Purpose of Study

The purposes of this study were to conduct a federal government wide assessment of the current use of the purchase card, obtain insights regarding current purchase card policies and management practices, and provide an updated assessment of the financial impact of purchase card use. There have been numerous studies of federal purchase card use over the last two decades. However, the majority of these studies have focused on specific issues such as cost savings, fraud and abuse, department purchase use policies, best practices and the like. No comprehensive study of the federal government’s use of the purchase card has been conducted in recent years. This study was designed to provide such a government wide perspective.

The Federal Purchase Card: A Brief History

The federal government’s use of the purchase card began more than two decades ago. In 1982, an executive order was issued encouraging more efficient procurement options for small purchases.¹ In 1986, the Department of Commerce (Commerce) conducted a pilot program to study the feasibility of expanding the use of the purchase card. The Commerce study concluded that the purchase card had advantages over other procurement methods and it recommended expanded purchase card use by federal departments. In 1989, the Office of Management and Budget requested the General Services Administration (GSA) to manage the purchase, travel and fleet charge card programs because of its government wide procurement authority. GSA continues to have that role and responsibility today.

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The federal government's use of the purchase card gained broad support and momentum through the National Performance Review (NPR) in 1993. The NPR identified the purchase card as a reform initiative, which held promise for enhancing the efficiency of government procurement activities. One of its recommendations was the expanded use of the purchase card for small-dollar items, or micro-purchases (purchases under \$2,500). The recommendation was principally based on data that suggested that the use of the purchase card provided a less costly and more efficient way to acquire goods and services. The purchase card provided a means to purchase products directly from vendors instead of processing requests through government procurement offices.

Also in 1993, the Office of Federal Procurement Policy (OFPP) took the lead in expanding the federal government's use of the purchase card through a "pledge" program to significantly expand the use of the purchase card. The program was carried out among Senior Agency Procurement Executives. Initially, Procurement Executives from the Departments of Commerce, Treasury, Interior, Health and Human Services, Transportation, Energy, State and GSA, signed the pledge. In addition to increasing sales, members also pledged to place the card in the hands of appropriately trained line managers and other non-procurement personnel; identify and eliminate internal impediments to the maximum beneficial use of the purchase card and actively promote and support legislation to eliminate statutory impediments; and, finally, cooperate with each other and share experiences relevant to the expanded use of the purchase card.²

Following the lead of the first signers, other agencies later joined in the effort: the Office of Personnel Management, the Federal Emergency Management Agency, the Drug Enforcement Agency and Federal Prison Industries. Additional momentum for federal purchase card use was achieved soon after the pledge was signed when the Treasury Procurement Executive established the Purchase Card Council. Its mission was to help agencies meet the pledge. The council focused on the following:

- Use of the card
- Tracking progress
- Publicizing the card
- Performing a cost-benefit analysis
- Challenging administrative and regulatory barriers to card use and
- Sharing best practices in implementation and training.

Despite the council's level of commitment, a number of barriers seemed to impede rapid growth of card use in the early years. The following factors are some that were identified by the Purchase Card Council³ as roadblocks to the expansion of purchase card use:

- Lack of Federal Acquisition Regulation⁴ (FAR) coverage for using the purchase card
- Program office personnel reluctance to accept a purchase card

- Disputes process too cumbersome
- Vendors charging sales tax and not refunding it
- The single purchase limitation of \$2,500

Expanded use of the federal purchase card use was encouraged by special studies and federal agency success stories, sharing agency experiences with use of the purchase card.

The Federal Acquisition Streamlining Act (FASA or the Act) of 1994 and Executive Order (EO) 12931 on Federal Procurement Reform, dated October 13, 1994, were major purchasing and contracting reform initiatives.⁵ EO 12931, dated October 13, 1994 specifically encouraged expanded use of the purchase card and recommended the expanded use of the purchase card for small-dollar items, or micro-purchases (purchases under \$2,500) provided by FASA. FASA introduced innovative procurement techniques and revised more than 225 statutory rules. The Act also simplified procedures for small purchases including permission to acquire "off the shelf" items rather than requiring the purchase of items meeting rigid federal standards. The changes in procurement procedures associated with FASA greatly enhanced the opportunities to use the purchase card for small purchases by federal departments.

The impact of the purchase card on federal acquisition practices was discussed by GSA Assistant Commissioner Neal Fox during congressional testimony⁶ in early 2004 where he stated:

"The purchase card has proven to be the most flexible purchasing tool available to the U.S. government. Agencies use the purchase card to acquire mission-related goods and services. The card has proven especially vital in enabling rapid response to, and recovery from, disasters and other emergency situations. Purchase card use has evolved from a mid-1990s best practice to a common practice today, and the annual savings to the federal taxpayer are tremendous—approximately \$1.4 billion in fiscal year 2003 transaction costs saved. Purchase card usage has reduced process costs, increased efficiency, and reduced the time it takes to obtain goods and services... In the mid-1990s the focus of government purchase card usage was to cut through red tape and streamline micro-purchases. More recently, the focus of the program has shifted to provide mechanisms for improved management control and oversight. According to Professor Richard Palmer of Eastern Illinois University, considered the leading academician of purchase card studies, the percentage of misuse is lower in federal agencies than among any other institution, public or private. His survey indicates that purchase card misuse accounts on average for 0.017 percent of purchase card spending at state and federal agencies, which is the equivalent of \$170 of misuse for every \$1 million of purchase card spending. This is lower than any other institution, including 0.020 percent at private and public corporations, 0.032 percent at universities, and 0.091 percent at city and county governments."

As indicated, in response to government wide and individual agency directives and initiatives, the use of the purchase card expanded rapidly over the past decade. The expansion is indicated by both the volume of transactions as well as the total dollar value of procurement actions. To facilitate and encourage the broader use of the purchase

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card, federal agencies have also expanded the number of staff eligible to use the purchase card. The next section summarizes the expanded use of the purchase card.

Estimates of Federal Agency Purchase Card Use

The use of the purchase card varies across federal departments and agencies. GSA data indicate that of all the federal purchase cards issued in 2005, agency cardholders comprise fewer than five percent of the total cards in the Department of Transportation, the Department of Health and Human Services, the Department of Defense (excluding the military services, that is, OSD and Defense Agencies such as DFAS⁷) and the Department of Justice. These same federal departments each comprise fewer than five percent of the aggregate purchases or “sales” with the federal purchase card,

and also comprise less than five percent of the total number of transactions. By contrast, approximately 17 percent of the federal purchase cards issued is held by Department of the Army personnel. The Department of the Air Force makes up 14 percent and Postal Service makes up 13 percent. The Department of the Army is a heavy user of the purchase card in that it accounts for about 20 percent of the total federal purchase card charges.

Aggregate sales to federal departments have increased dramatically since 1991. In Fiscal Year (FY) 1991 sales were just over \$140 million. In FY 2004 they were just over 17 billion, and estimated purchases or sales to federal agencies in FY 2005 total nearly \$17.5 billion.

While the rate of growth has slowed, the purchase card has definitely emerged as an attractive federal procurement option. *Figure 1* shows that more than 25 million estimated federal government transactions involved the use of the purchase card in FY 2005. The estimated FY 2005 total is down slightly from the peak transaction years of FY 2003 and 2004. Meanwhile, the number of federal employees holding the purchase card has continued to decline since the peak year, FY 2000, when the number of federal employees with the purchase card was almost 680,000. The drop to around 300,000 issued cards in FY 2005 (*Figure 2*) probably reflects decisions by federal government departments to more tightly manage purchase card issuance and to collect cards from employees who were not using the card.

Savings and Financial Implications of Federal Agency Purchase Card Use

A major reason for the expanded use of the purchase card was to reduce procurement transactions costs. *Figure 4* shows that anticipated costs savings are the most highly ranked factor in agencies’ decision to implement a purchase card program. However, it is difficult and expensive to conduct comprehensive cost studies that can adequately quantify the cost savings of purchase card programs. Notwithstanding, there have been periodic efforts undertaken to assess the actual or potential cost savings associated with purchase card use, all of them focusing on purchases at or below the \$2,500 threshold. Although the reported estimated savings have varied among agencies, studies have consis-

Figure 1: Federal Purchase Card: Number of Transactions FYs 1989–2005

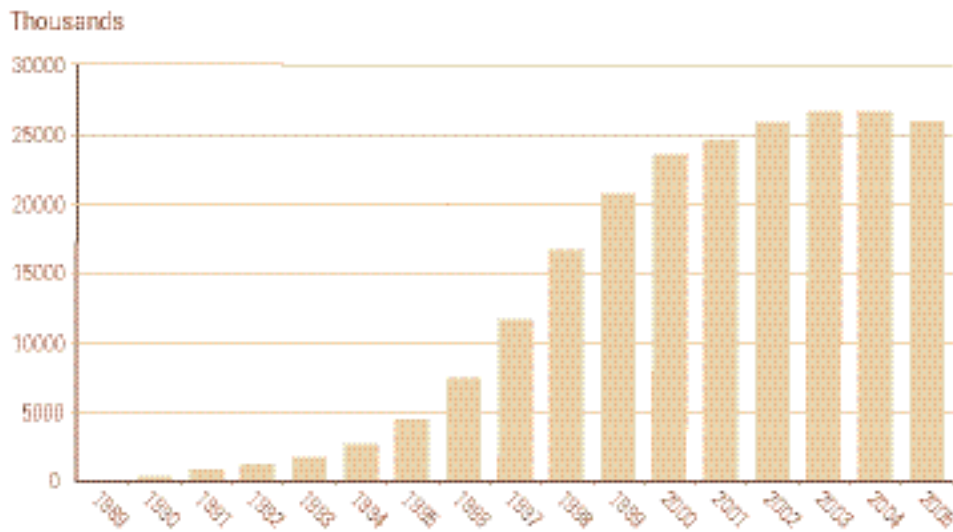
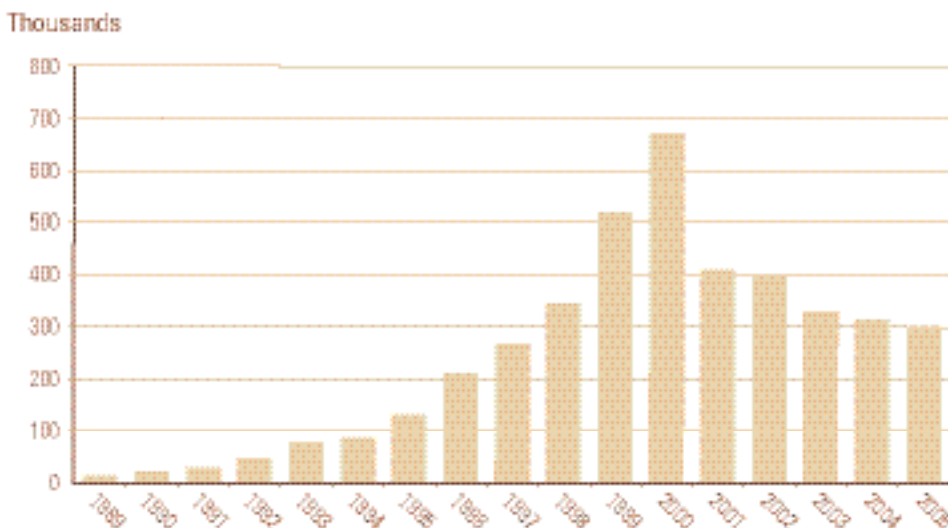


Figure 2: Federal Purchase Card: Number of Card Holders FYs 1989–2005



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tently indicated that use of the card is clearly less expensive than paper transactions.

The agencies surveyed in this report (and in previous federal civilian agency studies) vary in complexity and in the way they use purchase cards, and therefore it is difficult to completely determine the benefits and costs that an agency will experience without a detailed analysis of procurements with and without the purchase card in each agency. The survey asked the respondents to estimate their savings per transaction, using the appendices at the end of the survey which is Appendix A of this document. They also were asked to identify some of the general factors that contribute to the cost savings attributed to the purchase card program, and these are shown below in *Figure 3* below.

Fiscal benefits of the purchase card program result from enhanced efficiencies in processing procurement transactions, and finance-related procedures including billing, payment and ex-post procurement audit activities. Most agencies can also enhance income through purchase card rebates and improved cash management practices such as petty cash requirements and float opportunities.

In 1993 the Purchase Card Council asked participating agencies to perform a detailed cost benefit analysis on small purchases of \$2,500 and below, comparing written purchase orders and purchase cards.⁸ Nine civilian federal agencies participated. Among the processes analyzed for potential cost savings were requisitions, administration costs, invoicing and finance processing among other procurement related activities where purchase card procurements might result in department cost reductions. The agency estimates were

taken as received and not subject to verification. The study indicated an average cost savings per transaction of \$53.77.

A report by the US Army Audit Agency in 1996⁹ assessed credit card savings by the Department of Defense (DoD), principally the Department of the Army and DFAS, quantifying the costs to process a purchase order as compared with the costs to perform a credit card transaction, again for purchases at or below the micro-purchase threshold of \$2,500. Its analysis showed the average cost for processing a purchase order was \$155.09 versus a credit card cost of \$62.49, for a net cost savings of \$92.60. This was subject to verification by observation and independent measurement using time/motion studies by process action teams.

In this AGA research study we asked agencies to report their estimated savings on either of two worksheets in an appendix to the survey itself, the second worksheet using an approach similar to that used by the Purchase Card Council. Four civilian agencies responded with their estimates. The savings estimates ranged from \$60 to \$166 per purchase card transaction, with a simple average of \$98 and a weighted average of \$87.29 cost savings per transaction. The agencies' net savings estimates were not subject to verification by audit or further investigation. Since this study did not examine the validity of these estimates, care should be taken in making inferences from these estimates regarding cost savings that are being realized by other federal agencies or departments. However, the details above and/or the second worksheet in Appendix A may prove valuable to other agencies as a starting point from which to develop their own estimates.

Figure 3 Items Contributing to Cost Savings or Enhanced Revenue from Use of Purchase Card

Contribution of the following to Cost Savings	Substantial Savings	Some Savings	No Savings	Savings Loss	Total
Reduced staff time (and cost savings) in preparation and processing of authorization	3	4	1		8
Enhanced efficiencies in processing procurement transactions	4	4			8
Enhanced efficiencies in administrative oversight and monitoring (including dispute resolution)	1	6			7
Cost savings in finance-related procedures including billing, payment and ex-post procurement audit activities	4	3			7
Net savings in training costs	1	3	3	1	8
Income enhancement resulting from differing cash management practices such as petty cash requirements and float opportunities	4	1	2		7
Agency purchase card refunds	4	2	2		8
Other				1	1

Source: AGA Federal Agency Purchase Card Survey, September 2005, see question 48.

Figure 3 Notes: The Overseas Embassy noted that savings losses occur because using charge cards for local purchases often results in having to pay the 21% VAT tax as explained previously. The other savings loss came from the Department of Justice in its training costs.

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GSA Reasons for Adopting Purchase Card for Procurement Activities

The government has elected to adopt a charge card program in lieu of the traditional methods of procurement for several reasons, which include:¹⁰

Administrative Savings: *The U.S. government saves approximately \$1.3 billion per year through administering the charge card instead of traditional purchase order-type transactions.*¹¹

Refunds: *The GSA Smart Pay Purchase Charge Cards provide refunds to agencies based upon dollar volume. In fiscal year 2001, refunds totaled more than \$75 million.*

Electronic Access to Data: *The GSA SmartPay Contractors' Electronic Access Systems (EAS) provide an accurate, comprehensive transaction detail with a few clicks of a mouse button.*

Safety: *The charge cards eliminate the need for agency imprest funds or cash.*

Worldwide Acceptance *The GSA SmartPay Purchase Charge Cards provide greater access to merchants worldwide.*

Federal Purchase Card Research Methodology

Use of the federal purchase card has evolved rapidly over the past two decades and has become widely accepted by federal departments and agencies for the procurement of small purchases. The purposes of this study were to provide a federal government wide assessment of the current use of the purchase card, obtain insights on current purchase card policies and management practices and assess the cost saving and/or financial benefits of purchase card use.

To accomplish these purposes, a survey methodology was employed. The survey was organized into three major sections and an appendix. The survey was designed to collect information on the agency or department use of the purchase card and identify policies regarding the purchase card use. In addition, respondents were asked to identify best practices regarding the purchase card management and to estimate the financial benefits and disadvantages to card

use. The survey was administered online. Letters with links to the survey were sent to CFOs, CAOs and/or Chief Procurement Officers of 26 major federal agencies. An advisory group of federal officials provided assistance in the development of the survey instrument.

The potential respondents were identified with the help of the advisory group and were sent a cover letter and invitation to complete the survey online in April 2004. Because of the length and complexity of the survey, respondents were given six weeks to respond. By June 30, nine agencies had responded. An additional six surveys were received after subsequent follow up in July through e-mail and phone calls. Survey responses from 15 agencies had been returned by August 19, although five of the surveys were largely incomplete. The response rate is therefore 58 percent overall with the adjusted response rate being 38 percent, taking into account incomplete responses. These response rates are reasonable considering the length and complexity of the survey.

Purchase Card Implementation

Federal agencies participating in the Purchase Card survey listed by year of implementation are:

- Department of Commerce (1986)
- Department of the Interior (1986)
- Environmental Protection Agency (1988)
- General Services Administration (1989)
- Department of Justice (1989)
- National Aeronautics and Space Administration (1994)
- Nuclear Regulatory Commission (1994)
- Defense Finance and Accounting Service (DFAS), Columbus, DoD (1996)
- U.S. Embassy in Foreign Country (Overseas Embassy), Department of State (1997)
- Equal Employment Opportunity Commission (1998)

Figure 4: Importance of the Following Factors in Decision to Implement Purchase Card Program

Factors	Not Important	Slightly Important	Of Medium Importance	Somewhat Important	Very Important	N/A	Total
a. Anticipated cost savings					9	1	10
b. Enhanced audit capability of transactions		1		2	4	3	10
c. Internal Agency management directives				2	5	3	10
d. Response to purchase card rebates offered by card companies	1	1	1	2	2	3	10
e. Response to government-wide directives (e.g. National Performance Review (NPR))			1	2	2	5	10
f. Other				1	2		3

Source: AGA Federal Agency Purchase Card Survey, September 2005, see question 8.

Figure 4 Notes: Government-wide Directives (Part e): Two government-wide directives were mentioned as very important factors leading to implementation of the purchase card program. The National Performance Review (NPR) was mentioned by two agencies (EPA and EEOC) while Federal Acquisition Regulation (FAR) was mentioned by one agency (HSA).

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Of the respondents, five first piloted or partially implemented the purchase card program. Four fully implemented the purchase card program from the start. It should be noted that the DFAS Center does not necessarily represent the views of other DFAS Centers or of the Department of Defense as a whole, and that the Overseas Embassy does not necessarily represent the views of the Department of State.

The respondents were asked to identify the important factors in their agencies' decision to implement a purchase card program. Anticipated cost savings were identified as a very important factor in ninety percent of the respondents (as shown in *Figure 4*). Other important factors in the decision to implement a purchase card program are enhanced audit capability of transactions and internal agency management directives. Government wide directives such as the National Performance Review or those listed in *Figure 4* were important factors for 40 percent of the respondents. Of particular interest is that purchase card rebates were very or somewhat important for forty percent of the respondents. Only 20 percent of the respondents reported that card rebates were not important or slightly important in the initial decision to implement the purchase card.

Other Factors (Part f) in *Figure 4*: The Department of the Interior listed anticipated cost savings as very important, while answering N/A for the remaining categories. They noted that although these other factors (a-e) are important, many of them were not options when Interior was deciding to start its pilot program in 1986. The EPA also noted that their implementation in 1988 was efficiency driven.

Respondents reported the following external directives guiding Purchase Card Uses: Executive Orders; Congressional Requirements; OMB Circulars, Bulletins, Other Guidance; or Other.

Two agencies (EEOC and NASA) mentioned publications by the GSA concerning purchase card use. Federal Acquisition Regulation (FAR) and an OMB Memorandum were listed by one agency each. The Overseas Embassy listed the State Department and DFAS listed its own guidance.

Figure 5: Agency Imposed Limitations on Purchase Card Holders

Limitation	Never	Occasionally	Frequently	Always	N/A	Total Responses
Merchant card category blocks		1		8		10
Lower transaction threshold limits	1	3	1	3		9
Lower monthly acquisition limits	1	3	2	4		10
Credit checks	6			1	2	9
Other restrictions	1	1			3	5

Source: AGA Federal Agency Purchase Card Survey, September 2005, see question 10.

Figure 5 Notes. Other Restrictions: The EEOC notes that they have never imposed other restrictions because the purchase cards are restricted to specific individuals. NASA occasionally imposes limitations on restricted or sensitive item lists so that only approved cardholders may purchase specific items such as hazardous chemicals.

Figure 6: Agency Staff Members Authorized to Use Purchase Card

Agency Staff Member	Never	Occasionally	Frequently	Always	Total Responses
Senior agency staff	3	5	1		9
Administrative/clerical staff	1		8	1	10
Contracting officers	2	1	5	2	10
Procurement staff	2	2	3	2	9
Financial office staff	2	2	4		8
Staff designated by agency director (or his/her designee)	1		7	2	10
Contractors performing services for your agency	9				9
Non-government employees	9				9
Local nationals 'overseas'	6	1		1	8
Foreign nationals	7			1	8
WAE (When Actually Employed) personnel	5		1		6
All agency staff	6			1	7
Other			1		1

Source: AGA Federal Agency Purchase Card Survey, September 2005, see question 13.

Figure 6 Notes. Other: Within the Department of Justice, direct law enforcement personnel such as agents and marshals are authorized to use purchase cards.

Purchase Card Policies and Management

The respondents for the agencies were asked to identify charge card policies and management practices regarding purchase card use. The following sections summarize the survey responses.

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Purchase Card Restrictions

As shown in *Figure 5*, 80 percent of the respondents reported that their agencies always employ merchant card category blocks. The use of reduced transactions threshold limits and reduced monthly acquisition limits varied by agency. Only one of the agencies reported that credit checks were always sought before giving an employee a purchase card.

The purchase card can be beneficial as a payment method for purchases larger than the \$2,500 threshold. Eight of the agencies surveyed permit warranted contracting officers to use the purchase card for large purchases. Six of the agencies surveyed use the purchase card as payment mechanism for contract procurements. The embassy has not used cards for transactions of more than \$2,500 since 2002 because no one at their post had a limit above \$2,500. The EPA notes that acceptable purchases are undertaken by training officers with Government Employee Training Act delegated authority and use by ordering officials.

Purchase card policies and management practices also vary among agencies as to the staff who are issued purchase cards, see *Figure 6*. The two most common positions issued purchase cards are administrative and clerical staff as well as staff designated by the agency director. All the agencies reported that cards are never issued to contractors or non-governmental employees who are performing services for the agency.

Policy Updates

The purchase card policies established by the agencies are not stagnant and have been modified to address concerns or new opportunities. For example, the EEOC expanded its policy statement, purchase card objectives, policies, and limitations on cardholders' delegation of authority regarding the use of the government wide commercial purchase card. The EPA finished a complete rewrite of the purchase card policies in 2002-2003, and they are reviewing the policy for updating in 2005. The Department of Commerce has instituted policy changes addressing the use of the purchase card as a payment tool against reoccurring charges.

Fraud and Abuse

Many agencies identified directives and procedures used to detect and prevent purchase card fraud and/or misuse. Interior requested that its issuing bank develop exception reports to facilitate electronic monitoring for specific issues. Some agencies have formalized the appointment of approving officials and institutionalized mandatory training on purchase card policies. Agencies also separate the employees' responsibilities for order approval from the payment of the requisition. EPA also institutionalized an oversight program in 2003 and 2004, within agency program offices under the cognizance of the senior resource official or financial manager.

The EEOC implemented an automated interface between their bankcard issuer system and their integrated financial system to allow daily accounting and online monitoring of purchase card transactions. Each cardholder's supervisor

reviews every planned purchase and approves a monthly statement of purchase transactions. The EEOC cancelled approximately 50 percent of the purchase cards within the Office of Chief Financial Officer after a review of the transaction history on each card.

The EPA has expanded oversight of purchase card transactions through the use of third-party receipt verification, approving official pre-approval of purchases and internal standard operating procedures by approving official. Similarly, the Department of Justice uses Pathway to facilitate a selective review by agency program coordinators of card transactions. Business rules are set up in Pathway that allow notices of unusual transactions to be forwarded to APCs. The inspector general uses data mining software on a continuing basis on the transaction database. The Department of Justice is working with commercial sources to acquire data mining software under current SmartPay task order that would then be placed on APC's desktops for increased surveillance of transactions.

The Overseas Embassy is required to do a purchase order for each purchase card transaction to provide necessary tracking and internal control.

OMB Circular on Government Charge Card Guidance

Federal agencies were asked to discuss the potential or anticipated policy and procedural implications of the draft Office of Management and Budget (OMB) guidance document titled "Improving Government Charge Card Guidance" (*Federal Register*, February 25, 2005) on their agency's use of the purchase card. The most pervasive concern is the implementation of a credit worthiness requirement. Agencies indicated that there is little evidence that employees' FICO scores are related to proper use of the purchase card. Moreover, credit checks will not be popular with cardholders or the agency/organization program coordinators (A/OPCs).

Credit checks pose a particular difficulty for the Embassy and other overseas operations as many countries do not have systems in place for credit checks. Foreign nationals do not have Social Security numbers, which are typically required to run credit checks in the U.S. Mandatory credit checks, if implemented, would considerably delay the process of providing purchase cards to employees stationed overseas. Another area of concern expressed by a few agencies is the use of the cards in a strategic sourcing environment.

A few agencies focused on the positive elements of OMB guidelines. OMB guidance would ensure a more controlled environment for the agencies current preventive measures against purchase card fraud and/or misuse. This process would show strengthening of internal controls and an overall improvement to the card program.

The OMB guidelines posed a unique challenge to the decentralized administration of the purchase card program in the Department of Justice. Justice has generally allowed its bureaus to manage their purchase card programs with only general oversight at the department level. As a result of the anticipated issuance of the circular, they are reviewing

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their bureaus' purchase card policies and training requirements to determine if baseline departmental guidance or policy is warranted. They are working with the bank to conduct spend data analyses to maximize the benefits offered by the purchase card, negotiate "best value" pricing agreements with vendors, improve data collection, increase rebates and reduce administrative costs and liabilities. Justice is also working with its bank and the card association to acquire data mining tools to monitor the effectiveness of these new initiatives and to prevent waste, fraud and abuse.

The concern over mandatory credit worthiness checks is presently alleviated, in that required credit checks on employees holding centrally billed purchase cards were rescinded in the Fiscal Year 2006 Transportation, Treasury, Judiciary and Housing and Urban Development Appropriations Bill, passed into law November 30, 2005 as Public Law 109-115.

Best Value on Purchases

Agencies employed several techniques to ensure that purchase card transaction provide the "best value to government." These techniques include mandatory training on 'good judgment' and 'smart buying tips.' Agencies require full and/or open competition where consideration is also given to vendors based on best value, not necessarily price. Rotation of vendors, current, past and new vendors is also common. The limitations of best value comparisons are noted by Justice. Justice's APCs periodically review transaction files and reports to examine transactions and prices. Approving officials review all of their cardholder's transactions. Because there is a limited amount of level III (line-item pricing) data provided by vendors, it is very difficult to review prices for individual items. Best value reviews are more effective in instances where level III is available for comparison.

Split Transactions

A common protection on purchase card activity is a restriction on excessively large charges defined by a limit or threshold (usually \$2,500 per transaction). A split transaction occurs when a transaction with a value that exceeds the threshold limit on the purchase card is split into two or more transactions with values below the threshold. Agencies commented on procedures to detect split transactions. The most common procedure is mandatory transaction review by approving officials or finance officers on a monthly basis. Some agencies also require a bi-annual review of transactions by senior agency officers. Instances of suspected split transactions are forwarded to the appropriate bureau for review and then to the appropriate component for an explanation. The Department of Commerce recently implemented a data mining feature that specifically looks for split purchases on the daily transaction file. Respondents also report that the agency wide 'P-Card' system provides an outstanding electronic tool to view detailed (level III) line item information for each transaction.

Purchase Card Use in Overseas and Field Locations

Six of the agencies responding, Interior, Embassy, Commerce, EPA, Justice and GSA, indicated that they use the

purchase card in overseas offices. NASA, DFAS, NCR and EEOC responded no. It should be noted that while DFAS does have overseas locations, the DFAS site responding does not. Agencies responding yes to field use are Interior, DFAS, EEOC, Commerce, EPA, NCR and Justice. NASA allows the use of purchase cards at its field centers. Interior, Commerce, EPA and Justice have authorized purchase card use both overseas and in the field.

Overseas

Responses from the six agencies who use the cards overseas cited several unique impediments to purchase card use in foreign settings:

- Vendors may not accept charge cards;
- Value Added Tax is often collected by vendors when a purchase card is used;
- Delays in statement reconciliation (although this appears to be improving with e-statements and online payments); and
- Foreign national employees are issued cards, but without Social Security Numbers it is difficult to perform credit checks.

The benefits associated with overseas office use of purchase cards include:

- Faster delivery of service when vendor requires payment prior to providing service;
- Greater flexibility in being able to buy on the open market, resulting in shipping savings and more timely acquisition;
- A streamlined acquisition process and reduced administrative costs;
- Increased rebates;
- Cost-effective way of making small-dollar purchases;
- Charge card is critical for local random procurement for items for classified work areas; and
- Better audit controls.

The practices used to identify and prevent fraud and/or misuse in overseas locations are like those used to monitor the transactions in U.S., primarily holding approving officials accountable for reviewing purchases. GSA requires that managers certify that they have reviewed monthly charge activity. Physical security practices, like locking cards in a safe place, also help reduce fraud and abuse.

Field Locations

Seven agencies indicated that they use the purchase card in remote locations in the U.S. and none indicated major impediments to using the card. The only concern expressed is the occasional refusal of a vendor to accept the card because of merchant fees. Some agencies emphasized the importance of ensuring proper cardholder training and managerial oversight.

The benefits associated with using the purchase card in field or remote locations in the U.S. include:

- Expedite purchases from local vendors;

THE FEDERAL PURCHASE CARD:

- Purchases and payments are convenient, quick and efficient;
- Reduces paperwork; and
- Increases rebates.

The EPA finds the purchase card use in the field particularly important to accomplishing its mission. The nature of EPA's mission does not always allow for prior planning of needed supplies. Collecting field samples or responding to emergency spill situations is a dynamic environment that demands a flexibility that the card provides.

Agencies identified strategies to mitigate fraud and misuse in U.S. field and remote operations:

- Exception reports
- 100 percent review by approving officials
- Requirement by purchase cardholders to complete the GSA online course before issuing purchase cards.
- Daily review of transaction data
- Third-party periodic or statistical review
- Merchant card category (MCC) blocking
- Data mining
- Structure single purchase and monthly limits appropriate to the mission and location
- Specialized procedures for handling approvals and receipt in a field environment

Purchase Card Management

Practices

Agencies identify management practices used to mitigate fraud and/or misuse that could be adopted by other federal agencies. Interior utilizes exception reports, 100 percent approving official review, and periodic or statistical review by a third party. The EEOC requires office director approval of purchases and the administrative officer's funds certification for purchase actions. In addition, EEOC requires a monthly certification of purchase card paper statements and bankcard transactions, which are reviewed on a sample basis as part of inspector general's annual financial audit. Similarly, Commerce requires A/OPCs to review its organization's purchase card program at least once a year to ensure that cardholders and approving officials use internal controls and follow proper procedures.

The EPA has a new tool in the pilot phase for automated screening and e-mail notifications when the conditions of card use are met. EPA also has an automated e-mail notification to approving officials each time a transaction is posted to one of their cardholders' accounts.

Justice's Office of Inspector General uses commercially available data mining software and has tested and validated their search algorithms. Questionable transactions are brought to the attention of the appropriate bureau, which in turn forwards the information to its component for an explanation or administrative action. Commerce also employs data mining techniques.

Some agencies have reported new or innovative policies to improve the management of the purchase card program. Interior has an integrated charge card program, combining purchase, travel and fleet in one program and eliminating redundant accounting systems. Justice will be using the purchase card to make payments for relocation expenses. This will reduce the time it takes to pay vendors, reduce administrative costs, expand the program and increase rebates.

EEOC requires that the approving official establish purchase card orders and review and initial monthly bank statements. Purchase transactions are processed through the integrated financial management system bankcard interface. The bankcard interface file is then reviewed daily by the approving official, who verifies and reconciles the purchase, merchant and accounting data. The EPA has improved the oversight of card transactions through an e-mail generator that provides the approving officials notifications of card activity. E-mail is also used to communicate routines, policy clarifications and training updates.

For Commerce, placing cards in the field offices and remote sites is the most cost-effective and least time-consuming way to make purchases. Restricting purchase cards to administrative offices or by procurement types would reduce the effectiveness of the card and increase the cost of providing services.

Use for small transactions

Agencies are generally authorized to use the purchase card for purchases of less than \$2,500. The agencies identified situations in which a purchase order was used even though the transaction qualified for a purchase card payment:

- Vendor did not accept charge cards;
- Card purchases are not eligible for VAT (tax) refund when purchased through the Internet or when the exact item and cost is unknown in advance;
- Good overall audit trail on telephones;
- Some limitations on particular items (such as printing limit of \$1,000);
- Purchase requires a statement of work or terms and conditions;
- Cardholder exceeded monthly purchase limits; and
- Cardholder unaware that card use was permissible for transaction.

The purchase card has had an impact on the performance of the agencies. Agency performance relates to the achievement of its mission, enhancing its outcomes, improving the speed of service delivery or influencing confidence in the agency's financial management practices and procedures. Many agencies pointed out that the purchase card program allows them to buy "just in time" and greatly assists during fieldwork and with employees working away from an office environment. The purchase card improves the ability of the program offices to obtain small-dollar, commercial items faster and with less bureaucracy, that is, at less expense in manpower and time. In addition, the purchase card process

USE, POLICY & BEST PRACTICE

generates savings in labor resources for procurement and accounts payable as compared to the purchase order process.

Other agencies indicated that the purchase card program has helped the agency satisfy its objectives of the Government Paperwork Elimination Act, and has improved financial performance toward the President's Management Agenda initiatives.

A Justice Department statement highlights the benefits expressed by many agencies:

"The purchase card program has had a very positive effect on DOJ's acquisition process. This program has allowed us to: empower employees; reduce paperwork; reduce staff; lower administrative costs, i.e., one invoice one payment; simplify the reviewing and reporting functions by using the bank's EAS (Pathway); and, use rebates to fund programs and thereby reduce the costs to taxpayers."

Recommendations for Improvement

Agencies provided recommendations that could potentially enhance the efficiency and overall benefits of the purchase card program:

- Encourage more merchants to provide level III data.
- Raise the micro-purchase threshold limit above \$2,500. (The Federal Acquisition Regulation Council is considering a \$500 increase.)
- Promote purchase card acceptance among small businesses and sole proprietors.
- Encourage agencies to take advantage of card-less ("ghost") accounts for recurring services such as utilities or other non-acquisition payments.
- Promote broader agency use of the card for eligible transactions under \$2,500.
- Assess potential benefits of a program to integrate purchase and travel cards.
- Encourage (and negotiate when possible) lower merchant fees for individuals and small businesses. [Note that banks establish merchant fees, not government agencies.]
- Expand card use to appropriate inter-governmental payments and grants.
- Expand agency use of the card as the procurement payment tool for simplified acquisitions.
- Build and expand cooperative arrangements for universal card acceptance among federal and state agencies.

Some agencies want more freedom to design and manage purchase card programs within authority provided, stating that one size does not fit all, and increased controls where they are unnecessary are counter-productive. They also point out that agencies differ in their vulnerability to abuse, so controls should be imposed selectively, not across the board.

They offer the following recommendations for improving current purchase card contracts and policies:

- Expand vendor participation in Point of Sale¹² (POS) recognition for negotiated discounts and tax exemption without further documentation.
- Implement a universal requirement for telecommunication companies to accept the purchase card for payment.
- Negotiate services such as spend analysis, fraud analysis, data mining software and training offered to participating agencies as an option under the next SmartPay contract.

Agencies differed in their recommendations to change card limits. Some stated that the current limits were appropriate for their agency, while others wanted limits established as high as \$15,000.

Other Issues

Agencies were provided the opportunity to raise issues not otherwise addressed in the survey. These responses are highlighted below.

The Overseas Embassy states that there has been a push to allow other federal agencies to use their purchase cards to complete their own procurement overseas at Embassies. The problem is the impact on the receiving operation at the warehouse, which relies on information from the procurement section regarding incoming items. (This is one of the reasons the Overseas Embassy still makes purchase orders for charge card purchases). If other agencies order items directly, without going through procurement, this will create problems identifying recipients and end users when items are delivered directly to the Embassy instead of to the warehouse.

One respondent voiced concern that over the past few years many additional restrictions and requirements have been placed on micro-purchases, resulting in decreased savings. All cardholders are now required to do multiple evaluations of the item they are purchasing. This has resulted in less efficiency and reduced cost savings.

One respondent is concerned that the implementation of the proposed OMB Circular titled, *Improving Government Charge Card Management*, in its present form will have a chilling effect on the use of purchase cards throughout the government. Areas that are of particular concern are: credit checks for purchase card holders, particularly since these are centrally billed accounts for which there is no individual liability on the part of the cardholder; crediting rebates back to the account from which the expenditure was originally made; increased training requirements for approving and certifying officials; and, the requirement for agencies to garnish employee salaries for delinquent travel charges, especially when the agency's delinquency rate is far below commercial delinquencies. In this respondent's opinion, these factors will serve to increase the cost, reduce the benefits and add no significant improvement to the purchase and travel card programs.

However, as noted previously, the concern over mandatory credit worthiness checks is presently alleviated, in that required credit checks on employees holding centrally billed

THE FEDERAL PURCHASE CARD

purchase cards were rescinded in the Fiscal Year 2006 Transportation, Treasury, Judiciary and Housing and Urban Development Appropriations Bill, passed into law November 30, 2005 as Public Law 109-115.

Summary and Implications

This report has provided a brief overview of the development of the purchase charge card program by the federal government and has summarized the results of a comprehensive survey of major federal departments regarding card use, policies and best practices. The review indicated that the purchase card has gained wide acceptance as the preferred option for acquiring small items with values of less than \$2,500. As the volume and dollar value of transactions increased, federal departments responded to incentives and directives encouraging such practices and initiated policies and management practices to enhance the benefits of purchase card use. This study identifies such policies and practices of ten of the agencies that provided useable responses to the governmentwide survey.

Agencies are looking to specialized technology such as data mining, merchant card category blocks and exception reports to assist in administering and providing internal controls of the purchase card program. These services are generally provided by the banks, and should be considered in the renegotiation of the purchase card contracts. Agencies find the purchase card particularly effective in fieldwork and many overseas situations in procuring needed items in an affordable and timely manner.

There are, however, challenges to be addressed as the purchase card program expands. One challenge expressed is that some vendors, particularly small vendors, will not accept the purchase card as payment because of the merchant fees. Also, some agencies want the \$2,500 threshold for micro-purchases increased significantly. It should be noted that all savings calculations are based on purchases within or at the micro purchase threshold. For amounts above the threshold, several controls become applicable that require review or other procedures, reducing any efficiencies.

Finally, the results of the cost benefit analysis in this study, albeit from a small sample, do not differ materially from the results of previous studies discussed elsewhere in this report. Further insights regarding purchase card savings and financial implications are anticipated from the other three phases of this study of government purchase and travel cards.

Glossary of Acronyms

ACL:	Data mining software used by the Department of Justice
A/OPC:	Agency/Organization Program Coordinator
APC:	Agency Program Coordinator
CAO:	Chief Acquisition Officer
CBC:	Citicard Banking Center
CFO:	Chief Financial Officer
DFAS:	Defense Finance and Accounting Service
EAS:	Electronic Access Systems
EEOC:	Equal Employment Opportunity Commission
EPA:	Environmental Protection Agency
FAR:	Federal Acquisition Regulation
FASA:	Federal Acquisition Streamlining Act
FICO:	A credit score developed by Fair Isaac & Co., a rating agency
GETA:	Government Employee Training Act
GSA:	General Services Administration
IMPAC:	International Merchant Purchase Authorization Card
MCC:	Merchant Category Code
NASA:	National Aeronautics and Space Administration
NCR:	Nuclear Regulatory Commission
NPR:	National Performance Review
OFPP:	Office of Federal Procurement Policy
OMB:	Office of Management and Budget (a unit of Executive Office of the President)
OSD:	Office of the Secretary of Defense
USAID:	United States Agency of International Development
VAT:	Value Added Tax
WAE:	When (or While) Actually Employed

AGA Federal Agency Purchase Card Survey

APPENDIX A: SURVEY INSTRUMENT

March 2005

This survey is part of a research project AGA is administering to identify policies and procedures, mitigation initiatives, and the costs and benefits of federal agency use of purchase cards. AGA sincerely appreciates your involvement as a CFO or CAO in guiding your agency's preparation of its survey response. Your responses are very important to this study. They will help us report on the kind of considerations that will improve agency purchase card programs in the future. Should you have any questions regarding the survey or seek assistance with responding to the survey, please contact Anna Miller, director of research, at 800.AGA.7211 or at amiller@agacgfm.org.

1. What is the name of your federal agency?
2. Please give the name, title, mailing address, phone number, email and point of contact for this survey response.

Agency's Purchase Card Implementation, Policies, and Management

3. Please indicate the Fiscal Year that the Purchase Card was implemented and/or piloted by your agency

4. Was the implementation of the Purchase Card program a partial or "pilot" implementation or a full or agencywide implementation?

5. If your agency was involved in a Purchase Card pilot program, please indicate the reason(s) for that involvement:

- Agency volunteered as pilot host
- Agency was directed to pilot Purchase Card initiative (add by whom)
- Agency head envisioned financial benefits to Agency
- Other (please specify)

6. On a scale from 1 to 5, with 5 being very important, please rank the importance of the following factors in your agency's decision to implement a Purchase Card program. (circle appropriate ranking). Use the N/A category for not applicable.

- 1 2 3 4 5 Anticipated cost savings
- 1 2 3 4 5 Enhanced audit capability of transactions
- 1 2 3 4 5 Internal Agency management directives
- 1 2 3 4 5 Response to Purchase Card rebates offered by card companies
- 1 2 3 4 5 Response to governmentwide directives (for example National Performance Review, or NPR)
- 1 2 3 4 5 Other, explain:

7. If you answered question #6e above in the context of a governmentwide directive, please indicate which directive

and by whom. If you answered #6f "Other" please explain on the second line below.

Directive _____

Other _____

8. Please indicate current external Purchase Card directives guiding or influencing Agency Purchase Card uses (current being post November 30, 1998).

- Executive Orders
- Congressional Requirements
- OMB Circulars, Bulletins, or Other Guidance
- Other, please describe
- Please explain

9. Please indicate current internal (to your agency) directives requiring or encouraging agency Purchase Card use.

- Secretary's Memo
- Other, please specify _____

10. Please indicate the limitations, if any, that your Agency has imposed on Purchase Card holders. (In your response, please indicate the frequency of such limitations as follows: 1= never, 2= occasionally, 3= frequently, 4= always, 5= N/A)

- 1 2 3 4 5 Merchant category blocks
- 1 2 3 4 5 Lower transaction threshold limits
- 1 2 3 4 5 Lower monthly acquisition limits
- 1 2 3 4 5 Credit checks
- 1 2 3 4 5 Other restrictions

11. Other, please describe _____

12. Please indicate the circumstances when Purchase Cards are used by your agency for procurement transactions greater than \$2,500.

- Use by warranted contacting officers
- Use as a payment mechanism for contract procurements.
- Other (please specify)

13. Please indicate which agency staff members are authorized to use the Purchase Card (1 = Never, 2 = Occasionally, 3 = Frequently, 4 = Always)

- 1 2 3 4 Senior Agency staff
- 1 2 3 4 Administrative/clerical staff
- 1 2 3 4 Contracting officers
- 1 2 3 4 Procurement staff
- 1 2 3 4 Financial Office staff
- 1 2 3 4 Staff designated by Agency Director (or his/her designee)

APPENDIX A: SURVEY INSTRUMENT

- 1 2 3 4 Contractors performing services for your Agency
- 1 2 3 4 Nongovernment employees
- 1 2 3 4 Local nationals "overseas"
- 1 2 3 4 Foreign nationals
- 1 2 3 4 WAE "When Actually Employed" personnel
- 1 2 3 4 All Agency staff
- 1 2 3 4 Other, please describe: _____

14. Please indicate changes in agency Purchase Card policies since November 1998 and the reasons for such changes. We may contact you later to ask for copies of these policies.

15. Please indicate directives and procedures implemented by your Agency to detect and prevent Purchase Card fraud and/or misuse.

16. Please discuss the potential or anticipated policy and procedural implications of the draft Office of Management and Budget (OMB) guidance document entitled Improving Government Charge Card Guidance (Federal Register February 25, 2005) on your agency's use of the Purchase Card.

17. What does your agency do, in addition to standard procurement regulations, to ensure that Purchase Card transactions provide the "best value to government"?

18. What does your agency do to guard against inappropriate split transactions (splitting purchases larger than \$2,500 into several smaller procurement actions)?

Overseas Use of Purchase Card

19. Has your agency authorized overseas use of the Purchase Card? (Overseas use is defined as occurring outside of the United States and its territories.)

- _____ Yes
- _____ No (if no, skip to question #27)

20. Please describe unique impediments to Purchase Card use experienced by your agency in overseas offices.

21. Please describe unique benefits associated with overseas office use of Purchase Cards.

22. How do you determine "credit worthiness" of agency Purchase Card users (if users are not U.S. citizens) in overseas locations?

23. Please describe the operational impacts of mandatory credit checks on your agency's overseas locations.

24. Please describe any "best practices" that your agency has identified to mitigate fraud and/or misuse in overseas locations.

25. Please enter available data regarding agency overseas transactions in FY 2004. (Purchase Card versus Purchase Orders by value and transactions)

Purchase Card total dollar value _____

Purchase Card transactions _____

Purchase Order total dollar value _____

Purchase Order transactions _____

26. What are the major reasons the Purchase Card is not used instead of the Purchase Order for overseas transactions?

Field Use of Cards

27. Has your agency authorized the use of the Purchase Card for field or remote offices in the U.S.?

- _____ Yes
- _____ No (If no, skip to question #31)

28. Please describe unique impediments associated with using the Purchase Cards in field or remote locations in the U.S.

29. Please describe the unique benefits associated with using the Purchase Card in field or remote locations in the U.S.

30. Please describe "best practices" that your agency has identified to mitigate fraud and misuse in field or remote operations in the U.S.

Practices to mitigate fraud and/or misuse

31. Briefly describe management practices that your agency has used to mitigate fraud and/or misuse that could be adopted by other federal agencies.

32. Please identify Purchase Card "best management practices" that your agency has implemented that other federal government agencies may consider adopting.

Procurement Transactions Data

This section requests information regarding your agency's

APPENDIX A: SURVEY INSTRUMENT

Purchase Card and Purchase Order procurement transactions less than \$2,500 for the past 10 fiscal years as available.

33. Please enter the number of annual transactions using the Purchase Card

1995 _____
1996 _____
1997 _____
1998 _____
1999 _____
2000 _____
2001 _____
2002 _____
2003 _____
2004 _____

34. Please enter the number of annual transactions using Purchase Orders

1995 _____
1996 _____
1997 _____
1998 _____
1999 _____
2000 _____
2001 _____
2002 _____
2003 _____
2004 _____

35. Please enter the annual dollar amount of purchases using the Purchase Card

1995 _____
1996 _____
1997 _____
1998 _____
1999 _____
2000 _____
2001 _____
2002 _____
2003 _____
2004 _____

36. Please enter the annual dollar amount of purchases using Purchase Orders

1995 _____
1996 _____
1997 _____
1998 _____
1999 _____
2000 _____
2001 _____
2002 _____
2003 _____
2004 _____

37. What were the major reasons that the Purchase Card was not used instead of the Purchase Order for transactions under \$2,500?

Lessons Learned

The following questions ask you to describe your observations, insights or “lessons learned” by your Agency regarding the Purchase Card program which might benefit other federal government agencies.

38. Has the Purchase Card program impacted the performance of your agency either negatively or positively? (Performance means anything related to the achievement of its mission, enhancing its outcomes, improving the speed of service delivery or influencing confidence in the agency’s financial management practices and procedures.) If so, please describe those impacts.

39. Please describe insights regarding the overall Purchase Card program which, if adopted, would improve the efficiency and benefits of the overall Purchase Card program.

40. Please describe insights regarding the overall Purchase Card program which, if adopted, would improve the efficiency and effectiveness and other benefits of the program for individual agencies.

41. Please describe other uses of the Purchase Card which could be beneficial to your agency.

Policy Recommendations

The following questions relate to Purchase Card policy changes (regarding use, limits, or other policies) that your Agency would recommend that the General Services Administration might consider when it negotiates the next Master Purchase Card Contract in 2007-2008.

42. Please describe possible Purchase Card USE policy change recommendations.

APPENDIX A: SURVEY INSTRUMENT

43. Please describe any Purchase Card LIMIT policy change recommendations.

44. Please describe any OTHER Purchase Card policy change recommendations.

45. Does your agency have concerns that about the use of Purchase Cards that have not so far been addressed in this survey? If so, please describe your concerns here.

Agency Purchase Card Cost Savings

46. Federal agency Purchase Card savings could vary depending on agency size, Purchase Card procurement practices and innovative actions taken by the agencies to maximize Purchase Card related savings. Please indicate the degree to which the following items contribute to cost savings or enhanced revenues realized by your agency as a result of Purchase Card use: (1=substantial savings, 2=some savings, 3=no savings, 4=savings loss)

- | | |
|---------|--|
| 1 2 3 4 | Reduced staff time (and cost savings) in preparation and processing of authorization |
| 1 2 3 4 | Enhanced efficiencies in processing procurement transactions |
| 1 2 3 4 | Enhanced efficiencies in administrative oversight and monitoring (including dispute resolution) |
| 1 2 3 4 | Cost savings in finance related procedures including billing, payment and ex-post procurement audit activities |
| 1 2 3 4 | Net savings in training costs |
| 1 2 3 4 | Income enhancement resulting from differing cash management practices such as petty cash requirements and float opportunities. |
| 1 2 3 4 | Agency Purchase Card refunds |
| 1 2 3 4 | Other: |

47. If Other, please describe _____

ings associated with the Purchase Card use in FY2004. The email you received requesting your participation in this survey had an attachment for Appendices A and B. These appendices provide alternative templates or methods which your agency may use in preparing Purchase Card cost savings estimates.

Please complete the worksheets for Appendix A or B you received by email and provide the requested information below. Then send the worksheets (preferably by email) to Anna Miller, AGA director of research, at amiller@agacgfm.org, or fax them to her at 703.548.9367 and either the researchers or AGA staff will follow up with you.

48. Please indicate the method used for preparing agency cost and revenue impacts:

- ____ Appendix A method
____ Appendix B method
____ Both methods
____ Other, please explain _____

49. Please enter agency estimate of Purchase Card use savings in FY 2004.

50. Please enter Net Total Agency Dollar Savings (or Costs).

Note that benefits and costs that are not quantifiable in dollars should be discussed in Question #39.

51. Please enter agency estimate of refunds and cash management income resulting from agency use of Purchase Card in FY 2004.

52. Please add comments, if any, on your estimates and assumptions.

Thank you very much for participating in this study.

Cost Savings Estimates

This section requests agency estimates regarding cost sav-

Appendix A

APPENDIX A: SURVEY INSTRUMENT

Estimation of Cost Differential Between Using the Purchase Card and Alternative Agency Procurement Practices

This comparative cost analysis model or template is provided to assist you in estimating differential costs your agency would have incurred in carrying out its procurement transactions in FY 2004 if the Purchase Card system had not been used. The template suggests agency procurement cost areas that might be impacted by the "unavailability" of the Purchase Card procurement system. The net differential could have a positive or negative affect on cost savings.

1. Personnel: **Net Agency Cost Differential**

Procurement _____

Administration _____

Clerical _____

Oversight/ Auditing _____

Finance personnel _____

Overseas agents _____

Other _____

2. Re-Engineering administrative and financial processes: **Net Agency Cost Differential**

Training costs _____

IT system designs _____

Other _____

3. Other than Personnel **Net Agency Cost Differential**

Processing costs

Supplies _____

Equipment _____

Storage _____

Other _____

4. Cash management: Net Agency Cost Differential

Petty cash administration costs, _____

Funds transfer "float" adjustments _____

Discount Eligibility _____

Card company rebates _____

Financial transaction fee adjustments _____

Other _____

Total Cost Impact _____

Comments on estimates and assumptions:

Please send this worksheet to Anna Miller, AGA Director of Research, at amiller@agacgfm.org, or fax it to her at 703.548.9367.

Appendix B: Comparative Transaction Cost Analysis

APPENDIX B

Model

This comparative cost and benefit analysis model or template provides for the comparison of the time involved in conducting the various procurement steps with the Purchase Order method (Column I) vs. the Purchase Card (Column II) in section 1. For some processes, the time involved in carrying out the procurement activities may differ, while for other processes, the procurement method may not impact staff time commitments. The numbered sections of this template provide guidelines for estimating the cost savings associated with processing time differentials and other benefits associated with Purchase Card use. The focus of the study is the cost savings and benefits of processing procurement transactions with the purchase card versus purchase orders. Therefore it is suggested that computations focus on estimating time differentials and cost or benefit differences for those activities where there are significant differences in time commitments or other benefits.

1. Per Transaction Staff time commitments

	I. Purchase Order (Minutes) (Minutes)	II. Purchase Card (Minutes) (Minutes)	III. Differential I. subtract II. (Minutes)
A. Requisition preparation time (mean per Transaction for Agency)			
1. Define Requirement	_____	_____	_____
2. Prepare Requisition	_____	_____	_____
3. Obtain Funding Authorization	_____	_____	_____
4. Obtain Approval of Requisition	_____	_____	_____
Subtotal			_____
B. Purchasing process time (mean time per transaction for Agency)			
1. Requisition Review	_____	_____	_____
2. Review of Required Resources	_____	_____	_____
3. Administrative/Managerial review	_____	_____	_____
4. Contact Vendor(s)	_____	_____	_____
5. Document Solicitation of Order	_____	_____	_____
6. Issue Purchase Instrument	_____	_____	_____
Subtotal			_____

APPENDIX B

	I. Purchase Order (Minutes) (Minutes)	II. Purchase Card (Minutes) (Minutes)	III. Differential I. subtract II. (Minutes)
C. Administration of Purchase Document (mean time per transaction for Agency)			
1. Disputes	_____	_____	_____
2. Closeout	_____	_____	_____
Subtotal			_____
D. Receiving Item (mean time per transaction for Agency)			
1. Receiving	_____	_____	_____
2. Inspection	_____	_____	_____
3. Acceptance	_____	_____	_____
Subtotal			_____
E. Processing Invoice (mean time per transaction for Agency)			
1. Review/Approve Invoice	_____	_____	_____
2. Review Monthly Statement	_____	_____	_____
Subtotal			_____
F. Estimated Agency Mean Total Staff Time per Procurement Transaction (in minutes)	_____	_____	_____

The mean total staff time per procurement transaction in columns I and II should equal the sum of lines A-F for the appropriate column.

APPENDIX B

2. Estimated Per Item Agency Staff Time Cost

(Purchase Card vs. Purchase Order)

	I. Purchase Order (Minutes) (Minutes)	II. Purchase Card (Minutes) (Minutes)	III. Differential I. subtract II. (Minutes)
G. Mean Staff Cost per Transaction Calculation: Total Minutes per Procurement Transaction in line F. multiplied by the Cost per Minute. The cost per minute should be based on mean staff salary per minute for Agency at the appropriate GS level, please indicate GS level _____.	_____	_____	_____
H. Staff Benefit Costs (multiply Line G by the appropriate salary benefits rate for GS level used above.)	_____	_____	_____
I. Total Mean Staff Cost per Procurement transaction (G + H)	_____	_____	_____

3. Other Agency Procurement per Transaction Costs (Purchase Order vs. Purchase Card)

	I. Purchase Order (Minutes) (Minutes)	II. Purchase Card (Minutes) (Minutes)	III. Differential I. subtract II. (Minutes) J.
Agency Overhead & Administrative Fees per Transaction)	_____	_____	_____
K. Agency Finance Charges per Transaction (if applicable)	_____	_____	_____
L. Total Other Procurement Costs per Transaction	_____	_____	_____
M. Total Procurement Costs per Transactions (Add Lines 2-I. and 3-L)	_____	_____	_____

4. Miscellaneous Purchase Card Benefits and Costs.

Please identify any other quantifiable benefits or costs attributable to Purchase Card use that can be measured in dollars. Consider cash management issues, procurement cycle time reductions, canceled transactions, government purchase discounts, sale tax exemption, etc.

Net Total Agency Dollar Savings (or Costs) _____

APPENDIX B

Note: Benefits and costs that are not quantifiable in dollars should be discussed in survey responses.

5. Total Agency Savings & Benefits in FY2004 From Using Purchase Card

a. Total Purchase Card Transactions (FY 2004) _____

b. Total Purchase Card Savings _____

Calculation: multiply "Savings per transaction" in column III of Line 3-M times the number of purchase card transactions in FY2004 above.

c. Total annual Refunds to Agency for using Purchase Card _____

d. Net Purchase Card Savings & Benefits for FY 2004 _____

Calculation: Add Lines 5-b and 5-c and add (subtract) other benefits (costs) from Line 4.

Please send this worksheet to Anna Miller, AGA Director of Research, at amiller@agacgfm.org, or fax them to her at 703.548.9367.

End Notes

1. Executive Order 12352, Federal Procurement Reforms, March 17, 1982. It called for the establishment of programs to simplify small purchases, minimize paperwork burdens, and ensure timely payments, while not specifically citing use of cards. It called for DOD, GSA, and NASA to consolidate their procurement regulations into a single FAR, see [4] below.

2. The Purchase Card Council, Government Purchase Card, September 1994, page 4

3. The Purchase Card Council, Government Purchase Card, September 1994, pages 11-14

4. The Federal Acquisition Regulation (FAR), in the Code of Federal Regulations at 48 CFR Chapter 1 was established to codify uniform policies for acquisition of supplies. The Parts relevant to the Purchase Card Program are Part 1, Part 8, and Part 13.

5. GAO, United States General Accounting Office, Contract Management: *Agencies Can Achieve Significant Savings on Purchase Card Buys*, GAO-04-430, Report to Congressional Requestors, March 2004.

6. GSA, General Services Administration, Congressional Testimony, by Neal I. Fox, Assistant Commissioner, Office of

Commercial Acquisition Federal Supply Service, April 28, 2004.

7. DFAS, the Defense Finance and Accounting Service, delivers finance and accounting services worldwide from its headquarters in Arlington, VA; five major sites located in Cleveland, Ohio, Columbus, Ohio, Denver, Colorado, Indianapolis, Indiana, and Kansas City, Missouri; and 20 field sites, including overseas locations.

8. The Purchase Card Council, Government Purchase Card, September 1994, page 6

9. U.S. Army Audit Agency, *Savings From Acquisition Reform*, Audit Report: AA 97-58, January 7, 1997.

10. GSA Home, www.gsa.gov, GSA Smart Pay, Purchase Charge Card A/OPC On-Line Training Program, Section I: Purchase Charge Card Program Overview: Why does the U.S. Government have a charge card program? October 15, 2004

11. Using the 1993 Purchase Card Council amount of \$53.77 per transaction. The Purchase Card Council, Government Purchase Card, September 1994, page 6.

12. The web reference for vendors listing POS discounts is: www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_DOCUMENT&contentId=18416&noc=T.



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