

**GOVERNMENT PURCHASE CARDS: SMARTER USE
CAN SAVE TAXPAYERS HUNDREDS OF
MILLIONS OF DOLLARS**

HEARING

BEFORE THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDRED EIGHTH CONGRESS

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WEDNESDAY, APRIL 28, 2004

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:02 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senator Collins.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

Good morning. Today the Committee on Governmental Affairs will explore the Federal Government's use of purchase cards, which are commercial charge cards used by Federal agencies to buy billions of dollars worth of goods and services each year. We will hear the results of the General Accounting Office's investigation into waste, fraud, and abuse in the purchase card program.

The American people have the right to expect the Federal Government to spend their tax dollars carefully and wisely. While this is true at all times, it is never more so than today when the government faces enormous fiscal pressures and a growing budget deficit. This Committee has an important mandate to help safeguard those tax dollars from waste, fraud, and abuse. To meet this mandate, the Committee has launched an initiative to root out government waste. Today's hearing is part of that overall effort and will focus on wasteful, inefficient, and in some cases, fraudulent transactions using purchase cards.

Purchase cards were first introduced by the General Services Administration on a governmentwide basis in 1989. These cards are primarily used for making routine purchases such as office supplies, computers and copying machines. Purchase cards are similar to the personal credit cards that we all carry, but with one important difference. The taxpayer pays the bill.

Although the card is only supposed to be used for official purposes, the Federal Government is responsible for paying all charges by authorized cardholders regardless of what is purchased. While legitimate purchases are usually quite small, they nevertheless add up to big money. Purchase card use has soared during the past decade, from less than \$1 billion in fiscal year 1994 to more than \$16

billion in fiscal year 2003. There are more than 134,000 purchase cardholders in the Department of Defense alone.

This explosive growth presents both challenges and opportunities. While there are many benefits to the purchase cards such as expediting purchases, cutting down on red tape and paperwork, and saving administrative costs, the General Accounting Office and the Inspectors General have reported that inadequate controls over purchase cards leave agencies vulnerable to waste, fraud, and abuse.

We will hear testimony this morning describing how smarter use of purchase cards could save taxpayers hundreds of millions of dollars. A GAO report that I requested, along with Senator Russ Feingold and Congresswoman Shakowsky, which is being released at this hearing, highlights several wasteful purchasing practices.

The GAO concludes that many agency cardholders fail to obtain readily available discounts on purchase card buys. In too many cases, purchase cardholders are buying goods and services from vendors that have already agreed to provide government discounts through the GSA schedule, yet cardholders often lack the information and the training needed to obtain these discounted prices. As a result, the GAO found numerous instances of cardholders paying significantly more for items for which discounts had already been negotiated.

In light of the fact that conscientious shoppers often can obtain savings beyond the scheduled discounts, these findings indicate that some Federal agencies are substantially overpaying for routine supplies.

Let me give you an example. An analysis of the Department of Interior's purchase card buys of ink cartridges found that most of the time the cardholder paid more than the government schedule price to which the vendors had already agreed. One vendor, for example, had agreed to a schedule price of \$24.99 for a particular ink cartridge. Yet of the 791 separate purchases of this cartridge, only two were at or below that price. Some purchasers paid \$34.99, or about 40 percent more for the same item. That may sound like a small item and a small amount, but when you start multiplying that across Federal agencies it quickly translates into significant money.

In conducting its investigation, the General Accounting Office examined six agencies that together account for more than 85 percent of all government purchase card transactions. If the six agencies reviewed in the study negotiated discounts of just 10 percent from major vendors, and if the agency employees had used those discounts, the GAO estimates annual savings of approximately \$300 million. Over 10 years, that is \$3 billion. Since we are in the Dirksen Senate Office Building I will remind everyone of Senator Dirksen's famous statement that when you're talking about a billion here, a billion there, pretty soon you are talking about real money.

The GAO also found that agencies should be making greater efforts to collect and analyze data on purchase card transactions. This would help agencies to eliminate waste and to expose fraud and abuse. In addition to testimony from the GAO, we will hear today from an official from the Department of Defense's Inspector General's Office who will report on his very interesting efforts to

use data mining to identify inappropriate purchase card transactions including outright fraud.

In one case, an employee used a purchase card to charge \$1.7 million in fraudulent purchases from a fictitious company set up by her brother. These fraudulent charges took place over a 3-year period and they were not detected by the officials responsible for reviewing the bills. It was the data mining technique that identified these fraudulent charges.

Examples like this one demonstrate the need for better controls over the purchase card program and further demonstrate why it is vital to give agencies the tools that they need to control fraud and abuse. The testimony from the Inspector General's Office will illustrate how data can be used as a management tool to detect fraudulent and improper transactions as well as to ensure that agencies get the very best prices on their many purchases.

We will also hear from Neal Fox of the General Services Administration which has overall responsibility for the purchase card program. We must assure taxpayers that the Federal Government is shopping carefully, wisely, and honestly. That is why Senator Feingold and I today will introduce the Purchase Card Waste Elimination Act of 2004. Our legislation requires the Office of Management and Budget to direct agencies to better train cardholders and to more effectively scrutinize their purchases.

This legislation also instructs the GSA to increase its efforts to secure discounts from vendors and to provide better tools to agencies to control wasteful spending. For example, one common sense reform that could be implemented is to make sure that those discounts come up at the point-of-sale. That way even if the individual cardholder were not aware of the discount, the discount would apply anyway. That is the kind of practical approach that literally could save hundreds of millions of dollars.

I welcome our witnesses today and I look forward to hearing their testimony.

First let me introduce our first witness today, Greg Kutz, who is the Director of Financial Management and Assurance in the General Accounting Office. He is responsible for financial management issues related to the Department of Defense, NASA, State and USAID. I believe that he is accompanied by other GAO officials, including David Cooper and Special Agent John Ryan. We have worked with this GAO team before on numerous investigations and they do a great job and I am very pleased to have them with us today.

Our second witness will be Colonel William Kelley. Colonel Kelley returned to active duty in January 2002 to support Operation Noble Eagle. He is serving both as the senior military officer in the Office of the Inspector General at the Department of Defense as well as the program director for the data mining division. He is accompanied by David Steensma, who is the Assistant Inspector General of the Contract Management Directorate. Mr. Steensma is responsible for directing audits and managing operations for issues that cover acquisition, logistics, contracts, charge cards, military construction and environmental policies. I do not think you have nearly enough to do. I think we could add just a few more things to that list. [Laughter.]

Our final witness today will be Neal Fox, who is the Assistant Commissioner for Commercial Acquisition of the U.S. General Services Administration. Mr. Fox is responsible for managing commercial service and product initiatives under the \$16 billion purchase card program.

I very much appreciate all of you being here today and I look forward to your opening statements. Mr. Kutz, we are going to start with you. Thank you.

TESTIMONY OF GREGORY D. KUTZ,¹ DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE

Mr. KUTZ. Chairman Collins, thank you for the opportunity to discuss the purchase card. We support the use of a well-managed purchase card in the Federal Government. However, improved management oversight and control is necessary for the Federal Government to fully realize the benefits of the card.

My testimony has three parts. First, use of the purchase card in the Federal Government. Second, leveraging the government's purchasing power. And third, the status of fraud, waste, and abuse.

First, I have a Navy purchase card in my hand that is also shown on the poster board here. As you can see, it looks just like a normal credit card. The Navy card can generally be used wherever Mastercard is accepted. Usage of purchase card such as this one in the government grew, as you mentioned, from \$1 billion in 1994 to over \$16 billion in 2003. Use of the purchase card has fundamentally changed the way that agencies make small, routine purchases. In fiscal year 2003 agencies used the purchase card for over 26 million transactions. Agencies estimate that hundreds of millions of dollars can be saved when using the purchase card through reduced transaction processing costs.

Second, as noted in our report that is released today, increased focus on negotiating discounts could result in hundreds of millions of dollars in annual savings. The six agencies that we studied, as you mentioned, account for over 85 percent of the Federal Government's purchase card activity. As shown on this poster board, these six agencies do substantial business with major vendors, those with over \$1 million of annual purchase card activity. We found that agencies generally have not taken effective action to obtain favorable prices from major vendors such as these.

In fact our work has shown that cardholders often pay retail prices when using the purchase card. For example, we found that cardholders paid 12 to 20 percent more than GSA schedule prices for office supplies, cell phones, and computer equipment. Our work indicates that if these six agencies obtained discounts of only 10 percent from the major vendors that up to \$300 million a year could be saved.

The following examples of annual savings through discounts clearly demonstrate the potential for these savings including—Veterans Affairs estimated \$8.5 million for medical and surgical supplies, USDA's \$1.8 million for office supplies, and the Air Mobility

¹The joint prepared statement of Gregory D. Kutz, David E. Cooper, and John J. Ryan appears in the Appendix on page 23.

Command's estimated \$13 million through schedule prices and discounts from local merchants.

Chairman Collins, we believe that your legislation is consistent with our recommendations and has the potential to save the government hundreds of millions of dollars annually.

Third, although there has been significant focus on fraudulent and abusive usage of the purchase card challenges remain. In the early years of the purchase card program management focused on expanding the use of the card. However, similar attention was not paid to putting internal controls in place. As a result, at DOD and four civilian agencies we found significant breakdowns in internal controls and fraudulent, improper, and abusive usage of the purchase card.

We used data mining, forensic auditing, and investigative follow up to identify these purchases. We identified cardholder fraud, vendor fraud, and the fraudulent usage of compromised purchase card accounts. Purchase cards were used for items such as adult entertainment, jewelry, cruises, and designer leather goods.¹ The poster board shows several other specific examples of improper and abusive purchases including Bose wave radios and headphones to listen to music, leather bomber jackets purchased at the sky mall, personal luggage for frequent travelers, and taxidermy services for the mounting of a road kill mule deer.

We also found ineffective inventory control over the purchases of sensitive and pilferable property. Examples of lost, missing, or stolen property include digital cameras, laptop computers, Palm Pilots, and cell phones. The key causes of the problems we identified were lack of management oversight and accountability, a proliferation of the number of purchase cards, and the ineffective design and implementation of internal controls.

For example, like most Americans, cardholders are expected to reconcile their receipts to the monthly credit card bill. However, oftentimes purchase cards were simply rubber stamped for approval with no review of the cardholder or the approving official.

Significant steps have been taken at agencies such as DOD to improve the management, oversight, and internal controls over the purchase card. For example, agencies recognized that the proliferation of purchase cards was a key cause of the problems. As a result, the number of government purchase cards has been reduced from a peak of 500,000 to about 315,000 today. DOD alone eliminated 100,000 purchase cards.

DOD has also taken actions to address 109 recommendations that we made to improve their program.

Members of Congress and taxpayers may wonder what happened to cardholders that misused the government purchase cards. Unfortunately, the answer is not much. The items on the poster board and other items such as food, clothing, toys and alcohol were paid for by taxpayers. We believe that the use of Federal funds for personal items is not appropriate. The lack of consequences for misuse of government money does not create an effective control environment.

¹The chart entitled "Abusive Purchase Card Acquisitions" appears in the Appendix on page 50.

In conclusion, the purchase card has improved the efficiency of the Federal Government's operations. Positive actions have also been taken to improve internal controls. However, continued management focus and congressional oversight is needed to ensure that fraud and abuse are minimized. Finally, to achieve the full benefits of the purchase card more attention is needed to the prices paid.

With the serious fiscal challenges facing our Nation, it is critical that the government realize the hundreds of millions of dollars of potential savings discussed today.

Chairman Collins, this ends my testimony. Special Agent Ryan and Mr. Cooper and I would be happy to answer your questions.

Chairman COLLINS. Thank you. Colonel Kelley.

TESTIMONY OF COLONEL WILLIAM KELLEY,¹ PROGRAM DIRECTOR, DATA MINING DIVISION, OFFICE OF THE INSPECTOR GENERAL, U.S. DEPARTMENT OF DEFENSE

Colonel KELLEY. Thank you very much for giving us the opportunity, for myself and Dave Steensma, to talk to you today about the purchase cards.

Although the Department has taken aggressive action like Greg Kutz has talked about, we have some additional problems in better implementation and oversight and management controls at the activity level. Every dollar we spend that is not prudently used could result in us not having dollars available in our global war on terrorism efforts. In fiscal year 2003, we in DOD did almost 11 million transactions at a value of \$7.2 billion. Every working day, DOD employees make about 41,000 purchases valued at about \$27 million. A day's worth of purchase receipts for these transactions could make a pile that stands over 13 feet tall.

We need to build processes that pick the most important receipts from that pile to review because we cannot review them all. We do not have the resources. Management oversight we think could include processes such as restacking those receipts in an automated concept so that we could array them based on risk, for example. That risk could be identifying receipts that are for services or items that are potentially inappropriate, or trying to decide if we are making the best buys.

Today we will present the results very briefly on three of the audit reports that we have issued recently, and we will discuss further action to promote our data mining and to partner with other activities within the government to prevent fraud, waste and abuse. Finally, we will present information that shows improvements in management of the purchase card program.

The Office of Inspector General and auditors led a joint review. You have seen the report I believe, ma'am. We reviewed 1,357 cardholders that we identified using business rules and fraud indicators. Based on that review we determined that 182 of those cardholders either inappropriately used the card or fraudulently spent about \$5 million of our scarce resources. Further, 41 of those cardholders were referred for criminal investigations.

¹The joint prepared statement of Colonel Kelley and David K. Steensma with attachments appears in the Appendix on page 52.

One example was a cardholder used the purchase card to make 59 fraudulent purchases totaling more than \$130,000. The purchases included two automobiles, a motorcycle, cosmetic surgical enhancements. Currently, that cardholder is in prison.

In a review of Washington headquarters services, as was discussed, the lack of management controls and oversight led to \$1.7 million in fraudulent purchases and at least \$201,000 of additional purchases that were abusive or inappropriate. The director, a GS-15, and her deputy and her brother, who was the vendor, were convicted of the theft. We actually were buying paper for the bills. That is all we were getting from that vendor was the bills and that is what we were paying for. The director and the vendor are in prison. They received 3 and 4 years' worth of incarceration respectively and were required to make restitution.

Cardholders also circumvented required contracting procedures and did not receive the best value for supplies and services. For example, we paid \$36,000 for 9,000 American flag decals. They could have been bought for \$3,000. The director of the headquarters services agreed to implement any corrective actions and improve management controls.

Controls over purchase cards were also ignored by senior management at the information technology center in New Orleans, Louisiana. Approximately \$1 million of purchases were questionable because there was no obvious or documented mission need for the items purchased. For example, they bought 10 pairs of binoculars, six bicycles and three global positioning systems without a need. Further, cardholders acquired computer equipment and office supplies and did not use available discounts and reduced prices.

In this case, the former director, his former deputy did not set the tone of accountability. The Navy agreed to the implementation of many of the recommended corrective actions and the four senior officials involved in this case have all retired.

In all of these examples the first line of oversight official either did not perform their duties or were involved in the inappropriate acts themselves. After this statement we can discuss ways management could use data mining to identify these kinds of activities at higher risk.

The Department is actively working to maintain a culture that promotes a positive and supportive attitude towards active management controls of purchase cards and accountability. Positive trends include, as was previously mentioned, the reductions in the number of purchase cards. We have been able in the Department to reduce them by 47 percent.

The Department has developed new training for all cardholders and billing officials to improve their understanding of the purchase card program management responsibilities and needed management controls. In addition, government charge card disciplinary guidelines for both military and civilians have been issued.

Further, the General Accounting Office noted the Department has made strong improvements over controls in the purchase card program, and we have initiated actions on almost all of the 109 recommendations they have made.

In January 2003, Mr. Steensma established the data mining division that I am currently the program director for after we ran the

initial testing. We took 12 personnel from our other audit activities to pioneer the data mining techniques in the Department to identify previously unknown relationships or patterns among charge card data. Our intent is to pass these techniques on to DOD managers, the Department's managers, to assist them in their oversight of the charge card program.

The Office of the Inspector General has been the focal point in the Department for charge card data mining, audits and investigations. Additionally, we have provided a forum for management to identify issues for audits and investigations. This increasing communications resulted in a positive approach to improve the purchase card program and is also to enhance our management relations with them. Additionally, the data mining division provided assistance and lessons learned to 12 other governmental agencies that are not part of the Department.

The data mining division continues to mine data for purchase, travel, and aviation cards. Since March the division has been working with the Navy to develop a pilot program for purchase card transaction oversight. In the pilot program the data mining division identifies high-risk transactions that are sent to the Navy pilot program via management who sends them via E-mail to the official who is responsible in the cardholder's chain of command requesting additional information for assessing the appropriateness of the purchase card transaction. The management official's response to the questions regarding the transactions populates a database and it gives us a way to better manage the program by using that additional data that we have requested.

The DOD program management office plans to implement some of these procedures and techniques used by the Navy pilot on a DOD-wide basis.

The concept of using data mining as a continuous monitoring system is depicted graphically to my right.¹ The biggest issue with that chart, and we can discuss it later, is the Department will have to resolve the issue of how bank data will be obtained and stored within the Department. That is probably one of the more difficult tasks.

We support the conclusions of the General Accounting Office report that was released today. We look forward to using data mining techniques and working with the Department's acquisition community to creatively reduce cost related to prices on purchase card buys. We support the GAO recommendations in obtaining more point-of-sales discounts.

Other areas to improve that you might want to explore include the following: There needs to be better training developed and provided to all cardholders on how to be more efficient and effective buyers, and obtain best price and value for the government. There should be a central repository for all charge card type data received from the banks. This will reduce the cost of the banks and to each of the agencies for developing their own solution set for storage and access to the data. All transactions should flow through the same process. All data elements would be standardized and business rules for data mining could be shared.

¹ The graph referred to appears in the Appendix on page 67.

The data in the central repository could be mined to identify spending trends and utilization of vendors. This will help identify which vendors that we need to do a point-of-sale or some type of a discount with. There should also be continuous research on data mining tools and techniques, how to best educate and create smarter purchase buyers, how to improve and streamline management of the charge cards, and prevent fraud, waste, and abuse, and strategic buying of goods and services. A center of excellence for use of cards could be established to perform these previously mentioned duties.

The digital data available from the banks on the use of charge cards coupled with the purchasing power of the Federal Government has created an historic opportunity for the government to transform itself and its buying habits. We need an organization to take the lead in this area because we do not want vendors to have to negotiate discount agreements with numerous Federal agencies, and numerous agencies developing similar training to create smarter buyers. We think we ought to couple all of this together.

In conclusion, we think the Department has made great strides in improving the program. There is still more work to be done and we thank you for giving us the opportunity to talk to you.

Chairman COLLINS. Thank you. Mr. Steensma.

Mr. STEENSMA. The Colonel already spoke to my remarks.

Chairman COLLINS. OK. Thank you. Mr. Fox.

TESTIMONY OF NEAL I. FOX,¹ ASSISTANT COMMISSIONER, OFFICE OF COMMERCIAL ACQUISITION, FEDERAL SUPPLY SERVICE, U.S. GENERAL SERVICES ADMINISTRATION

Mr. FOX. Good morning, Senator Collins. I am pleased to be here on behalf of the Administrator of General Services to discuss the government-wide charge card program, commonly referred to as GSA SmartPay, which issues purchase, travel, and fleet cards to Federal agencies, organizations, and Native American tribes. Today, I will discuss the purchase card program.

GSA has been managing the purchase card program since 1989. The most recent purchase card contracts were awarded in 1998 to five banks as part of the GSA SmartPay program. 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 recovering 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 cost, increased efficiency, and reduced the time it takes to obtain goods and services. With annual card purchases of approximately \$16.3 billion, the purchase card is the primary payment and procurement method for purchases under \$2,500, often referred to as micro purchases. Additionally, the purchase card is now emerg-

¹ The prepared statement of Mr. Fox appears in the Appendix on page 70.

ing as a valuable contract payment mechanism for transactions above \$2,500.

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 and control and oversight.

According to Professor Richard Palmer of Eastern Illinois University, considered to be 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 for only 0.017—that is 17-one-thousandths of a percent—of purchase card spending at State and Federal agencies, which is equivalent to \$170 of misuse for every \$1 million of purchase card spending. This is lower than any other institution, including corporations, universities, and city and county governments.

Building on our successes to date, GSA and its customer agencies are taking further actions to significantly reduce program risk, such as decreasing the government's financial exposure through closing unused or infrequently used card accounts. Fewer cards equate to less risk. As previously mentioned, the number of open card accounts has been cut in half over the last 3 years.

Realigning the span of control between purchase card holders and approving officials, which at 23 major departments and agencies has dropped significantly, and averages one approving official for every 3.5 card holders.

And taking appropriate action against employees whenever fraud or misuse are detected, including training or discipline, based upon the nature of the misuse.

At GSA, we are now turning our attention to the next round of priorities for the purchase card program, including those mentioned in the recent GAO draft audit report. GSA agrees with the draft report's findings and recommendations. The report provided an objective analysis of the savings that can be obtained by agencies through the use of GSA schedules, combined with the GSA SmartPay program.

I would now like to discuss the specific recommendations GAO made to GSA and our actions supporting those recommendations. The report concluded that agencies have just begun to tap the potential savings of leveraging the purchase card volume for better pricing and states that hundreds of millions of dollars could be realized annually if agencies took advantage of their buying power. We agree that obtaining more detailed purchase card data and offering customers opportunities to leverage spending through GSA schedules, our online tools "GSA Advantage" and "e-Buy," and other procurement and education resources will further enhance the government's ability to obtain more favorable pricing.

GAO recommended that GSA work with the banks to obtain more detailed purchase spend data, to include information such as top merchants, total transactions, and total dollars by agency and by industry. GSA continues to work with the banks and card associations in pursuit of these data. The banks' electronic access systems currently provide agencies with a record of all purchase card transactions, similar to what private citizens see on their personal

bank card statements. This electronic record is available to analyze spending patterns and to highlight questionable transactions.

Obtaining Level 3 data depends upon individual merchants upgrading their credit card reporting infrastructure, over which we have no direct control. Individual merchants decide to pass Level 3 data based upon individual business decisions. The government obtains Level 3 data on approximately only ten to 15 percent of its transactions because only a small percentage of merchants have the systems infrastructure in place to pass Level 3 data today. This issue will require continued research and discussion to attain the intended goal of providing more detailed purchase data.

GSA has recently been pursuing point-of-sale discounts with large vendors, especially those that are already on GSA's schedule. We have recently added Office Depot and Home Depot as walk-in stores offering discounts, and these stores are fielding automatic purchase card recognition in their electronic check-out systems.

It should be noted that the decision to incorporate point-of-sale capabilities, more precisely, automated check-out systems that will recognize a Federal Government purchase card and apply the appropriate GSA schedule discount to the card holder's order is largely merchant-dependent. Although several government contractors provide point-of-sale discounts under GSA's schedule, the vast majority of these discounts are not triggered by electronic card recognition. Similar to the Level 3 dynamics, automated point-of-sale discount systems are a function of the merchants' willingness to invest in systems infrastructure upgrades.

Notwithstanding the inherent challenges, point-of-sale discounts and Level 3 data are emerging trends and GSA desires to encourage these trends and also utilize them for the benefits of our customers. The GAO report notes examples of agencies that have leveraged their buying power in innovative ways and GSA intends to use such examples to educate our customers on these best practices and enable other agencies to do the same. GSA also will engage in updating its web-based training for card holders to include methods for comparing prices, including purchases through GSA Advantage and e-Buy.

GSA has recognized from the program's inception that card holder training is essential to proper use of the charge cards. GSA provides online training free to purchase card holders. The training discusses roles and responsibilities of card holders, proper use of the card, and ethical conduct. Many agencies choose to supplement this training with written, oral, or online training of card holders on agency-specific procedures.

GSA holds an annual training conference for over 3,000 agency program coordinators, auditors, and investigators on a variety of subjects, including innovative best practices and charge card management and use of electronic management control and oversight tools.

GSA's mission is to help Federal agencies serve the public by offering acquisition services at the best value. We expect our purchase card issuers to support this mission and deliver the best value to our purchase card customers, including providing more robust purchase card spend data. GSA recognizes the inherent challenges of attaining Level 3 data and point-of-sale discounts, but we

are making progress and are confident that leveraging buying power will be one of the next great success stories for the GSA SmartPay program.

Senator Collins, that concludes my prepared remarks for today. I would be happy to answer any questions. Thank you.

Chairman COLLINS. Thank you, Mr. Fox.

Mr. Fox, in your testimony, you cited a study and suggested to the Committee that the rate of misuse of purchase cards is very small. Of course, the problem with that study is that it is only looking at outright frauds, not the kinds of inefficient and wasteful purchases that GAO has documented could amount to something like \$300 million a year. But also, it seems to me you are underplaying the problem, because if you take even a small percentage and apply it to \$16 billion in purchase card transactions, you are very quickly getting into millions of dollars in outright fraud, not to mention the hundreds of millions of dollars that are being lost when card holders are not taking advantage of discounted prices that the government has already negotiated.

In our investigation, for example, and in working with GAO, the IGs, and reviewing various cases, we found many examples of fraud, for example, the \$1.7 million purchase card fraud that occurred at the Department of Defense Washington Headquarters Services, which I referred to in my opening statement. There was also a Navy card holder who used her purchase card 59 times to make \$132,000 in fraudulent purchases, including two automobiles and a motorcycle. We have heard of the kinds of abusive transactions that the GAO uncovered. There was a case in the VA which the Inspector General has outlined in his statement for the record where an employee used a purchase card to buy more than \$200,000 worth of electronic equipment for personal use, yet another case where an employee at a VA medical center charged \$170,000 in computers and other equipment. I could go on and on and on with examples.

Do you think this is just a tiny problem. It sounds like pretty serious cases of abuse to me that would be upsetting to the American taxpayer.

Mr. FOX. Senator Collins, any amount of fraud in the Federal Government by members of the Federal Government is too much fraud. So although we do like to point out that progress has been made, and that was the intention of the statements is to show that progress is being made, we want to get to that next level of progress just as everyone here at this table and on your Committee wants to get to that next level of progress.

You mentioned the progress that can be gained through data mining and we are fully on board at GSA with the need for more data mining. As we can try to get more merchants using, transmitting Level 3 data so that we can then have better data mining capability to drill down to see those exact purchases, what they were, where they were purchased, and who purchased them, exact dollar amounts, that next level of data is important to rooting out the remaining fraud.

As you mentioned, it does add up to millions of dollars, and again, any amount of fraud inside the Federal Government to GSA and all of us inside the Federal Government is unacceptable.

Chairman COLLINS. The problem is, if GSA, as the chief acquisition agency in the Federal Government, minimizes this problem by quoting studies that suggest it is a very small percentage, it doesn't exactly send the right signal to other agencies about the importance of using time, energy, and resources, such as DOD clearly has done, to try to crack down and eliminate this kind of waste, fraud, and abuse.

I want to ask Mr. Kutz GAO's opinion of the scope of the problem and of the study cited by Mr. Fox.

Mr. KUTZ. Yes. I would say that it is kind of an academic study of a real world problem. I mean, it was a survey, so it was a voluntary thing. If you were to survey the Department of Defense, where we did our work and where Colonel Kelley has done his work, they would, of course, have answered, "We have no fraud and abuse." And so how valid is a survey in identifying what is a real problem in the government?

The VA report itself, as I read it, identified 2 percent as misuse in that report, and I will tell you this. Could you put that posterboard back up? All the items that we identified on that posterboard and all of the other things we identify, when we went to the Department of Defense and at the other agencies that we did also, they did not acknowledge, they didn't recognize, they didn't have the controls in place to find these items. So if they had answered a survey, none of these would have been recognized on that survey as being fraudulent or misuse of Federal funds. So I really think that there are some serious flaws in doing a self-study of what this problem is.

I do think that the controls that are in place today versus several years ago mean that the problem is going to be less, and the bottom line is, most card holders are honest and they are doing the right thing and the vast majority is. But is it a 0.017 percent problem? I don't think so. I think we have seen it is probably higher than that. And certainly when you start getting to be like VA, 1 or 2 percent misuse of government purchase cards, that is fairly significant.

Chairman COLLINS. I think your point is a very good one, that if agencies have not yet implemented effective controls, they could be answering the survey very honestly and yet missing the whole extent of fraudulent transactions.

I want to follow up on a point that you made in your testimony about the relatively few cases where disciplinary action had been taken. Colonel Kelley mentioned some cases, and I was glad to hear of them, where criminal prosecutions had been brought and people had actually gone to jail. And I also want to emphasize that you are absolutely right that the vast majority of card holders are ethical and honest and use these cards in appropriate ways that save money for the taxpayer. But I am concerned, I am troubled that relatively few disciplinary actions have been taken in cases involving really egregious examples of fraudulent transactions for personal use.

Now, I understand that you examined 120 improper transactions and that you found that only 20 led to disciplinary actions, and this included improper purchases of clothing, of Coach leather briefcases, a \$600 computer bag, Lego toy robots, day planners, and a

host of other illegal or inappropriate items. Could you give me a sense of what happened in those 120 cases? Did the individuals end up repaying the Federal Government for these personal items, for example?

Mr. KUTZ. Well, first of all, we reported 120 misuses. It was a very target-rich environment for data mining, I would say. And so as Colonel Kelley said in his opening statement, there was no way for us to follow up and investigate every single item. So we had thousands and thousands of potentially fraudulent and misuse-type cases, but we reported on 120 in the reports we did.

Three of the individuals involved that were card holders repaid the government for those, and 20 of the 120 had some sort of disciplinary action taken, such as a verbal or written reprimand. They had to, in some cases, turn the items back. As I mentioned, three people paid the money back. And otherwise, there was really nothing that was done to those individuals.

I think to this day, and you get into the culture of the Department of Defense in some cases, some of the items that we are talking about here, they still believe were appropriate government purchases. They never really agreed with us on the Coach briefcases. They said, well, they are better quality and therefore they are worth us buying. But I think they just missed the point completely.

Chairman COLLINS. Well, it is disturbing that only three actually repaid the government. It concerns me that the lack of consequences for the use of purchase cards makes it more likely that these abuses will continue. Would you agree with that?

Mr. KUTZ. Yes, I would agree with that. In fact, it isn't just isolated to the purchase card. We had the same thing with the individually billed travel card. We have seen it with premium-class travel. Senators Coleman and Levin had a hearing on extensive improper usage of first and business class airline travel. We have got some draft reports with Senators Coleman and Levin right now on potential voucher fraud and other misuses with respect to centrally billed travel accounts. And again, I seriously question what kind of actions are going to be taken to individuals that misuse government funds, and that is probably one of the areas we are most disappointed in where the Department has gone.

As Colonel Kelley said, they have issued guidance, but they didn't agree at the Department level to follow up that this guidance will be consistently followed across the Department, and so certainly it is going to be inconsistently followed, which is what we saw before when we did our work. Some people will reprimand individuals. Others will do nothing.

Chairman COLLINS. Could I ask Mr. Ryan to join you at the table for the next question. You just mentioned that you are looking at the issue of vendor fraud, and I know Mr. Ryan has done a great deal of work in the whole area of looking at vendor fraud, whether it is dealing with purchase cards or fleet cards or other kinds of credit cards.

Could you tell us a little bit about your experience looking at the vendor side of the purchase card program? We tend to focus on the card holder misusing the card, but are there cases where vendors are ripping off the Federal Government through the purchase card program, as well?

Mr. RYAN. I think the system is set up that the vendor can take advantage of employees that pay less attention to the bills that come in. You can find that certain vendors are holding the government's purchase card in a database. They can keep submitting a transaction slip to the financial institution for monies to be received from that particular account. They can set it up where they will send \$2,500 to the bank on a purchase card transaction slip and constantly get paid that \$2,500, and if no one is confirming the services that the government is getting, the government will pay that vendor.

Chairman COLLINS. So it could be repeated payments of the same bill?

Mr. RYAN. That is exactly right, Senator.

Chairman COLLINS. Is there also a problem created by the incentives for an employee to make sure that they are paying bills on time? I remember years ago Congress reacting to complaints from small business people that the Federal Government paid in a delinquent manner that it caused a lot of cash flow problems. So as I recall, we passed something called the Prompt Pay Act and I am wondering if perversely that has created an incentive to move these bills, pay them quickly, and not necessarily review them to see if they have been paid already.

Mr. RYAN. That is absolutely correct. If I am receiving a bill and the money is not coming out of my pocket, it is coming out of somebody else's pocket, and my performance rating is based on how fast I can move paper, I am going to move it on because I want to get a good rating.

So if you are paying, and I think you have heard me say this before, you are making business decisions over security decisions, in this particular case, you are paying the bill. You have no idea if you have gotten the services. You are relying on other people. But as the processor of that paper, you have so many days to move it off your desk, and that is what they do. There are no checks and balance in regards to confirming that.

Mr. KUTZ. And the metrics that are in place are, in fact, for timeliness of payment. There are no metrics to look at the other issues we have talked about. And what it is called, basically—I am not sure it is—pay and confirm is what they call it, but it is really pay and chase, and unfortunately, oftentimes, the chase never happens. The bill gets paid and no one ever looks to see if we got the goods or services that we were supposed to, or whether they were in the same quality or quantity we ordered.

Chairman COLLINS. Thank you. Colonel Kelley, you mentioned in your testimony a case that I cited to Mr. Fox, or actually it is yet another case where a card holder used his card 52 times over an 8-week period to make a total purchase of \$551,000. I understand that case is under investigation, but I wonder if you could use that example to explain more to the Committee how you use data mining to flag an example that appears to be questionable at best, egregious fraud at worst.

Mr. KELLEY. Yes.

Chairman COLLINS. Could you walk us through the process?

Mr. KELLEY. Yes, ma'am. Basically, the tools we use are your expectations from your business rules. For example, in this instance,

this vendor was not used by a number of different card holders. An expectation would be the more card holders you have using a vendor, the less risk you have. So those vendors that are doing business with a small number of card holders have a higher risk. In this instance, those transactions were flagged for that reason.

The other business rule we used to couple with that was the fact that we were looking for card holders that made repetitive buys near the dollar limit over certain periods of time, and we can move that line in the sand anywhere you want, depending on what you are looking to do.

In this instance, these transactions popped up for two of those indicators, which we thought were pretty significant, and they went out and did the work to look at them and the DSA organization that did the work for us is smart partnering now with our DCIS investigators and I can say that this is going to probably end up in a referral for criminal prosecution for a number of reasons. Of course, it is an open investigation, so that is all I would like to say on that for right now.

Chairman COLLINS. But it is an example of a case that was identified by you through data mining, correct?

Mr. KELLEY. Yes, ma'am.

Chairman COLLINS. Mr. Steensma, as you know and as GAO has indicated, it isn't just the purchase card program that has had problems with waste, fraud, and abuse. There have been similar concerns with the travel card, the fleet card, and the aviation card programs. Do you believe that—well, first of all, is DOD looking at extending data mining techniques that are being used successfully in the purchase card program to those other cards, as well?

Mr. STEENSMA. Yes, we are, ma'am. We are already looking at the travel card and data mining that. We are looking at the air card and have done that actually in the past once and issued a report on it. We will be looking at the fleet card. But when you have millions of transactions like Colonel Kelley talked about, data mining is the only way you can actually get a handle and put the auditors or investigators in the right place to look at something and determine if it is valid or not.

Chairman COLLINS. What role do you believe that GSA should play in promoting greater use of data mining techniques, such as you are using successfully at DOD, to identify questionable transactions?

Mr. STEENSMA. Well, what we would like to see is that GSA get all the data from all the banks, create a central repository of all the charge card data. Then GSA would promote the data mining and use standard business rules and techniques across all the cards and all the data, and we would also like them to operate or run a program such as Colonel Kelley was going to explain. There aren't enough auditors or investigators out there to check on everything, but the way to cut down all these frauds and inappropriate purchases, it didn't just happen once. It happened numerous times.

If you have data mining and a central repository, with standard business rules for all agencies, what we would like to see is that on a regular basis, things that look inappropriate, E-mails or some electronic notice gets sent to the supervisor or the approving official that said, "hey, this looks strange. Give us some feedback on

it.” The supervisor would then respond and explain in the E-mail, after looking into the transaction, whether it was valid or not. That type of information would then be kept in a database also to be looked at to determine patterns and techniques.

But I think GSA needs to take the lead for the whole Federal Government, and like Colonel Kelley said, we have helped out 13 other agencies. That really isn’t our job. We need somebody to take the lead on data mining for everything. We also need them to do additional research on how to develop new data mining techniques and also so they can be used to improve the management controls and push it back out to the agency managers so they can actually manage this program and they can be the ones that help prevent fraud, waste, and abuse, or at least catch it before it gets widespread like we talked about today.

Chairman COLLINS. Mr. Fox, what is GSA doing to promote the expansion of data mining techniques in other agencies? DOD has indicated that they have had inquiries from several other agencies. They have been providing information to the Department of Commerce, the Postal Service, and the CIA. But that is not really DOD’s job. That is more GSA’s job. Could you inform us of what actions GSA is taking in this area?

Mr. FOX. Yes. We are working with all the agencies to look at ways to better accomplish the data mining. We have discussions, certainly monthly discussions with the DOD folks, as our largest customer, on how we can help them better accomplish this task. We are looking at building a next generation SmartPay program that will accomplish—that will encompass more sophisticated data mining capabilities into it.

But in the short term, we are working with the agencies to do a better job of data mining. Again, much of it goes back to trying to obtain more detailed data that comes out of the merchants themselves. Many of the merchants that are beneficiaries of the card are small businesses and have not jumped forward to put in place the systems to pass the Level 3 data. So trying to get the card agency associations to work with their merchants to try to pass more detailed data into the system and then find ways to accomplish the data mining.

We often find that the data mining is best done at the local level, as opposed to the centralized level. We are looking at both options as to what the right way to do it is. But if abuse is going to be found, it is most often going to be found at the local level and to provide that data mining available to the lowest-level folks, those folks who immediately supervise the purchase card holders, that is where we can have the most impact, is to provide them the tools at the most local level.

Chairman COLLINS. Mr. Kutz, what does GAO see as GSA’s role in this area as far as data mining or improving the internal controls used by other agencies?

Mr. KUTZ. I would concur with Mr. Steensma and I would go further with respect to, and I think that there are certain agreements we have with the banks now, and the GSA representative could probably be more specific with that, but the banks have their own fraud detection software. If you ever got a call from your bank with

an unusual charge on your account saying, is that really your charge, I have gotten those before certainly.

We didn't see that happening at the Department of Defense. So our suspicions when we have talked about this are that the banks were running the software but not making the calls, and so I think that is another part of the prevention of fraud and misuse that could be utilized across the Department, because we did see examples where people took these cards and they went down to the mall and they hit each of the stores in the mall. They were clearly fraudulent purchases. And if someone had made a call, they could have shut it off before more transactions had occurred.

Chairman COLLINS. That is a good point, as well.

We have spent a considerable amount of time talking about fraudulent purchases and how data mining techniques could identify those in the sea of bills that agencies are dealing with. But at least as important, perhaps even more important, is taking advantage of negotiated discounts.

Mr. Fox, why doesn't the GSA negotiate agreements with vendors so that these discounts come up at the point of sale, so you don't have to worry about the card holder being aware of what the price should be on a particular item?

Mr. FOX. We are aggressively pursuing that. We are up to 19 stores that our customers can walk into and get point-of-sale discounts. They include, as I mentioned, Home Depot, Office Depot, and others. We are adding others. We are working with Staples right now. We have talked to folks like Wal-Mart, talked to other large vendors who do not have schedule contracts to try to bring them onboard. Some of them resist. Wal-Mart has consistently resisted a GSA schedule contract for their own business reasons.

But we are aggressively working at it. Again, we are up to 19 walk-in stores and 32 catalogs. We have catalogs that customers can use to get—with discount companies and they provide the GSA discounts. So we do promote—we are up to a total of over 14,500 total GSA schedule contracts with vendors of all sizes around the country, 75 percent of which are small businesses, which tend to use the purchase card sometimes almost exclusively.

So we are trying to expand our programs all the time. We are adding new vendors at the rate of 20 percent per year right now and trying to expand those opportunities for our customers, and also the automatic credit card recognition is a big item for us as we add these walk-in, walk-out stores where customers can go in and present their card and not even mention they are with the Federal Government but get that automatic discount from places like Home Depot and Office Depot, as they are now. That is high on our agenda.

Chairman COLLINS. Mr. Steensma, based on your experience—actually, I am not sure whether this should go to Colonel Kelley or to you, so either of you can respond. Based on your experience, do you think that purchase card holders usually get the discounted price?

Mr. STEENSMA. No, I don't, especially on many of the activities we went to. Colonel Kelly talked about we were down there at Louisiana and they spent over \$800,000 buying normal computers and office equipment and supplies. They didn't get one discount off any

contract, GSA schedule, or anything. We found the same problem at Washington Headquarters Service.

Part of this comes from an education standpoint. Well, those two activities, it was a lack of controls, but we have in DOD well over a hundred-and-some-thousand buyers right now. If you go look at the training that they are provided, it is pretty good training on what they are required to do, the controls they should follow, and so on, but there really is no training in there on how to become a smarter buyer.

When we are talking about \$16 million in purchases, we need somebody that is going to do research and teach people, come up with web-based training, how to create better buyers for DOD, not just DOD but the whole Federal Government, and we need somebody to do that and that should be a role of GSA, how to make smarter buyers. We can save a lot more money than we have even talked about today once we can educate people not to just what is out there, but what the trends are and where people are going to buy and maybe we can negotiate lower discounts than we have already.

Chairman COLLINS. I think this is an area where there is a possibility of tremendous savings and we could make a real difference by instituting point-of-sale discounts and also by better training buyers, as you have suggested, and by being more aggressive in seeking these discounts from vendors with large volumes.

The final issue I want to touch on today is the proliferation of purchase cards. We obviously want to make sure that everyone who needs a purchase card has one, uses it appropriately, and that should save money for the Federal Government and make the process more efficient.

On the other hand, Colonel Kelley, I was struck by your statement—I think I got it correctly—that you have reduced the number of purchase cards at DOD by 47 percent. Is that correct?

Mr. KELLEY. Yes, ma'am. We didn't do it. The DOD—the Department did it.

Chairman COLLINS. I didn't mean you personally.

Mr. KELLEY. OK. Thank you. [Laughter.]

Chairman COLLINS. You took away each one of those, right? [Laughter.]

Mr. KELLEY. I have been accused of that, ma'am. [Laughter.]

Chairman COLLINS. But a 47 percent reduction is really significant, and I guess what I would ask you and Mr. Steensma is did reducing the number of card holders by that extraordinary number have a negative impact on the efficiency of the Department or the ability of individuals to get the items they needed quickly? Mr. Steensma.

Mr. STEENSMA. No, I would say not in the least. They eliminated cards from people who didn't need them, shouldn't have had them, don't use them. But the volume of purchases actually went up. I haven't heard one complaint about people couldn't get things that they needed on time because there wasn't a buyer there. We just had way too many cards, not just DOD but all the agencies out there. It was a good move to eliminate the thousands of cards that are already gone.

Chairman COLLINS. Mr. Fox, does the GSA put out guidelines for agencies to follow on how to decide whether employees should have purchase cards?

Mr. FOX. We do put out guidelines and they are available through our training programs. We have our annual training conference where, again, last year, we had 3,000 folks come to our training, annual training conference for SmartPay. We put out guidance to them.

We think that we have pushed the reduction of number of card holders out of GSA and the agencies have certainly done a great job of picking up on that, because we believe that reducing the numbers has a positive impact in two ways. It eliminates—it makes the agencies make tough choices about who will get the card and, therefore, they give them to those who need them the most. And also, it decreases the number of card holders managed per supervisory card manager and that is down, on average, to about three-and-a-half card holders per supervisory manager, which we believe is a great statistic.

Now, the agencies where you see them going up to 10, 15, or 20 card holders per supervisory manager, it is very difficult for those managers to keep track of those and reconcile the accounts and reduce fraud. We think accurate card reconciliation at the local level is an extremely important part of fighting fraud.

Chairman COLLINS. Mr. Kutz, is part of the problem here the proliferation of cards?

Mr. KUTZ. That was a major problem. Some of the initial looks we did at the Navy, for example, we found one out of every three employees would have a purchase card and they did not have enough approving officials, as I think the GSA representative mentioned here, and so you had instances where approving officials had 100 or more people that were making transactions that they were responsible for reviewing the statement, and it wasn't their full-time job. It was an "other duty as assigned," which meant it was a rubber stamp. There was no review of the bills being paid and that was where a lot of the cases, we found that was one of the symptoms or causes of the problem.

Chairman COLLINS. Thank you. It seems to me if you have so many card holders, that means you have way more transactions and that lessens the chance they are going to be reviewed and it increases the chances that they are going to be misused. It would be good if other agencies took the kind of aggressive approach that DOD did in really evaluating who needs a card.

It is highly significant to me, as Mr. Steensma testified, that you could reduce the number of card holders by 47 percent and yet the purchases have gone up. So that does suggest that the proliferation of cards is another area that we need to examine.

I want to thank each of you for being here today. I want to thank the GAO for doing a terrific job in taking a look at this issue and DOD also for the aggressive work you are doing.

Data mining has been a very touchy issue, as you know, in Congress, but this seems to me to be an ideal use of data mining that would allow us to identify questionable or outright fraudulent transactions without raising some of the privacy and personal in-

formation issues that are so controversial when data mining is applied in other arenas.

Mr. Fox, I would like to see GSA work more closely with the agencies to promote best practices, to learn from the experience at DOD and to implement fully the recommendations made by the General Accounting Office. It is my understanding GSA has endorsed those recommendations and is working to expand point-of-sale discounts and to implement the other reforms.

We look forward to working with you. I will be pursuing the legislation with Russ Feingold, as well, which I also think will be helpful. But thank you all very much for your assistance today.

I am convinced that if we focus on issues like this one that we can make a real difference in saving literally hundreds of millions of dollars across our government each year, and Colonel Kelley put it well, because each of those dollars are dollars that could be put to the war against terrorism or used to reduce the deficit or for other important programs. We have an obligation to the taxpayers to make sure that their money is wisely spent, and I think that the discussion today will help advance that goal.

The hearing record will remain open for 14 days for the submission of any additional materials. I want to thank my staff also for their hard work on this hearing.

This hearing is now adjourned.

[Whereupon, at 11:17 a.m., the Committee was adjourned.]

A P P E N D I X

GAO

United States General Accounting Office

Testimony
Before the Committee on Governmental
Affairs, United States Senate

For Release on Delivery
Expected at time 10:00 a.m. EST
Wednesday April 28, 2004

PURCHASE CARDS

Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars

Statement of

Gregory D. Kutz
Director, Financial Management and Assurance

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Director, Acquisition and Sourcing Management

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GAO-04-717T



Highlights of GAO-04-717T, a testimony before the Committee on Governmental Affairs, United States Senate

Why GAO Did This Study

From 1994 to 2003, the use of government purchase cards increased from \$1 billion to \$16 billion. During this time, agencies primarily focused on ways to increase the use of purchase cards. Beginning in 2001, GAO testified and reported that significant weaknesses in internal controls made agencies vulnerable to fraud, waste, and abuse, and inefficient purchasing actions. In response to increased use of purchase cards and serious control weaknesses in the purchase card program, GAO was asked to summarize the growth of the purchase card program, the control weaknesses that led to fraud and misuse of the cards, actions taken to tighten controls and discipline cardholders, and agency actions to leverage the government's buying power when using the purchase card.

In a companion report released today, GAO made recommendations to the Office of Management and Budget and General Services Administration, and the Departments of Agriculture, Defense, Interior, Justice, Transportation, and Veterans Affairs aimed at encouraging agencies to begin taking steps to achieve savings through better management of purchase card spending. In general, the agencies that responded agreed with GAO's findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-717T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9095 or kutzg@gao.gov.

April 28, 2004

PURCHASE CARDS

Increased Management and Oversight Could Save Hundreds of Millions of Dollars

What GAO Found

Governmentwide efforts to promote increased usage of purchase cards for small and routine purchases have dramatically increased the number of purchase card accounts and spending. The use of a well-controlled purchase card program is a useful tool in streamlining the government's acquisition processes and providing agencies flexibility to make small and routine purchases. However, improvements in program management and oversight could save hundreds of millions of dollars by (1) strengthening controls and monitoring transaction activity to minimize fraudulent, improper, and abusive purchase card transactions and (2) leveraging the government's buying power to achieve discounts with frequently used vendors.

GAO's audits of purchase card controls at DOD and four civilian agencies and federal agency Inspectors General audits identified ineffective management oversight and weak internal controls, leaving agencies vulnerable to fraudulent, improper, and abusive purchase card activity. GAO's data mining, forensic audit follow-up, and investigations identified numerous purchases of personal items such as jewelry, designer leather goods, clothing, stereo equipment, food, and entertainment. While agencies responded to these audit reports by issuing and updating purchase card policies and procedures, GAO's work at DOD demonstrated that little disciplinary or administrative action was taken against those who made improper or abusive charges.

GAO also found that agencies generally did not take advantage of opportunities to obtain more favorable prices on purchase card buys with frequently used vendors—vendors where an agency spends more than \$1 million annually. GAO's examination of six federal agencies that account for over 85 percent of federal government purchase card spending identified isolated examples of agencies negotiating discounts for items such as office supplies and technology purchases. However, a conservative approach indicated that if the six agencies obtained discounts of only 10 percent from vendors where they spent more than \$1 million a year, annual savings of up to \$300 million could be achieved without sacrificing the ability to acquire items quickly or compromising socioeconomic goals. As shown in the following table, during fiscal year 2002, these agencies spent nearly \$3 billion with frequently used vendors.

Amount Spent in Fiscal Year 2002 with Frequently Used Vendors (in millions)	
Defense	\$1,614
Veterans Affairs	822
Agriculture	72
Justice	154
Interior	85
Transportation	74
Total	\$2,821

Source: GAO analysis.

United States General Accounting Office

Madam Chairman and Members of the Committee:

Thank you for the opportunity to discuss the status of fraud, waste, and abuse in the federal government's purchase card program, improvements made, and opportunities for savings. Our testimony is based on findings from our report¹ released today, which was requested by this Committee, Senator Russell Feingold, and Representative Janice Schakowsky, as well as on findings from numerous testimonies and reports that we issued in recent years² that identified significant breakdowns in purchase card controls. The report released today looked at whether the six federal agencies with the largest purchase card spending have effectively leveraged the government's buying power. Our prior reports and testimonies assessed controls and vulnerability to fraudulent, improper, and abusive use of the purchase card at the Departments of Defense (DOD), Education, and Housing and Urban Development (HUD); the Federal Aviation Administration (FAA); and the USDA Forest Service. Our work was performed between September 2000 and January 2004 in accordance with generally accepted government auditing standards.

For a number of years, the federal government promoted increased use of purchase cards primarily for small and routine purchases, and use of purchase cards has dramatically increased. The General Services Administration (GSA) reported that in fiscal year 2003 more than 325,000 cardholders used purchase cards to make about 26.5 million transactions for over \$16.4 billion in goods and services. Purchase card transactions include acquisitions at or below the \$2,500 micropurchase³ limit and payments on contracts. The benefits of using purchase cards versus traditional contracting and

¹U.S. General Accounting Office, *Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys*, GAO-04-430 (Washington, D.C.: Mar. 12, 2004).

²A list of related GAO products is included at the end of this statement.

³ 48 C.F.R. § 2.101 (2003). However, the limit is \$2,000 for certain construction costs and \$15,000 for supplies or services related to the defense against or recovery from nuclear, biological, chemical, or radiological attack. 48 C.F.R. § 13.201 (2003).

payment processes are lower transaction processing costs and less administrative effort or “red tape” for both the government and the vendor community.

Our testimony today has five sections:

- Growth of purchase card usage in the federal government
- Control weaknesses that led to fraudulent, improper, and abuse purchases
- Limited disciplinary actions taken for misuse of the purchase card,
- Steps taken to improve purchase card internal controls, and
- Governmentwide opportunities to save hundreds of millions of dollars by leveraging buying power.

Summary

We support the use of a well-controlled purchase card program to streamline the federal acquisition processes. However, improved management oversight and internal control will be critical to fully realize the potential benefits of the purchase card. The purchase card offers significant benefits to the federal government from reduced transaction processing costs and increased flexibility to make small, routine purchases. Recognizing these benefits, federal agencies quickly expanded the use of the purchase card program from about \$1 billion in fiscal year 1994 to over \$16 billion in fiscal year 2003. During this substantial growth period, hundreds of thousands of purchase cards were issued to employees across the federal government, with a peak of 500,000 cards outstanding in fiscal year 2000.

While agency management made significant efforts to promote increased use of the purchase card, we and Inspectors General across the government determined that purchase card management oversight and internal control were ineffective. A weak overall control environment and significant breakdowns in key internal control activities left federal agencies across the government vulnerable to fraudulent, improper, and abusive use of the purchase card. Our data mining, forensic audit follow-up, and

investigations identified cardholder fraud, vendor fraud, and fraud due to compromised accounts. We found numerous purchases of personal items, such as jewelry, designer leather goods, clothing, stereo equipment, food, and entertainment charged to government purchase cards. In addition, we identified examples of vendors that have exploited control weaknesses to submit fraudulent bills that, in some cases, were not detected by cardholders or approving official review and thus were paid by agencies. Our work at DOD demonstrated that unless a cardholder has been convicted of fraud by a court of law, little disciplinary or administrative action is taken against those who have made improper or abusive charges.

As a result of our audits and those conducted by agency Inspectors General, executive branch agency focus on the development and implementation of effective internal controls has increased substantially. For example, the Office of Management and Budget (OMB) directed executive branch agencies to increase monitoring of the purchase card program and the Congress included language in DOD's fiscal year 2003 authorization and appropriation acts requiring DOD and the military services to take positive steps to improve the controls over the purchase card program. In addition, DOD and other executive branch agencies have issued revised purchase card policies and procedures, retrained cardholders and approving officials on the proper use of purchase cards, and substantially reduced the number of purchase card accounts from about 500,000 in September 2000 to about 315,000 in January 2004. These actions better articulate what the purchase card can and cannot be used for and improve the control environment and the design of key internal controls. If implemented effectively, these recent actions should significantly reduce the risk of fraudulent, improper, and abusive use of the purchase card. It is important to note that while DOD and civilian agencies have instituted numerous program improvements, we have not performed comprehensive audit and investigative work to verify whether these improvements are operating as intended.

While substantial attention has been focused on internal controls in recent years, very little management focus and attention has been placed on the aggressive pursuit of

savings through use of the purchase card. As discussed in our report released today,⁴ increased focus on negotiating discounts and leveraging the government's over \$16 billion in purchase card spending could result in hundreds of millions of tax dollars saved each year. Based on our examination of six federal agencies that account for over 85 percent of federal government purchase card spending, we found that most agencies have not identified and taken advantage of opportunities to obtain more favorable prices on purchase card buys. However, we did identify examples where agencies effectively negotiated discounts for items, such as office supplies and technology purchases. For these agencies, notable savings of 8 percent to 35 percent less than GSA's Federal Supply Schedule (Schedule) contracts were achieved. A conservative approach indicates that if the agencies that we audited obtained discounts of only 10 percent from their major purchase card vendors—those vendors where the government spends more than \$1 million a year—annual savings of up to \$300 million might be achieved.⁵ These savings could be achieved without sacrificing the ability to acquire items quickly or compromising socioeconomic goals.

Significant Growth of the Federal Purchase Card Program

The governmentwide purchase card program was established in 1989 to streamline federal agency acquisition processes by providing an efficient vehicle for obtaining goods and services directly from vendors without first preparing a contract or purchase order. GSA, which manages the purchase card program governmentwide, has awarded contracts to banks to provide standard commercial charge cards for use by federal employees. Use of the purchase card was initially restricted to procurement personnel. The Federal Acquisition Streamlining Act of 1994 (FASA) authorized cardholders to make micropurchases without obtaining competitive quotations, if they considered the price reasonable, and directed that purchases be distributed equitably among qualified

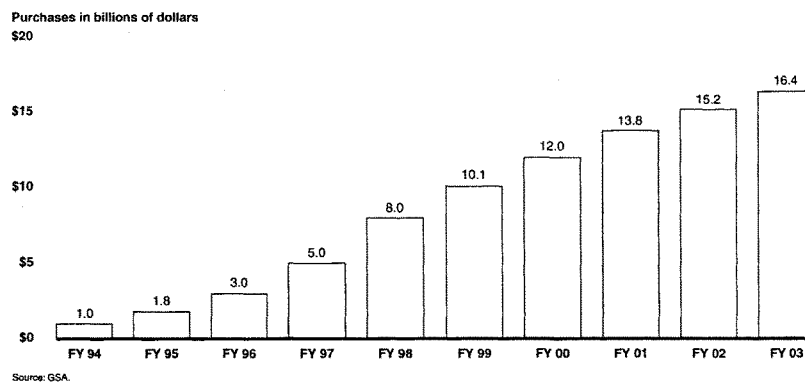
⁴GAO-04-430.

⁵The six agencies' spending with major vendors totaled about \$3 billion in fiscal year 2002.

suppliers.⁶ The act also provided authority to delegate procurement authority to cardholders who are not procurement officials. The Federal Acquisition Regulation (FAR) designates the purchase card as the preferred method of making micropurchases.⁷

Since the passage of FASA, the dollar value of goods and services acquired through the purchase card has increased significantly. As shown in figure 1, the amount the government spent with purchase cards increased from about \$1 billion in fiscal year 1994 to more than \$16 billion in fiscal year 2003.

Figure 1: Purchase Card Expenditures—Fiscal Years 1994 to 2003



As the purchase card program expanded during the 1990s, the number of cardholders increased in roughly the same proportion as expenditures increased. In the late 1990s, senior DOD management mandated the use of purchase cards for virtually all micropurchases, and cited an Army Audit Agency study that found that the purchase card provided administrative cost savings of \$92 per transaction compared to using purchase orders. DOD estimated that increased use of the purchase card would save DOD millions

⁶Pub. L. No. 103-355, § 4301, 108 Stat. 3243, 3346 (Oct. 13, 1994).

⁷48 C.F.R. § 13.201(b) (2003). Further, FAR Subpart 13.301 establishes guidelines for the use and management of the purchase card.

of dollars in annual processing costs and that the savings could be used to modernize and maintain our fighting forces.

GSA—whose mission includes helping federal agencies better serve the public by offering acquisition services at the best value—has created several tools that can help cardholders obtain more favorable pricing for goods and services. The most common of these is the Schedule program, which offers discounted prices on a wide range of commercial goods and services from multiple vendors.⁸ Further, the GSA Advantage online shopping service allows agencies to compare prices under various Schedule contracts, place orders, and make payments—all over the Internet.

Control Weaknesses Led to Fraudulent, Improper, and Abusive Purchases

We and Inspectors General across the government found ineffective management oversight and internal control over purchase card use. A weak overall control environment and substantial breakdowns in internal control left agencies vulnerable to fraudulent,⁹ improper,¹⁰ and abusive¹¹ charges. The importance of the role of management in establishing a strong control environment cannot be overstated. GAO's *Standards for Internal Control*¹² discuss management's key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and

⁸Although GSA negotiates discounted prices with various vendors on behalf of government agencies, the GSA Inspector General has raised concerns as to whether GSA is negotiating the best possible prices. In addition, at the request of this committee we are also assessing whether GSA is negotiating the best possible prices.

⁹Fraudulent purchases include charges made by cardholders that were unauthorized and intended for personal use or unauthorized transactions made by third parties.

¹⁰Improper purchases are those purchases intended for government use, but not for a purpose that is permitted by law, regulation, or agency policy.

¹¹Abusive transactions include those that were authorized, but in which the items were purchased at an excessive cost (e.g., "gold plated") or for a questionable government need, or both. Abuse can occur even though no law or regulation is violated. Rather, abuse also occurs when the conduct of a government organization, program, activity, or function falls short of societal expectations of prudent behavior.

¹²U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999).

maintaining the organization's ethical tone, providing guidance for proper behavior, and removing temptations for unethical behavior.

Agencies Had Not Established a Strong Control Environment

In establishing their purchase card programs, we found that the federal agencies that we audited primarily focused on maximizing the use of the purchase card, paying bills quickly, and developing performance measures for these activities. Agency purchase card managers did not equally focus their attention on establishing a strong control environment that promoted adherence to internal control procedures, and they did not develop performance measures to assess the adequacy of internal control activities. Rather, the only real metrics in place for purchase cards were related to the timeliness of payments and maximizing purchase card rebates.¹³ Consequently, at the agencies we audited, we found an ineffective overall internal control environment. Specifically, we found that agencies generally did not effectively (1) control the number of purchase cards issued, (2) limit approving officials' responsibilities to a reasonable number of purchase cardholders, (3) limit purchase card credit limits to historical procurement needs, (4) ensure that cardholders and approving officials were properly trained on the proper use of the purchase card, and (5) monitor and maintain an infrastructure necessary to effectively oversee the purchase card program.

- Proliferation of Cardholders. Agencies that we audited often did not have specific policies and procedures governing the number of cards issued or established criteria for identifying employees eligible for the privilege of cardholder status. The failure to establish effective policy concerning the number of cardholders necessary to accomplish the mission and who should be a cardholder resulted in a proliferation of purchase cards at DOD and other federal agencies. We reported that one DOD unit issued purchase cards to about 36 percent of its employees and an FAA office had issued cards to about half of its employees. Further, when the number of

¹³Under federal agency purchase card task orders with credit card issuing banks, agencies earn rebates (refunds) based on the sales volume (purchases) and the timeliness of their payments.

governmentwide cardholders peaked in September 2000¹⁴ at about 500,000 cardholders, nearly 16 percent of government employees had a purchase card. In comparison, information we obtained from six large defense contractors on their purchase card programs showed that the percent of the contractors' employees that were cardholders ranged from about 2 percent to nearly 4 percent—significantly less than the governmentwide peak of about 16 percent and the current rate of about 10 percent of government employees.

- Unreasonable Approving Official Span of Control. At the agencies we audited, we found that some approving officials were responsible for review and approval of excessive numbers of monthly cardholder statements. The proliferation of cardholders can create a situation where it is virtually impossible to maintain a positive control environment if the agencies do not establish a sufficient number of approving officials to review cardholder spending activities. For example, we reported that at one DOD unit a significant span of control issue existed with one approving official responsible for certifying monthly summary billing statements covering an average of over 700 monthly purchase card statements relating to 1,526 purchase cardholders. We also reported that HUD did not have a complete and accurate list of approving officials and the cardholders assigned to them. The span of control issue, along with effective implementation of an approving official review function, are particularly important for the integrity of purchase card program because supervisors and, in some cases, cardholders themselves, are responsible for authorizing purchases, rather than an independent contracting officer as is the case under the standard procurement process. Thus, the approving official serves as a key control in certifying cardholder purchases.
- Cardholder Credit Limits Exceed Procurement Needs. The total financial exposure of the purchase card program is measured in terms of purchase card credit limits. Limiting credit available to cardholders is a key factor in managing the purchase card

¹⁴According to General Services Administration data.

program and in minimizing the government's financial exposure. None of the agencies that we audited tied either the cardholder's or the approving official's credit limit to the unit's historical spending. Rather, they generally established arbitrary credit limits of \$10,000 to \$25,000. In some instances, we found cardholders and approving officials who had credit limits that far exceeded historical spending needs. For example, we reported that 60 Navy cardholders each had credit limits of \$9.9 million, and more than 2,300 Navy approving officials each had \$9.9 million credit limits. By managing credit limits, the government's exposure to fraudulent usage of the card is limited.

- Agencies Lacked Evidence that Purchase Card Officials Were Trained. We found a lack of documented evidence that cardholders and approving officials were adequately trained. GAO's internal control standards emphasize that effective management of an organization's workforce—its human capital—is essential to achieving results and is an important part of internal control. Training is key to ensuring that the workforce has the skills necessary to achieve organizational goals. While agencies we audited required all cardholders and approving officials to receive initial and refresher purchase card training, all of the agencies lacked documentation to verify that all cardholders and approving officials had received the required training. For example, at one FAA field office we found no evidence that 38 percent of the cardholders and 67 percent of the approving officials had received purchase card training since 1996—a 5-year gap.
- Insufficient Human Capital Resources. Most agencies that we audited had not provided sufficient human capital resources to enable effective monitoring of purchases and to develop a robust oversight program. The key positions for monitoring purchases are the department-level agency program coordinator, the bureau or agency-level program coordinator, and the local approving official. At DOD, none of the major commands that we audited had agency program coordinators who worked full time in that position. This is despite the fact that some agency program coordinators were responsible for managing procurement programs that

incurred between 227,000 and 380,000 transactions totaling from about \$137 million to about \$268 million annually. We also found that the major commands did not provide the subordinate level agency program coordinators and approving officials with the time, training, tools, or incentives—also human capital resources—needed to perform monitoring responsibilities necessary for the operational success of the program. The responsibilities of approving officials and many subordinate level agency program coordinators fell into the category of “other duties as assigned.”

Key Internal Controls Were Ineffective

Key internal controls over the purchase card program were ineffective at the agencies we audited. We determined that DOD and the four civilian agencies had weaknesses in key transaction-level controls leaving the agencies vulnerable to fraudulent, improper, and abusive purchases and to the theft and misuse of government property. The problems we found primarily resulted from inadequate guidance and a lack of adherence to valid policies and procedures. The specific controls that we tested were (1) documenting independent receipt and acceptance of goods and services, (2) documenting cardholder reconciliation and approving official review prior to certifying monthly purchase card statements for payment, (3) screening for required vendors, and (4) recording pilferable property in accountable records.

- Independent Receipt and Acceptance of Items Purchased. Most agencies that we audited generally did not have evidence documenting that someone independent of the cardholder received and accepted items ordered and paid for them with a purchase card. That is, the units generally did not have a receipt, invoice, or packing slip for the acquired goods and services that was signed and dated by someone other than the cardholder. As a result, there was no documented evidence that the government received the items purchased or that those items were not lost, stolen, or misused. For example, we reported that three Navy cardholders took advantage of this weakness and fraudulently purchased \$500,000 of items for themselves before they were caught.

- Reconciling and Reviewing Monthly Statements. At the agencies we audited, we found little evidence that either cardholders reconciled the monthly purchase card invoices back to the supporting documents or that an approving official reviewed the cardholder's activity to confirm that they had been properly reconciled to the monthly invoices. Our testing revealed that documented evidence of adequate cardholder reconciliation or approving official review of cardholder transactions did not exist for most transactions. We often found that either the cardholder and/or the approving official review were simply a "rubber stamp." For example, at HUD, we estimated that \$4.8 million of a \$10.6 million sample population lacked adequate supporting documentation for the approving official to determine the validity of the purchases.
- Screening for Required Vendors. Despite governmentwide requirements to give priority to certain preferred vendors, we have reported that most agencies that we audited did not document whether the necessary screening occurred. Due to the lack of documentation, agencies did not know the extent to which cardholders acquired items from these vendors. Most agencies require that prior to using the purchase card, cardholders must document that they have screened all their intended purchase card acquisitions for availability from statutory sources of supply. These sources of supply include the Federal Prison Industries, Inc., known as UNICOR, and vendors qualifying under the Javits-Wagner-O'Day Act (JWOD). JWOD vendors are nonprofit agencies that employ people who are blind or have other severe disabilities. JWOD vendors primarily sell office supplies and calendars that often cost less than similar items sold by commercial vendors. Our DOD and civilian agency audits found tens of millions of dollars of purchase card transactions that did not follow statutory or agency source of supply guidelines.
- Accountability for Pilferable Items. All of the agencies we audited had difficulty ensuring that sensitive and pilferable property acquired with purchase cards were recorded in property records. In addition, none of the agencies could locate every property item invoiced in our statistical samples. Because agency officials could not

provide conclusive evidence that missing property was in the possession of the government, they could not determine whether these items were lost or stolen. For example, the Department of Education could not locate 241 personal computers and related equipment valued at \$261,500 acquired using purchase cards. GAO's *Standards for Internal Control* state that accountable property should be recorded in property records as it is acquired. Accountable property obtained with purchase cards includes items that can be easily pilfered, such as computers and related equipment, and cameras. Entering such items in the property records and performing periodic inventories are important steps to help assure accountability and financial control over these assets and deter theft or improper use of government property.

Limited Disciplinary Actions Taken By DOD

As previously mentioned, at the request of the House and Senate Defense Authorization and Appropriations Committees, we followed up with DOD to determine what disciplinary or administrative actions were taken against the cardholders we had cited in our examples of fraudulent, improper, or abusive purchases in our DOD purchase card reports and testimonies. Specifically, we listed 51 examples of cardholders who had used the government purchase card to make fraudulent or potentially fraudulent purchases and 120 examples of cardholders who made improper and abusive or questionable purchases. We reported that when a court of law determined that a cardholder fraudulently used the purchase card, all the military services generally took strong disciplinary actions (such as, assessed fines, and in the case of uniformed personnel, sentenced the individual to jail/confinement). We also found that the military services either took strong disciplinary action or were actively investigating the cases we reported as potentially fraudulent. For example, our two Navy reports identified 26 fraudulent and potentially fraudulent transactions totaling more than \$1,342,000. The Navy reported that in response, it fired six cardholders, reduced the grade of others, confined several uniformed serviceman for periods of 14 to 60 months, and required repayment to the government of over \$460,000. Other actions taken on fraudulent or potentially fraudulent transactions included suspending or revoking purchase card privileges, requiring repayment to the government

for the cost of the items obtained, returning items obtained to the government, and issuing written reprimands.

However, the military services generally did not take disciplinary or administrative actions against the 120 cardholders associated with our examples of improper, abusive, or questionable transactions. As shown in table 1, using our examples of problem transactions, DOD disciplined only 20 of the 120 cardholders we cited as examples in our reports. DOD revoked the purchase card privileges of 8 of the cardholders we cited, gave verbal or written reprimands to 3 cardholders, required the items obtained by 7 cardholders to be returned to the government, and gave 2 cardholders verbal reprimand and required them to return the item to the government. DOD did not take any action against 94 of the 120 examples that we identified. We noted that DOD required 33 of these 94 cardholders to take purchase card training. Because all cardholders are required to take periodic training, we did not consider retraining to be a disciplinary action.

Table 1: Disciplinary Actions Taken Against DOD Cardholders Who Made Improper, Abusive, or Questionable Transactions

Type of disciplinary action taken	Total
Value of transactions reported by GAO	\$3,062,445
Number of transactions reported by GAO	120
Type of Disciplinary Action	
Give item to government or repay for cost of improper, abusive, or questionable charge	7
Written or verbal reprimand	3
Credit card revocation or suspension	8
Verbal reprimand and required to return the item to the government	2
Total disciplinary actions	20
No disciplinary actions	94
Still under review/investigation or written policy authorizing purchase	6

Table 2 shows examples of abusive and wasteful items identified in our statistical samples, data mining, and forensic auditing, that government cardholders charged to their purchase cards. It is important to note that none of the cardholders were disciplined for using tax dollars to pay for personal items.

Table 2: Examples of Abusive and Wasteful Items Obtained with a Purchase Card Reported By GAO

Item Purchased	Justification provided to GAO auditors and investigators	Action taken
Coach brief cases, \$400-\$500 each	More durable than standard briefcases.	None
Mounted deer head	Educate airmen about local deer population.	None
\$250 Louis Vuitton designer folios	Personal preference.	None
\$100 Dooney and Bourke designer PDA cases	Personal preference.	None
Luggage	DOD personnel were traveling on official business.	None
Garment bags	DOD personnel were traveling on official business.	None
\$224 leather backpack	To hold items while traveling.	None
\$300 Bose headset	Traveler would be more rested after long flights.	None
\$500 Bose wave radio	Cardholder wanted a radio for his office.	None
Wine	Authorized by a "competent authority in the course of execution of a highly classified compartmented program."	None
Cigars	Gifts to be given to very important people.	None
Leather bomber jackets	Personal preference.	None
Ski clothing	A DOD civilian was traveling to cold weather area.	None
Oakley sun glasses	Entitlement.	None
\$200 Lego toy robots	Teach Navy engineers about robotics.	None

Source: GAO analysis of agency purchase card invoices and supporting documentation.

Steps Taken to Improve Management of the Purchase Card Program

In response to the reported breakdowns in internal controls and fraudulent, improper, and abusive purchases, the Office of Management and Budget (OMB), Congress, DOD, and civilian agencies have taken numerous actions to improve management oversight and internal controls over the government purchase card program. Specifically, OMB requested all agencies to review the adequacy of internal controls for purchase card expenditures, prepare separate remedial action plans for control weaknesses, and submit quarterly reports on purchase card activity. The Congress directed DOD to improve the management of the purchase card program in the fiscal year 2003 DOD authorization and appropriations acts. In response to OMB and congressional actions and GAO and Inspectors General reports, DOD and civilian agencies updated policies and procedures to strengthen purchase card program controls.

Office of Management and Budget Actions

On April 18, 2002, OMB issued a memorandum to executive branch agencies stating that the fraudulent and unauthorized use of government credit cards identified by GAO and Inspectors General was unacceptable and required prompt and effective remedial action. In the memorandum, OMB requested that each agency review the adequacy of internal controls for purchase card expenditures and prepare separate remedial action plans for its purchase and travel card programs. The remedial action plans were to highlight the problems each agency identified, the internal controls that will be used to manage risk associated with these programs (such as, management oversight and review, authorized spending limits, and training), and include an examination of the number of cards issued at the agency. OMB recommended that agencies deactivate all current cards and reactivate them selectively for a smaller number of cardholders, based on demonstrated necessity. According to the OMB memorandum, if the program was to continue, agencies must improve the internal control over the purchase card program. In October 2002, OMB issued a memorandum requiring federal agencies to prepare and submit quarterly reports on purchase card activity beginning with the first quarter of 2003.

Legislative Actions

The Congress included in DOD's fiscal year 2003 authorization and appropriations acts¹⁵ requirements for DOD to take specific actions to improve the management of the purchase card program, in particular, the weaknesses we identified. Specifically, these acts required DOD to (1) limit the number of purchase cards, (2) train purchase card officials, (3) monitor purchase card activity, (4) review purchase card activity to better aggregate purchases and obtain lower prices, (5) establish guidelines and procedures to discipline cardholders who misuse the purchase card, and (6) assess the credit worthiness of cardholders. By the end of fiscal year 2003, DOD and the military services initiated

¹⁵Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2458 (Dec. 2, 2002) and Department of Defense Appropriations Act, 2003, Pub. L. No. 107-248, 116 Stat. 1519 (Oct. 23, 2002).

actions to address these requirements. DOD made significant progress by taking the following steps:

- DOD reduced the total number of purchase cards from about 239,000 in March 2001 to about 135,000 in January 2004¹⁶ and established a maximum ratio of cardholders to approving officials of 7 to 1.
- DOD made available several on-line, self-paced purchase card courses on its Defense Acquisition University Web site. DOD's on-line curriculum included courses for cardholders and approving officials on regulatory requirements and other guidelines related to the purchase card program, and a GSA module aimed at providing advanced training for agency program coordinators who have completed basic training on the purchase card program.
- DOD also increased its monitoring of purchase card transactions. DOD's Office of the Inspector General and the Navy prototyped a data mining capability to screen for and identify high-risk purchase card transactions (such as potentially fraudulent, improper, and abusive use of the cards, including prohibited purchases) for subsequent investigation. On June 27, 2003, the DOD Inspector General issued a report¹⁷ summarizing the results of an in-depth review of purchase card transactions made by 1,357 purchase cardholders. Using data mining technology, the report identified 182 cardholders who may have inappropriately or fraudulently used their purchase cards.

In several other cases DOD and the military services have issued policies and guidelines for implementing the legislative mandates. However, sufficient time has not passed to implement the legislative mandate. For example:

¹⁶ According to GSA.

¹⁷ Department of Defense, Office of the Inspector General, *Summary Report on Joint Review of Selected DOD Purchase Card Transactions*, D2003-109 (Washington, D.C.: June 27, 2003).

- DOD issued separate disciplinary guidelines¹⁸ for civilian and military employees intended to ensure that management emphasis is given to the important issue of personal accountability. However, DOD told us in response to our December 2003 report,¹⁹ DOD does not intend to monitor whether commanders are consistently applying those guidelines.
- DOD established a senior focus group consisting of acquisition, financial management, and general counsel executives to determine how to implement the requirement to evaluate an individual's credit worthiness. The focus group concluded that there are conflicts between implementing this legislation through the use of credit checks and the Fair Credit Reporting Act. The department is pursuing an alternative solution that would rely on a self-certification process by prospective cardholders and is researching the legality and practicality of the alternative.

DOD Action on GAO Recommendations

Recently, we reported²⁰ that the Army, Navy, and Air Force have either completed or initiated actions to implement nearly all of the 109 recommendations we made to improve the management of the purchase card program. The recommendations that the services told us they have implemented closely tie to requirements in the DOD fiscal year 2003 authorization and appropriation acts. However, DOD had not fully implemented the recommendations dealing with leveraging purchase card buying power; establishing servicewide databases for data mining; investigating suspected and known fraud; and linking cardholder, approving official, and agency program coordinator performance appraisals to performance standards encompassing purchase card goals and objectives. The Air Force planned to complete action on all of the recommendations by the spring of

¹⁸Military employees are subject to the Uniformed Code of Military Justice.

¹⁹U.S. General Accounting Office *Purchase Cards DOD: Steps Taken to Improve DOD Program Management, but Actions Needed to Address Misuse*, GAO-04-156 (Washington D.C.: Dec. 2, 2003.)

²⁰GAO-04-156

2004. The Army and the Navy did not provide target dates for completing actions that are underway to address our recommendations.

Agencies Can Achieve Significant Savings on Purchase Card Buys

As we discuss in the report released today, substantial attention has been focused on internal controls in recent years, but very little management focus and attention has been placed on the aggressive pursuit of savings through use of the purchase card.²¹ Although some agencies have begun to take actions to achieve such savings through their purchase card programs, most have not identified nor taken advantage of opportunities to obtain more favorable prices from their major purchase card vendors—opportunities that could yield hundreds of millions of dollars in savings. A conservative approach indicates that the agencies we reviewed—Agriculture, Army, Navy, Air Force, Interior, Justice, Transportation, and Veterans Affairs—might be able to achieve annual savings on the order of \$300 million. In our view, these savings could be achieved without sacrificing the ability to acquire items quickly or compromising socioeconomic goals.

Agencies Generally Have Not Taken Advantage of Opportunities to Obtain Savings

Although we found some initiatives under way to obtain vendor discounts from major purchase card vendors, agencies generally had not seized opportunities to obtain more favorable prices on purchase card buys. Agency efforts to obtain more favorable prices for purchase cardholders had generally been limited to a few agencywide agreements with major vendors. Further, training for cardholders usually focused on internal controls and regulatory policies and did not provide practical information about steps cardholders can take to get better prices. As a result, cardholders often paid higher prices than necessary. The successful initiatives taken within some agencies demonstrate that, if agencies negotiated effective discount agreements with major purchase card vendors and improved communications to cardholders about how to obtain more favorable prices,

significant savings could be realized. Some of our major findings regarding this issue include:

- Scope and Coverage of Negotiated Discount Agreements Varied. We found a wide variation in the number of agencywide discount agreements that the agencies we reviewed had negotiated with their major purchase card vendors. For example, Veterans Affairs had negotiated agencywide discount agreements with 37 of its 196 major purchase card vendors—the largest number of any of the agencies reviewed. In contrast, Transportation’s senior procurement executive told us his agency had no discount agreements that could be used agencywide.

Even where agencies had agreements in place, the agreements did not cover all the products and services cardholders were buying. For example, Veterans Affairs agreements that we examined covered single products or product types—specimen containers, bandages, or washcloths—instead of the vendor’s full product line. Estimated sales for these agreements were as low as \$27,000. According to agency officials, the intent of the agreements was to standardize specific products, and the agency has now identified its highest dollar value products for standardization.

- Most Agency Guidance and Training Did Not Provide Practical Information on Obtaining Favorable Pricing. Each of the agencies we reviewed had developed guidance and training programs for their cardholders that focused on regulatory policies and internal controls intended to prevent misuse of the purchase card. However, most of the guidance and training programs did not provide cardholders with practical information to help them get better pricing by using GSA Schedule contracts or agency discount agreements. Some locations found more practical training beneficial. For example, the Air Force’s Air Mobility Command developed an extensive briefing that highlights the importance of comparison shopping and is providing hands-on training to show cardholders how to order from Schedule

²¹ GAO-04-430.

contracts. Command officials told us that in addition to providing cardholders with practical tools to help them be effective buyers, the briefings and training increased cardholder awareness of the importance of comparison shopping.

- Cardholders Paid More Than Necessary. Dun and Bradstreet's analysis of fiscal year 2002 Interior transactions, conducted on our behalf, illustrates that cardholders frequently paid more than necessary. For example, the company analyzed Interior purchases from three office supply vendors that provided product descriptions along with their purchase card billing information. This analysis showed that ink cartridges were the most frequently purchased product. For one specific model of ink cartridge, 411 of 791 purchases were made at prices higher than the GSA Schedule prices the vendors offered, indicating that cardholders had generally not taken advantage of discounts available through Schedule contracts. The prices paid for the same cartridge model ranged from \$20.00 to \$34.99.

Some cardholders appeared not to accept any responsibility for getting reasonable prices. For example, a Transportation cardholder paid about 20 percent more than the GSA Schedule contract price for office supply items, even though he admitted he knew that the vendor had a Schedule contract. An Agriculture cardholder, who paid about 13 percent more for cellular telecommunications service than the GSA contract price, told us that her only role in the transaction was to pay the monthly bill for the cell phone user.

A number of other cardholders purchased items that were not available through the vendor's Schedule contract and did not consider whether products that met their needs were available from other vendors that offered discounted Schedule prices. For example, an Army cardholder purchased word-processing software from an office supply vendor's retail store and did not consider whether other vendors might offer discounts on the same software through their Schedule contracts.

Experience at Some Agencies Suggests
That Significant Savings Are Possible

Several agencies reported significant savings from their initiatives to leverage buying power by negotiating discount agreements with major purchase card vendors, suggesting that the potential exists for significant savings governmentwide. For example, Interior recently negotiated several agencywide discount agreements for information technology products. These agreements provided for savings ranging from 20 percent to 35 percent for laptop computers. Sales under Agriculture's discount agreement for office supplies totaled \$15.4 million during fiscal year 2003, and the agency achieved savings of \$1.8 million, or about 10 percent off Schedule prices. While the scope of our work did not include developing a governmentwide estimate of the potential savings from leveraging purchase card buying power, these examples indicate that the potential for savings is significant. A conservative approach indicates that, if these agencies were to achieve savings of just 10 percent on their purchase card expenditures with major vendors, annual savings of \$300 million could be realized.

Agency officials expressed concerns that achieving these savings might require them to sacrifice the ability to acquire items quickly or compromise socioeconomic goals. Although agency officials consistently identified these challenges, our review suggests that the challenges are not insurmountable, as evidenced by the individual agency initiatives to address them. The Air Mobility Command, for example, is supporting small businesses while generating savings. The Command contacted local suppliers—many of which were small businesses—to determine what customary trade discounts they were willing to extend to government purchase cardholders and provided this information to the cardholders. Cardholders were encouraged to request the applicable discount, typically about 10 percent, when dealing with these suppliers.

Concluding Remarks

We support the use of a well-managed and controlled purchase card program in the federal government. To date, the purchase card has provided significant benefits in reduced transaction processing costs and increased flexibility for agencies to meet their procurement needs. However, ineffective management oversight and control have prevented the government from fully realizing the benefits of using the purchase card. Although significant progress has been made in improving management focus and the design of internal controls, it is too early to tell whether controls are in place to provide reasonable assurance that fraudulent, improper and abusive purchases are being minimized. The federal government has also not effectively leveraged the \$16 billion a year buying power of its purchase card activity. With the serious fiscal challenges facing our nation, it is important that the hundreds of millions of dollars of potential savings available through better management of the purchase card program be realized.

Madam Chairman, Members of the Committee, this concludes our prepared statement. We would be pleased to answer any questions that you may have.

Contacts and Acknowledgments

For future contacts regarding this testimony, please contact Gregory D. Kutz at (202) 512-9095, David E. Cooper at (202) 512-4841, and John J. Ryan at (202) 512-9587. Individuals making key contributions to this testimony included Mario Artesiano, Francine DelVecchio, Bonnie Derby, Gayle Fischer, John Kelly, Michele Mackin, Monty Peters, Alana Stanfield, Edward Tanaka, and Bernard Trescavage.

Related GAO Products

Products concerning purchase card internal controls:

Purchase Cards: Steps Taken to Improve DOD Program Management, but Actions Needed to Address Misuse (GAO-04-156, Dec. 2, 2003).

Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs (GAO-04-87G, Nov. 1, 2003).

Forest Service Purchase Cards: Internal Control Weaknesses Resulted in Instances of Improper, Wasteful, and Questionable Purchases (GAO-03-786, Aug. 11, 2003).

HUD Purchase Cards: Poor Internal Controls Resulted in Improper and Questionable Purchases (GAO-03-489, Apr. 11, 2003).

Data Mining: Results and Challenges for Government Program Audits and Investigations (GAO-03-591T, Mar. 25, 2003).

FAA Purchase Cards: Weak Controls Resulted in Instances of Improper and Wasteful Purchases and Missing Assets (GAO-03-405, Mar. 21, 2003).

Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse (GAO-03-292, Dec. 20, 2002).

Purchase Cards: Navy Vulnerable to Fraud and Abuse but is Taking Action to Resolve Control Weaknesses (GAO-03-154T, Oct. 8, 2002).

Purchase Cards: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses (GAO-02-1041, Sept. 27, 2002).

Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse (GAO-02-844T, July 27, 2002).

Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse (GAO-02-732, June 27, 2002).

FAA Alaska: Weak Controls Resulted in Improper and Wasteful Purchases (GAO-02-606, May 30, 2002).

Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse (GAO-02-676T, May 1, 2002).

Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments (GAO-02-406, Mar. 28, 2002).

Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse (GAO-02-506T, Mar. 13, 2002).

Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse (GAO-02-32, Nov. 30, 2001).

Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse (GAO-01-995T, July 30, 2001).

Products concerning strategic purchasing:

Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys (GAO-04-430, Mar. 12, 2004).

Contract Management: Restructuring GSA's Federal Supply Service and Federal Technology Service (GAO-04-132T, Oct. 2, 2003).

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings (GAO-03-661, June 9, 2003).

Contract Management: Taking a Strategic Approach to Improving Service Acquisitions (GAO-02-499T, Mar. 7, 2002).

Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services (GAO-02-230, Jan. 18, 2002).

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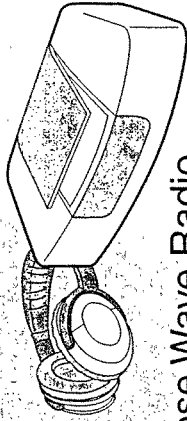
Fiscal Year 2002 Purchases From Frequently Used Vendors (in millions)

Defense	\$1,614
Veterans Affairs	\$822
Justice	\$154
Interior	\$85
Transportation	\$74
Agriculture	\$72
Total	\$2,821

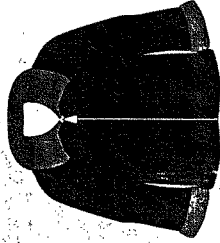
Source: GAO analysis of bank provided data.



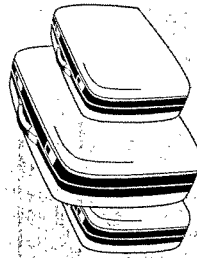
Abusive Purchase Card Acquisitions



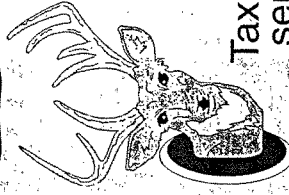
Bose Wave Radio
and headphones



Bomber
jacket



Personal luggage



Taxidermy
services

Source: GAO analysis of agency purchase card invoices.

**Amount Spent in Fiscal Year 2002 with
5 Frequently Used Vendors (in millions)**

Dell Computers	\$194
Office Depot	\$101
CDW Government	\$99
Staples	\$55
Home Depot	\$27

Source: GAO analysis of bank provided data.

April 28, 2004



Statement
of
David K. Steensma
Assistant Inspector General, Contract Management

COL William J. Kelley
Program Director, Data Mining Division

Office of the Inspector General of the
Department of Defense
to the
Senate Committee Governmental Affairs
on
How to Save the Taxpayers Money Through Prudent Use
of the Purchase Card

Department of Defense
Office of the Inspector General

Madam Chairman and Members of the Committee:

Thank you for the opportunity to appear before your Committee today and address your questions regarding the use of purchase cards in the Department of Defense. Although the Department has taken aggressive action to improve the program, the purchase card program still needs better implementation and oversight of management controls at the activity level. Every dollar that is not spent prudently through purchase cards is a dollar that is not being spent to support the global war on terrorism.

The Inspector General of the Department of Defense has an important statutory role in the Purchase Card program. The National Defense Authorization Act for fiscal year 2003 contains a provision at section 2784 (b)(8) of title 10, United States Code, that:

“the Inspector General of the Department of Defense perform periodic audits to identify -

(A) potentially fraudulent, improper, and abusive uses of purchase cards;

(B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and

(C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.”

The Joint Purchase Card Program Management Office reports that the purchase card program within the Department of Defense accounted for 10.7 million purchase actions

valued at about \$7.2 billion in fiscal year 2003. Every working day DoD employees make about 41,000 purchases valued at \$27.6 million, which exemplifies the magnitude of this program. Nevertheless, the purchase card is only one of many acquisition instruments available to the Department. The purchase card accounts for 3 percent of the \$231 billion in acquisitions and 25 percent of the purchase actions made in the Department in fiscal year 2003.

Today, I want to present the results of three Office of the Inspector General, Department of Defense audit reports issued in fiscal years 2003 and 2004, which identified management control problems with the use of purchase cards. I will also discuss the actions our office is taking to promote data mining and to partner with program management offices so that we can more proactively identify and prevent potential fraud, waste, and mismanagement. These collective efforts will help improve the purchase card program. Further, I want to present information that show improvements in management of the purchase card program.

The three reports issued were "Summary Report on the Review of Selected DoD Purchase Card Transactions" June 27, 2003, (D-2003-109); "Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service" October 16, 2003, (D-2004-002); and "Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana," November 14, 2003, (D-2004-016).

Summary Report

The Office of the Inspector General auditors and investigators led the Service and Defense agency audit organizations and the Military Criminal Investigative Organizations in performing an in-depth review of purchase card transactions for 1,357 purchase cardholders that had been identified by our data mining division using business rules and fraud indicators. The review involved calendar year 2001 purchase card transactions and was done from May 2002 through June 2003. This review determined that 182 cardholders used their purchase cards inappropriately or fraudulently and spent about \$5 million in scarce resources by doing so.

- The Office of the Inspector General and Defense agency personnel identified \$840,000 of inappropriate or fraudulent purchases. Nine cardholders made inappropriate purchases; five of whom were referred for criminal investigation. For example, a cardholder used the purchase card 52 times over an 8-week period to make a single purchase for \$551,000. The cardholder was circumventing the dollar value limit on the purchase cards.
- The Army auditors identified \$520,000 of inappropriate or fraudulent purchases. Eighty-eight cardholders made inappropriate purchases; four of whom were referred for criminal investigation. One cardholder purchased a Santa suit for \$232, one inappropriately rented a vehicle for \$910, and another accessed pornographic and sports-related Web sites.

- The Navy auditors identified \$3.2 million of inappropriate or fraudulent purchases. Forty-four cardholders made inappropriate purchases; eight of whom were referred for criminal investigation. One cardholder used the purchase card to make 59 fraudulent purchases totaling more than \$130,000. The purchases included two automobiles, one motorcycle, and cosmetic enhancements done through surgery.
- The Air Force auditors identified \$554,000 of inappropriate or fraudulent purchases made by 41 cardholders; 24 of whom were referred for criminal investigations. One cardholder made 29 inappropriate or unauthorized purchases of meals, gasoline, and recreational activities that totaled about \$6,000. Additionally, unauthorized individuals used stolen Air Force purchase card account numbers for 155 purchases totaling \$30,196. The transactions included charges to sexually explicit and gambling Web sites.

Washington Headquarters Services

Washington Headquarters Services management controls for the purchase card program did not ensure that purchases totaling about \$6 million, were mission related, properly safeguarded, and provided the best value for the Government. A lack of controls and management oversight resulted in about \$1.7 million of fraudulent purchases from May 1999 through August 2002 and at least \$201,000 in additional purchases that were abusive, improper, or unauthorized. Property costing at least \$50,000 purchased with the

Government purchase cards was not recorded on the inventory records and could not be located.

The audit examined 17 cardholders and 4,793 purchase card transactions that occurred from September 2000 through December 2001. The audit was ongoing from May 2002 through April 2003. This is a good example of the benefits of data mining because we originally identified 6 cardholders with 79 flagged transactions and expanded the audit after reviewing the initial flagged transactions.

The audit and investigative work resulted in three convictions:

- The civilian Director of the Graphics and Presentation Division, Real Estate and Facilities Division, Washington Headquarters Services was convicted of theft of Government property stemming from her use of the Government charge card to make about \$1.7 million of fictitious purchases from a fictitious firm. She was sentenced to 37 months imprisonment and \$1.7 million restitution.
- A vendor was convicted of theft of Government property stemming from his participation in a scheme with his sister, the Director of the Graphics and Presentation Division, Real Estate and Facilities Division. The vendor created a company solely to facilitate the scheme and was sentenced to 48 months imprisonment; 3 years supervised probation, and \$1.6 million restitution.
- The civilian Deputy Director of the Graphics and Presentation Division was convicted for theft of Government property totaling more than \$30,000 resulting from her misuse of the Government charge card. She used her Government

charge card to purchase items, which she then stole and converted to her own use.

She was sentenced to 3 years of supervised probation, which included 6 months of home confinement with electronic monitoring, and ordered to make full restitution.

Ten cardholders in the Graphics and Presentation Division of the Washington Headquarters Service made at least 162 purchases, valued at \$173,509, that had no apparent Government need or were at an excessive cost. Items purchased that we considered abusive were 11 portable DVD players; 4 cameras costing between \$1,099 and \$19,369; and a variety of novelty items such as stainless steel cups, mugs, key chains, and tote bags, all costing \$57,000. Items purchased that we considered improper included furniture, unauthorized computer equipment, and a hand-held computer. Items purchased for personal use included computer games, a microwave oven with a 3-year warranty, 3 sets of magnetic toys, a digital mini-stereo system, two desk fans, and two under-the-counter kitchen CD radios.

The cardholders also circumvented required contracting procedures and did not receive the best value for \$511,000 of supplies and services. The cardholders split purchases into multiple transactions so they could stay below the \$2,500 micro-purchase threshold. This resulted in noncompetitive acquisitions and higher prices. For example, one vendor was paid \$36,000 for 9,000 American flag decals that could have been bought for \$3,000.

We recommended that a review be performed and appropriate actions be taken to hold the management officials and cardholders accountable for failure to perform their duties under the purchase card program; establishing separation of duties for key positions of oversight, implementing required purchase card controls, and performing required oversight reviews. We also recommended periodic reviews that place emphasis on stopping the use of split purchases and vendor preference. In response, the Director of Washington Headquarters Service initiated aggressive measures that included recovery of assets, continuing review and upgrade of program safeguards, and major changes in the management of the purchase card program.

Information Technology Center, New Orleans, Louisiana

Controls over the purchase cards that would have reduced the risk of fraud, waste, and abuse were not properly implemented and were ignored by senior management at the Information Technology Center. Controls were not effective because the senior managers displayed a lack of integrity and did not adopt internal control procedures. Approximately \$1.1 million of Information Technology Center purchases were questionable because there was no obvious mission need for the items purchased. Further, the Government had an unnecessary monthly financial risk because the monthly cycle limit was \$31 million more than needed. The Information Technology Center management also needed to improve controls over property accountability. At least \$1.7 million of property was not recorded in the property book, property was missing and went unreported, property was at individuals' homes without adequate property passes,

and pilferable property was inappropriately removed from the accountable record. The audit covered purchase card transactions from May 1999 through September 2002 and was performed from March 2002 through May 2003.

- Questionable items purchased included 10 pairs of binoculars totaling \$1,999 as a security measure to watch for terrorists on Lake Ponchartrain; 6 bicycles costing \$2,393 to be used by interns from New Orleans University in a non-existent intern program; 3 global positioning systems costing about \$1,720 for the Director to use because he routinely got lost when he went on travel; and luggage costing about \$700 that was purchased because the Director and his Deputy traveled a lot and needed to carry briefing papers.
- The purchase card was used to inappropriately acquire \$785,000 of computer equipment, 18 cell phones and monthly usage plans, and \$21,000 of office supplies. The cardholders failed to use Navy contracts, General Services Administration Advantage contracts, and DoD Enterprise Software Initiative Contracts. The cardholders were not getting the discounts and reduced prices available from the contracts.

We recommended the Commander, Space and Naval Warfare Systems Command perform a review and initiate appropriate actions against the managers and cardholders involved in making the purchases categorized as abusive. We also recommended implementing required management controls and reviews of purchase cards and requiring cardholders to order from required sources. The Chief of Staff/Policy for the Deputy

Assistant Secretary of the Navy for Acquisition Management and the Deputy Commander of the Space and Naval Warfare System Command both responded to the report and agreed to initiate the required corrective actions.

Data Mining

In January 2003, we established a Data Mining Division in the Office of the Inspector General. We took 12 personnel from other audit activities to pioneer the use of data mining techniques in the Department of Defense. Data mining is the process of analyzing data from different perspectives to identify previously unknown relationships among data, or finding correlations or patterns among data and summarizing it into useful information. As part of the process, the techniques developed are passed on to management to assist in their oversight of the programs reviewed. I want to assure the committee that concerns for personal privacy are foremost in any data mining efforts we perform. In addition, we protect any personal information we obtain and limit its access to personnel with the need to know.

The Office of the Inspector General has been the focal point in the Department of Defense for charge card audits, data mining, and investigations. The Office of the Inspector General has coordinated the efforts of the ongoing and planned audits and investigations on charge cards in the Department and provided a forum for management to identify issues that they would like the auditors to include in their reviews. This increase in communications between auditors and the Department of Defense Program Management Offices for the Purchase Card, Travel Card, Fleet Card, and Aviation Card,

and the Defense Finance and Accounting Service has resulted in a positive approach to improving the DoD Charge Card Program as well as enhanced management relations.

Outside of the Department of Defense, we provided assistance and lessons learned on data mining to the President's Council on Integrity and Efficiency, Inspection and Evaluation Committee; the Office of Federal Procurement Policy; the Fraud Detection Office, Department of Justice; the House Appropriations Committee surveys and investigations staff, the Government Printing Office, Federal Bureau of Prisons, and the Offices of the Inspector General for the:

- Central Intelligence Agency,
- Department of Commerce,
- United States Postal Service,
- Small Business Administration,
- Department of Justice, and
- Department of the Treasury.

The Office of the Inspector General, Department of Defense, Data Mining Division has mined data from purchase cards, travel cards, fleet cards, aviation cards, and transportation payments. Since March of 2003, the Division has been working with the Navy to develop the Navy Pilot Program for the purchase card. The Navy Pilot Program is a prototype system that is based on a set of business rules and potential fraud indicators. The system uses high-risk purchase card transactions identified by the Data Mining Division, and sends an e-mail to a management official requesting additional information for assessing the appropriateness of the purchase card transaction. The

approving official's response to questions populates the database, which can be used for reporting trends, identifying deficiencies, and better managing the purchase card program through risk analyses. The Department of Defense Program Management Office for purchase cards plans to implement some of the procedures and techniques used in the prototype Department-wide. A concept for a Continuous Monitoring System for the purchase card program is at Attachment 1.

Positive Trends on Improved Controls Over the Use of Purchase Cards

The Department of Defense is actively working to maintain a culture that promotes a positive and supportive attitude toward active management controls for purchase cards and accountability. In a June 21, 2002, Memorandum the Deputy Secretary of Defense set the tone when he stated:

“I am directing management at all levels to ensure the necessary oversight of Government charge cards and education to eliminate fraud, misuse, and abuse of these charge cards. We are the stewards of public funds and must not tolerate any use of charge cards that violates the public's trust. Therefore, we must take immediate action to ensure that: (1) further misuse of government charge cards does not occur and (2) appropriate remedies are taken with respect to those who engage in or tolerate such misuse. The key factor to success of these valuable programs is the direct involvement of senior military leaders and civilian managers for the Department of Defense.”

Defense managers have made a concerted effort to improve internal controls and publicize disciplinary actions to be taken when misuse or abuse of the charge card is identified. Positive trends in the management of the purchase card program include the reduction in the number of purchase cards from 214,000 in September 2002 to 114,000 in March 2003 (47 percent). Additionally, the average number of accounts that each billing or approving official is responsible for has decreased from 3.5 to 1 in fiscal year 2002 to 2.4 to 1 in the first half of fiscal year 2004. The Department has developed a web-based tutorial to train all new cardholders and billing officials. This is in addition to the training already available from the General Services Administration and the banks. The Deputy Under Secretary of Defense for Civilian Personnel Policy issued a Government Charge Card Disciplinary Guide for Civilian Employees on April 21, 2003, and the Under Secretary of Defense for Personnel and Readiness issued Disciplinary Guidelines for Misuse of Government Charge Cards by Military Personnel on June 10, 2003.

Other indicators of improvements in the Purchase Card Programs are cited in General Accounting Office Report Number GAO-04-156, "Purchase Cards – Steps Taken to Improve DoD Program Management, but Actions Needed to Address Misuse," December 2003. The report stated that:

"DoD and the military services have taken strong actions to improve the controls over the purchase card program. DoD has initiated actions to implement all of the requirements that were mandated in the fiscal year 2003 National Defense Authorization and DoD Appropriations acts. In addition, DoD and the military services have taken actions on

nearly all of the 109 recommendations that GAO made in its four reports on the purchase card program, and DoD has plans to have most of the recommendations implemented by June 2004.”

Achieving Savings on Purchase Card Buys

We support the conclusions in General Accounting Office Report Number GAO-04-430, “Agencies Could Achieve Significant Savings on Purchase Card Buys,” April 2004 and recommendations that identify opportunities to obtain more favorable prices on purchase card buys. We look forward to using data mining techniques and working with the Department of Defense acquisition community to creatively reduce costs related to prices on purchase card buys. We can do this by determining which vendors we are buying from, the volume of the purchases, and the types of purchases. Data mining will also tell us whom we need to negotiate contracts and point of sale discounts with. Further, with detail purchasing data we can determine if Federal buyers are purchasing from the appropriate or best source. However, this is an area where the Administrator of the General Services Administration should take the lead. I do not believe we want commercial vendors to have to negotiate point of sale discounts and other discount agreements on purchase cards from a multitude of Federal agencies. Further, this is an area where establishing a Center of Excellence for Charge Cards should be considered.

Investigations

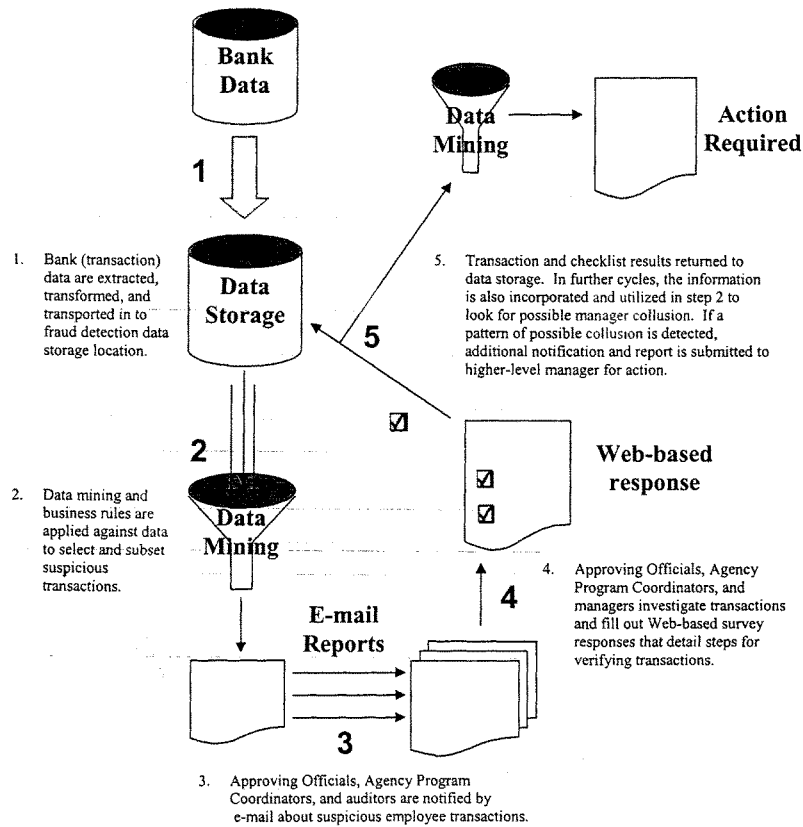
The Department has outstanding criminal investigative organizations that have worked hard on reducing purchase card fraud. The Office of the Inspector General, Defense Criminal Investigative Service, the Army Criminal Investigative Division, Navy Criminal Investigative Service, and Air Force Office of Special Investigations have all worked diligently to eliminate purchase card fraud. Since reporting began in January 2003, 15 investigations have been completed and 57 criminal investigations are ongoing related to charge cards. Attachment 2 highlights some of the completed investigations.

Conclusion

The positive actions that have been presented in this testimony have occurred because of serious problems highlighted in 2002. Although the Department has made great strides in improving the program, there is still work to be done to ensure that all of the charge cards in the hands of Department employees are used prudently. We currently have three ongoing reviews on purchase cards in the Military Health System, at the Education Activity in Europe, and at the Corps of Engineers, Louisville District. We are also reviewing the use of purchase card convenience checks. We plan to issue reports on these reviews later in 2004.

Thank you for considering the views of the Department of Defense, Office of the Inspector General on these critical issues. This concludes our testimony.

Continuous Monitoring System



Examples of Cases on Charge Card Fraud

Personal Use

- David M. White pled guilty to placing fraudulent charges against 13 Government credit cards. He was sentenced in U.S. District Court, Panama City, Florida, to 18-months incarceration, \$262,840 in restitution and other fees, and 36 months supervised release.
- Jerome D. Phillips pled guilty to conspiracy in a fraudulent scheme involving the misuse of a purchase card while assigned to the Joint Staff Supply Service. He was sentenced in U.S. District Court, Eastern District of Virginia, to serve a jail term of 12 months and one day, 24 months probation, and restitution and other fees of \$120,000.
- Sherry K. Pierre pled guilty of making \$130,000 worth of illegal purchases on her Government-issued charge card. Pierre's purchases included a car, motorcycle, breast-lift surgery, furniture and other household goods, and a down payment on another vehicle. Pierre was demoted from staff sergeant to lance corporal, fined \$30,000 and sentenced to 14-months of imprisonment.

Cardholder Conspiracy With Vendor

- Former Master Sergeant Bobby Gilchrist pled guilty to one count of money laundering, accepting bribes and conspiracy with office product vendors. He conspired with contractors to defraud the Department of Defense by requesting the submission of fake bills for goods and services that were never provided, and accepting cash payments (kickbacks) for making both legitimate and bogus purchases from them, using his and other employees' credit cards. He was sentenced in U.S. District Court, Eastern District of Virginia, to 41 months in prison, 3 years of supervised release, and \$400,300 in restitution and other fees.
- Jerome Phillips, a cardholder involved with the Gilchrist scheme was sentenced to one year and a day in prison.
- Dennis Carey, a cardholder with the U. S. Army Corp of Engineers, pled guilty to two counts of bribery. He was sentenced in the U. S. Court, Central District of California, to 30 months of imprisonment, a three-year period of supervised release, a restitution payment of over \$283,000 including a special assessment related to fraudulent billings on his Government purchase card. Mr. Carey and the vendor agreed to submit fraudulent invoices for goods and services to the U. S. Army Corp of Engineers that Mr. Carey would authorize for payment through his purchase card. Mr. Carey and the vendor split the proceeds of the fraudulent billing scheme, sharing an estimated total of more than \$267,000.

Vendor Fraud

- Tyrone X. Celey, Sr., owner of Pronto and Speedy, (two of the companies involved in the Gilchrist case) pled guilty to bribing DoD employees to make credit card purchases from his office supply company. He was sentenced in U.S. District Court, Eastern District of Virginia, to 27 months incarceration, 36 months of supervised release, and \$400,200 in restitution and other fees.
- Robin Noland, owner of Direct Office Products (one of the vendors involved in the Gilchrist case) pled guilty to conspiracy to defraud the United States and was sentenced to 2 years of probation and ordered to pay \$72,500 in restitution.

STATEMENT OF
NEAL I. FOX
ASSISTANT COMMISSIONER
OFFICE OF COMMERCIAL ACQUISITION
FEDERAL SUPPLY SERVICE
U.S. GENERAL SERVICES ADMINISTRATION
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
APRIL 28, 2004



Good morning, Senator Collins and members of the Committee. I am Neal Fox, Assistant Commissioner of the Office of Commercial Acquisition of the General Services Administration's (GSA's) Federal Supply Service. I am pleased to be here on behalf of the Administrator of General Services to discuss the government-wide charge card program, commonly referred to as GSA SmartPay®, which issues purchase, travel, and fleet cards to Federal agencies, organizations, and Native American tribes. Today, I will discuss the purchase card program.

GSA has been managing the purchase card program since 1989. The most recent purchase card contracts were awarded in 1998 to five banks as part of the GSA SmartPay® program. The purchase card has proven to be the most flexible purchasing tool available to the US 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. With annual card purchases of approximately \$16.3 billion, the purchase card is the primary payment and procurement method for purchases under \$2,500 (often referred to as micro-purchases); additionally, the purchase card is now emerging as a valuable contract payment mechanism for transactions above \$2,500.

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.

Building on our successes to date, GSA and its customer agencies are taking further actions to significantly reduce program risk, such as:

- Decreasing the government's financial exposure through closing unused or infrequently used card accounts. Fewer cards equates to less risk. The number of open purchase card accounts peaked at over 670,000 during fiscal year 2000.

Today, the number of open purchase card accounts is less than half that figure, approximately 315,000.

- Realigning the span of control between purchase cardholders and approving officials, which at 23 major departments and agencies has dropped significantly, and averages 1 approving official for every 3.5 cardholders.
- Taking appropriate action against employees whenever fraud or misuse are detected, including training or discipline, based upon the nature of the misuse.

At GSA we are now turning our attention to the next round of priorities for the purchase card program including those mentioned in the recent GAO draft report entitled "Contract Management: Agencies Could Achieve Significant Savings on Purchase Card Buys" (GAO-04-430), dated February 2004. The report recommends that GSA: "(1) continue efforts to improve reporting by the banks that provide purchase cards so that GSA will have the data it needs – including basic information such as top vendors and level 3 data where feasible – to effectively assist agencies in identifying opportunities to leverage their purchasing power, (2) work with GSA's acquisition center contracting officers to pursue point-of-sale discounts with large vendors, and (3) as part of existing cross-agency forums for purchase card discussions, encourage agencies to share information on their successes in leveraging the purchase card to obtain better prices, as well as strategies for overcoming challenges that could hinder their ability to achieve purchase card savings."

GSA agrees with the draft report's findings and recommendations. The report provided an objective analysis of the savings that can be obtained by agencies through the use of GSA Schedules combined with the GSA SmartPay® program. I would now like to discuss the specific recommendations GAO made to GSA and our actions supporting those recommendations.

The report concluded that agencies have just begun to tap the potential savings of leveraging the purchase card volume for better pricing, and states that hundreds of millions of dollars could be realized annually if agencies took advantage of their buying power. We agree that obtaining more detailed purchase card data and offering customers opportunities to leverage spending through GSA Schedules, our on-line tools GSA Advantage and e-Buy, and other procurement and educational resources, will further enhance the government's ability to obtain more favorable pricing.

GAO recommended that GSA work with the banks to obtain more detailed purchase card spend data, to include information such as the top merchants, total transactions, and total dollars, by agency, and by industry. GSA continues to work with the banks and card associations in pursuit of these data. The banks' electronic access systems currently provide agencies with a record of all purchase card transactions similar to what private citizens see on their personal bankcard statements. This electronic record is available to analyze spending patterns and to highlight questionable transactions. This electronic footprint makes fraud or misuse far easier to detect than in a paper-

based environment. GSA will continue to work with industry and our customer agencies to develop technology to facilitate automated transaction review (e.g., data mining) and account management (e.g., on-line certification).

Obtaining more detailed data on individual transactions (so-called "level 3 data") depends upon individual merchants upgrading their credit card reporting infrastructure, over which we have no direct control. Individual merchants decide to pass level 3 data based upon individual business decisions. The government obtains level 3 data on only approximately 10-15 percent of its transactions because only a small percentage of merchants have the systems infrastructure in place to pass level 3 data today. This issue will require continued research and discussions to attain the intended goal of providing more detailed purchase data.

GSA has recently been pursuing point of sale discounts with large vendors, especially, those that are already on GSA Schedule. We also are soliciting offers from those merchants who are not currently on Schedule. For our customer agencies, we will provide best practices information to help them leverage buying power within their supply chain. We have recently added Office Depot and Home Depot as walk-in stores offering discounts, and these stores are fielding automatic purchase card recognition in their electronic checkout systems.

It should be noted that the decision to incorporate point of sale capabilities – more precisely, automated checkout systems that will recognize a Federal government purchase card and apply the appropriate GSA Schedule discount to the cardholder's order – is largely merchant dependent. Although several government contractors provide point of sale discounts under GSA Schedule, the vast majority of these discounts are not triggered by electronic card recognition. Similar to the level 3 dynamics, automated point of sale discount systems are a function of the merchants' willingness to invest in systems infrastructure upgrades.

Notwithstanding the inherent challenges, point of sale discounts and level 3 data are emerging trends, and GSA desires to encourage these trends, and also to utilize them for the benefit of our customers. Ultimately, electronic card recognition and Level 3 data can provide more control and better audit mechanisms for verifying unit prices. Additionally, the delivery of more detailed spend data by GSA to its customer agencies will help agencies gain additional discounts by identifying possibilities for agency-wide agreements, for example, blanket purchase agreements under GSA Schedule. The GAO report notes examples of agencies that have leveraged their buying power in innovative ways, and GSA intends to use such examples to educate our customers on these best practices to enable other agencies to do the same. GSA also will engage in updating its web-based training for cardholders to include methods for comparing prices, including purchases through GSA Advantage and e-Buy.

GSA has recognized from the inception of the GSA SmartPay® program that cardholder training is essential to ensure proper use of charge cards. GSA provides on-line training free to purchase cardholders. The training discusses roles and responsibilities

of cardholders, proper use of the card and ethical conduct. Many agencies choose to supplement this training with written, oral or on-line training of cardholders on agency specific procedures.

GSA holds an annual training conference for over 3,000 agency program coordinators, auditors, and investigators on a variety of subjects, including innovative best practices in charge card management, and the use of electronic management, control, and oversight tools. The GSA SmartPay® program contractors participate in this conference by providing hands-on electronic access system training, and supplement conference training with written materials such as cardholder and agency program coordinator guides. These guides address authorized uses of the card and responsibilities of the cardholder and the agency program coordinator.

GSA's mission is to help Federal agencies serve the public by offering acquisition services at the best value. We expect our purchase card issuers to support this mission and deliver the best value to our purchase card customers, including providing more robust purchase card spend data. GSA recognizes the inherent challenges of obtaining level 3 data and point of sale discounts, but we are making progress, and are confident that leveraging buying power will be one of the next great success stories for the GSA SmartPay® program.

Senator Collins and members of the Committee, this concludes my prepared remarks for today. I would be happy to answer any questions that you or members of the Committee may have. Thank you.

Testimony by Senator Russ Feingold
April 28, 2004
Committee on Government Affairs

Let me first thank the Committee Chair, Senator Collins, for her leadership on this matter and for permitting me to offer some brief testimony. I was delighted to join her in asking the General Accounting Office (GAO) to review the use of government purchase cards as well as other areas where we might realize some savings, and as this hearing will show, the GAO's work has been well worth the effort.

In this regard, I am also pleased to be joining the Chair in introducing legislation to address the problems uncovered by the GAO's review, a proposal that GAO states, using conservative estimates, can save taxpayers \$300 million every year.

The government purchase card program has much merit. Clearly there is a need for agencies to be able to make small purchases in a flexible manner, and in fact the GAO report notes that agencies claim savings of hundreds of millions of dollars in administrative costs under the purchase card program. But GAO also noted that other opportunities for savings have not been sufficiently pursued in a program that has grown from \$1 billion in 1994 to \$16 billion in 2003.

And the potential for savings is significant. In their report, GAO notes that while "most agencies have established some discount agreements with major purchase card vendors," the agreements only covered a few vendors and a "limited number of products." GAO notes that agency purchase card training programs lack practical information "to help cardholders take advantage of existing discount agreements or GSA's Federal Supply Schedule contracts," and as a result "cardholders paid higher prices than necessary."

By contrast, GAO found that some agencies are using the leverage of the purchase card program to negotiate savings. The GAO report notes that the Department of Agriculture was able to negotiate a discount agreement for office supplies that saved \$1.8 million, about 10 percent below GSA Federal Supply Schedule contract prices, and it adds that the Department of the Interior recently negotiated agreements with information technology vendors for discounts up to 35 percent off Schedule prices.

As I noted earlier, the potential savings are significant - an estimated \$300 million per year according to conservative estimates used by GAO. And while pursuing more efficient, cost-effective government is always a priority, it is never more important than at a time such as this when we are experiencing record budget deficits.

We must stop running deficits. We must stop running deficits because they cause the government to use the surpluses of the Social Security Trust Fund for other government

purposes, rather than to pay down the debt and help our nation prepare for the coming retirement of the Baby Boom generation.

And we must stop running deficits because every dollar that we add to the Federal debt is another dollar that we are forcing our children to pay back in higher taxes or fewer government benefits.

When the government in this generation chooses to spend on current consumption and to accumulate debt for our children's generation to pay, it does nothing less than rob our children of their own choices. We make our choices to spend on our wants, but we saddle them with debts that they must pay from their tax dollars and their hard work.

While the reforms proposed by the GAO in this report, and included in the legislation I am pleased to join in introducing, will not, by themselves, balance the federal books, they do move us closer to that goal. And they will ensure that the funds the government does spend are spent more wisely, a goal that should always be a high priority, no matter what the condition of the budget.

I thank the Chair for her courtesy.

**TESTIMONY OF
RICHARD J. GRIFFIN, INSPECTOR GENERAL
BEFORE
THE UNITED STATES SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS
HEARING ON GOVERNMENT PURCHASE CARDS:
SMARTER USE CAN SAVE TAXPAYERS HUNDREDS OF MILLIONS OF DOLLARS
APRIL 28, 2004**

Madam Chairman and Members of the Committee, I am pleased to provide my statement today on the discussion of the effective use of Government Purchase Cards. As part of our continuing coverage of the Department of Veterans Affairs (VA) procurement practices, my office has conducted reviews of the VA Purchase Card Program to determine the effectiveness of internal controls to prevent and detect fraudulent, improper, or questionable purchases. In Fiscal Year 2003, VA issued approximately 31,800 purchase cards to cardholders who made 3.2 million transactions valued at about \$1.7 billion.

On February 12, 1999, the Office of Inspector (OIG) issued *Audit of the Department of Veterans Affairs Purchase Card Program*, Report Number 9R3-E99-037. The audit showed that management controls were not effectively implemented to ensure the integrity of the Government Purchase Card Program and maximum benefits were not being realized. We found that:

- Cardholders frequently did not timely reconcile their billing statements.
- Cardholders did not input orders into the Integrated Funds Distribution, Control Activity, Accounting and Procurement system within one day.
- Cardholders did not maintain supporting documentation.
- Approving officials frequently did not timely certify billing statements.
- Transactions were not charged to the proper accounts.
- Disputes were not reported to the vendor within 30 days.
- Credit cards were not properly secured.
- Incorrect billings from vendors were not identified.
- Cardholders split purchases to circumvent maximum dollar limits.

As a follow up to the 1999 audit, my office recently issued, *Evaluation of the Department of Veterans Affairs Government Purchase Card Program*, Report Number 02-01481-135, dated April 26, 2004. This evaluation summarizes the results of 83 reports published during the period March 1999 through September 2003, which have continued to identify internal control weaknesses in the Government Purchase Card Program. Over these years, we also reported instances of fraudulent activity. For example:

- A former VA employee pleaded guilty to theft of Government property. The individual admitted that, while employed by VA, she used a Government purchase card to buy over \$200,000 worth of computers, televisions, stereos, and other items which she either then sold to friends and associates, or kept for personal use. The employee forged her

supervisor's signature to approve the bills and also falsified the receipts. The VA OIG and the Federal Bureau of Investigations conducted a joint investigation and recorded the employee on videotape shopping at local computer stores and selling the equipment in front of her house.

- A VA employee and an associate (a non-VA employee) pleaded guilty to theft of Government funds. The employee oversaw all administrative matters for a VA medical center Surgical Service and had authority to procure items for the service using a Government purchase card. The employee fraudulently purchased approximately \$178,000 worth of laptop computers and peripheral equipment using the Government purchase card and the associate bought \$170,000 worth of the items from the employee. The associate then sold the computers and peripheral equipment to various pawnshops.
- Five former VA employees were indicted after a Federal grand jury returned a 125-count indictment charging each individual with false statements for their alleged role in a conspiracy to defraud VA. An OIG investigation determined that each individual used a Government purchase card to purchase items for their own use during a 3-year period from July 2000 through 2002. The illegal purchases included a diamond ring, televisions, DVD and CD players, karaoke machines, clothing, and power tools. After making the purchases, the individuals submitted fraudulent purchase orders to VA in an effort to obscure the crimes. The total loss to VA exceeded \$45,000.
- A VA employee was charged with larceny, theft, and unauthorized use of a Government purchase card. A joint VA OIG and VA police investigation disclosed that the employee misused the purchase card by making unauthorized purchases totaling more than \$8,000. The employee was authorized to use a purchase card for gas and services related to the use of an assigned Government vehicle.
- A former VA employee pleaded guilty to a criminal information charging him with theft of Government funds. The guilty plea was the result of a joint investigation by the VA OIG and VA police, which disclosed that over an 8-month period the employee used a Government purchase card to buy more than \$4,900 worth of items for personal use. The employee resigned from his position after receiving a notice of proposed removal.

In addition to the fraudulent activities, we identified numerous improper and questionable uses of the purchase cards, which were either identified in our reports, or as the result of our data mining analysis of purchase card transactions at five VA facilities. Through data mining, we searched for suspicious transactions and patterns of activity. We identified 1,444 suspicious transactions totaling \$3,207,028, from a universe of 99,167 purchase card transactions valued at \$60,958,012. Of the 1,444 transactions, we identified 457 improper or questionable purchases (32 percent) totaling \$1,127,748 that did not comply with the Federal Acquisition Regulation (FAR), VA policy, or were not adequately supported by documentation. Improper purchases are those items or services that are not permitted to be procured by law, the FAR, or VA policy. Questionable transactions are those transactions that appear to be improper as a result of applying data mining criteria and subsequently found not to be supported by documentation.

Following are examples of the improper or questionable purchases associated with the 457 transactions.

Noncompetitive Procurements:

The results of our reviews showed that cardholders did not follow the FAR or VA policy in obtaining the most advantageous price at 15 of 83 facilities. We also found through our data mining analyses that cardholders did not obtain the most advantageous prices or justify sole source procurements for 71 procurements valued at \$604,209. For example:

- For a 20-month period ending May 31, 2002, two purchase cardholders placed 45 orders totaling \$265,970 for hip and knee implants and accompanying components. Cardholders purchased these implants on the open market from vendors selected by physicians. The prices for comparable implants from a Federal Supply Schedule (FSS) vendor would have saved an estimated \$162,000.
- For the 20-month period ending May 31, 2000, the cardholder made 38 purchases from this vendor totaling \$76,222. Our analysis of these purchases disclosed that the medical facility may have paid up to 40 percent, approximately \$30,500, more for this vendor's products over comparable products if purchased from FSS sources.

Split Purchases:

Another type of improper transaction we identified was a split purchase. A split purchase occurs when a cardholder splits a procurement into more than one transaction to circumvent the FAR requirement to obtain competitive prices for purchases over the \$2,500 micro-purchase limit or to avoid exceeding the established \$2,500 single purchase limit. Our hotline and Combined Assessment Reviews (CAP) reviews found that cardholders at 19 of 83 facilities split purchases. In addition, our data mining analysis identified 84 split transactions valued at \$165,474. For example, data mining results at a medical facility disclosed that a cardholder improperly split 19 purchases of office furniture and supplies into 65 separate transactions, totaling \$107,391. As a result, the cardholder did not subject the procurements to competitive pricing and may have paid more for the items than needed.

Purchases of Prohibited Items:

VA policy prohibits the use of a purchase card for certain goods and services. We found during our hotline and CAP reviews that purchase cards were used to purchase prohibited items at 23 of 83 facilities. Our data mining analysis identified 133 prohibited purchases valued at \$22,243. Examples include:

- A cardholder routinely allowed her approving official to make purchases with her Government purchase card. The approving official in the Surgical Healthcare Group improperly used the card and made 132 purchases for surgical supplies totaling \$21,475. VA policy states that cardholders are not allowed to let others use their cards.

- A cardholder used the purchase card to improperly purchase \$768 for an employee holiday party. VA policy states that the purchase card can only be used for official Government purchases and prohibits procurement of personal goods. A VA physician directed the cardholder to use the purchase card to cater the party. Improper use of the card should result in its cancellation, disciplinary action, or issuance of a bill collection. As a result of our review, the facility issued a bill of collection to the physician.

Other Purchasing Deficiencies:

Our data mining results at a medical facility showed that a cardholder and approving official did not verify the accuracy of charges to a purchase card and dispute erroneous charges, as required. For example, a cardholder purchased three defibrillators and accompanying components from an FSS vendor at a cost of \$68,428. The cardholder did not ensure that prices charged for the items were accurate and consistent with FSS contract prices. As a result, the medical facility overpaid the vendor by \$13,428. In response to our inquiry, the vendor issued a credit to the facility for \$13,428.

Transactions Not Supported by Documentation:

Questionable transactions include those where the cardholders made recurring purchases from the same vendors and did not maintain appropriate supporting documentation such as packing slips, invoices, and sales slips. The results showed that cardholders did not maintain documentation supporting 121 (26 percent) of 457 transactions valued at \$196,036. Without appropriate documentation to support a transaction there is insufficient evidence to determine the validity of the transaction. For example, cardholders at one medical facility were unable to provide supporting documentation for 14 (23 percent) of 60 purchase card transactions in our judgment sample. The 14 transactions totaled \$18,022, including charges of \$809 from a restaurant and \$443 for photographic supplies. The appropriateness of the purchases cannot be verified without supporting documentation detailing the descriptions, quantities, and prices of the items or services purchased.

From our 83 reports and data mining analyses, we identified several weaknesses in internal controls as indicated by the following examples.

- VHA policy requires cardholders to reconcile 75 percent of payments within 10 days, 95 percent within 17 days, and 100 percent within 30 days. Our reviews determined that purchase card transactions were not timely reconciled and certified at 52 (63 percent) of 83 facilities.
- VA policy and sound internal control practices prohibit any one individual from controlling all the key aspects of a transaction. A common deficiency identified at VA facilities was that the program coordinator, cardholder, approving official, billing officer, or dispute officer performed overlapping duties. Segregation of duties was not in place at 27 (33 percent) of 83 facilities.

- VA policy requires facilities to conduct quarterly audits of cardholders and approving officials not reviewed in the monthly audits of purchase card transactions. We found that quarterly audits were not conducted at 22 (27 percent) of 83 facilities.
- Purchase cardholders who make purchases above \$2,500 are required to complete a 40-hour training course on procurement policies and procedures, and obtain contracting officer warrants that allow them to spend up to, but not exceed, specific higher dollar amounts. Purchase cardholders and approving officials were not properly trained and warranted at 26 (31 percent) of 83 facilities.
- VA policy provides that the program coordinator is responsible for cancellation of purchase card accounts. Purchase cards were not canceled for employees who terminated employment at 12 (14 percent) of 83 facilities.
- VA policy does not provide guidance to VA facility managers regarding the span of control for approving officials. We reviewed the span of control at 11 medical facilities and found overall ratios of cardholders to approving officials ranged from a low of 1.8 to a high of 4.3, which we considered reasonable. However, at two of these medical facilities, we found that the span of control for two approving officials was excessive. For example, at one medical facility, an approving official had responsibility for monitoring 41 cardholders. The cardholders made 1,167 purchases totaling approximately \$1.2 million. Federal guidance showed that approving officials should normally be responsible for five to seven cardholders.

We identified the following opportunities to provide management with greater assurance that purchase cards are used properly. These included:

- Closer supervision and better training of cardholders and approving officials.
- Timely reconciliation and certification of purchase card transactions by cardholders.
- Preventing improper purchases.
- Avoiding split purchases.
- Duties are appropriately segregated.
- The span of control for approving officials is appropriate.
- Questionable transactions are identified and validated.

The Under Secretary for Health, the Under Secretary for Benefits, and the Assistant Secretary for Management agreed with the findings and recommendations and provided acceptable improvement plans.

In conclusion, VA management needs to implement effective internal controls over the Government Purchase Card Program. Our continuing concern is that many of the problems with the Purchase Card Program identified in our 1999 report continue to exist. If VA is going to gain control over this program it must aggressively ensure that all facilities consistently implement and fully comply with existing FAR and VA policies.

**Statement of The Honorable Linda M. Springer
Controller, Office of Federal Financial Management
Office of Management and Budget**

**Before the
Committee on Governmental Affairs
United States Senate
April 28, 2004**

Thank you for allowing me the opportunity to provide written testimony for the record for the hearing before the Senate Committee on Governmental Affairs on the issue of the government-wide management of purchase cards.

Improving agency performance of purchase card programs is an important component of the Administration's efforts to strengthen overall financial management in the executive branch and to eliminate improper payments of all kinds throughout the government. The Office of Management and Budget (OMB) is pleased that your Committee is taking the time to evaluate the government's purchase card programs.

I would first like to provide some history on this issue, as well as clarify the relevant roles and responsibilities of the specific offices at OMB that oversee efforts to improve the management of purchase card programs.

In April of 2002, then OMB Director Mitchell Daniels issued a memorandum to executive agencies in which he expressed concern about agency purchase and travel card programs. This memo also directed agencies to submit to Office of Federal Procurement Policy (OFPP) reports on how they planned to manage risk using internal controls. Shortly thereafter, OFPP established an interagency task force to explore problems and identify best practices in the purchase card program. In October of 2002, Director Daniels issued a second memorandum that shared several of these best practices and established a quarterly reporting requirement to ensure continued and consistent monitoring of the purchase card programs.

In the past, OFPP has generally been responsible for all aspects of agency purchase card management and performance. Last year, however, the decision was made by the OMB Deputy Director for Management to shift some of the purchase card oversight responsibility to the Office of Federal Financial Management (OFFM). This decision was based in part on OFFM's ownership role of the President's Management Agenda (PMA) initiative to improve financial management and its responsibility to oversee efforts to eliminate agency improper payments, such as delinquent payments, misuse and fraud.

OFPP oversees Federal acquisition efforts and sets policies and procedures to ensure that agencies enter into fair and reasonable contracts that are in the best interest of the taxpayer. OFPP works with the General Services Administration (GSA) – the agency responsible for the operations and contract management of the purchase, travel, and fleet card

programs – and other agencies to ensure that purchase card programs reflect sound and efficient business practices, such as implementing appropriate strategic sourcing agreements.

OFFM is now responsible for evaluating agency efforts to carry out purchase card activity in an efficient manner, so that fraudulent and inappropriate purchases are avoided and bills are paid on time. As part of this oversight, OFFM oversees the collection of the quarterly reports from Federal agencies.

Since the purchase card reporting requirement began in January of 2003, the following improvements have been demonstrated:

- Ratio of approving officials to purchase cardholders has generally decreased, thereby improving the span of control.
- Number of cards has decreased government-wide.
- Rebate amounts have generally increased.

As we analyze these reports, we are working with agencies to ensure that effective internal controls and process improvements are implemented to manage purchase card programs.

In my role as OMB Controller, I meet frequently with agency Chief Financial Officers (CFOs) and Inspectors General (IGs) to discuss strategies for strengthening purchase card controls and overall management. As a result of these discussions, additional best practices among agencies have been brought to our attention. For example, some agencies have established automated processes in which an email is generated and distributed to an approving official when a purchase card is used for a purchase. Other agencies also use an automated reconciliation processes to ensure each transaction is valid before the approving official reviews statements for payments. Through the CFO Council and other relevant venues, OFFM has begun working to develop strategies to expand the implementation of these and other best practices government-wide.

We have also begun evaluating a government-wide approach to ensure that Federal employees that pose a credit risk are either not issued cards or are issued cards with significant restrictions and/or additional controls. As you know, Section 638 of the 2004 Omnibus Appropriations Act requires Federal agencies to conduct an assessment of an employee's "creditworthiness" before issuing that employee a travel or purchase card. In order to carry out this provision, OMB has convened an interagency task force and is in the process of reviewing a variety of options for implementation. It is our goal to develop a cost-effective approach that can be fairly and uniformly applied across the government.

OMB appreciated the opportunity to respond to a draft of the General Accounting Office (GAO) report entitled "Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys." OMB representatives from OFPP, OFFM, and the Office of General Counsel provided input to GAO throughout the process regarding ongoing efforts to monitor the purchase and travel card programs through the quarterly reports.

In addition to participating in information-gathering conference calls with GAO in December of 2003, OMB provided oral comments to GAO at the end of January of 2004 on the general recommendation to use the quarterly reports to capture strategic sourcing information. OMB agreed that agencies should generally increase their focus on purchase card pricing issues. However, OMB recommended that agencies not necessarily be required to submit sourcing information through the quarterly reports. Rather, we recommend that information on strategic sourcing be collected and shared using the existing cross-agency forums sponsored by GSA – such as annual purchase, travel, and fleet card conferences, regular roundtable discussions with agency purchase/travel card managers and agency IGs, and other existing forums.

We are pleased that GAO included information on the existing periodic cross-agency forums in its report.

Thank you again for the opportunity to provide a written statement for the record. We look forward to continuing to work with you and the other members of the Committee on this important issue.

June 27, 2003



Acquisition

Summary Report on the
Joint Review of Selected DoD
Purchase Card Transactions
(D-2003-109)

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Acronyms

DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
GSA	General Services Administration
OIG DoD	Office of the Inspector General of the Department of Defense
PMO	DoD Purchase Card Joint Program Management Office



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

June 27, 2003

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION,
TECHNOLOGY, AND LOGISTICS)
UNDER SECRETARY OF DEFENSE (COMPTROLLER),
CHIEF FINANCIAL OFFICER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Summary Report on the Joint Review of Selected Purchase Card
Transactions (Report No. D-2003-109)

We are providing this report for your information and use. This report addresses the requirement in section 1007 of the National Defense Authorization Act for FY 2003, which requires that the Inspector General of the Department of Defense perform periodic audits of purchase card usage.

We appreciate the courtesies extended to the staff. Questions should be directed to Colonel William J. Kelley at (703) 604-9312 (DSN 664-9312) or Ms. Lisa M. Such at (703) 604-9284 (DSN 664-9284). See Appendix D for the report distribution. The team members are listed inside the back cover.

David K. Steensma
David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense**Report No. D-2003-109****June 27, 2003**

Project No. D2002CM-0117.0001

**Summary Report on the Joint Review of Selected DoD
Purchase Card Transactions****Executive Summary**

Who Should Read This Report and Why? Policy makers, senior managers, purchase card program managers, approving officials, and cardholders should read this report to help improve any deficiencies in the internal control structure of the DoD Purchase Card Program. This report cites examples of potentially inappropriate and fraudulent use of purchase cards by DoD cardholders. The potentially inappropriate and fraudulent use was detected using data mining techniques, which support data mining as a control mechanism of identifying purchase card transactions with a higher probability of being fraudulent, wasteful, or abusive.

Background. This report addresses the requirement in section 1007 of the National Defense Authorization Act for FY 2003 that the Inspector General of the Department of Defense perform periodic audits of purchase card use. The purchase card is a commercial charge card available to Federal agencies to pay for official Government purchases. The DoD Purchase Card Program Office reported that in FY 2002, about 214,000 DoD cardholders used the purchase card to make approximately 11 million purchases valued at \$6.8 billion.

In December 2001, the Office of the Inspector General of the Department of Defense, the Defense Finance and Accounting Service, and the DoD Purchase Card Joint Program Management Office agreed to initiate an automated oversight program for determining whether anomalies that indicate potential fraud, waste, and abuse in purchase card transactions, could be detected using data mining techniques. Business rules that identified potentially inappropriate transactions were applied to the millions of purchase card transactions. The process ultimately resulted in selection of 1,357 purchase cardholders for an in-depth review. The Office of the Inspector General then provided to each of the Services and the Defense agency auditors or investigators a cardholder profile. The profile contained flagged transactions as well as the transactions the cardholders made from October 1, 2000, through December 31, 2001.

Results. The Services and the Defense agencies performed an in-depth review of purchase card transactions for 1,357 purchase cardholders identified through data mining techniques and determined that 182 cardholders potentially used their purchase cards inappropriately or fraudulently. As a result, the 182 cardholders expended about \$5 million in scarce resources on potentially fraudulent and inappropriate transactions. To assist program officials in identifying potentially inappropriate and fraudulent transactions in a more timely manner, data mining techniques should be used as a regular internal control. By implementing data mining tools, purchase card program officials will be better able to perform their oversight responsibilities, take appropriate corrective action in a timely manner, and perform the followup necessary for ensuring that

corrective action taken is appropriate and sufficient. Based on the actions DoD management has initiated or taken, this report makes no recommendation for corrective action. With the use of data mining and other management actions, the integrity of the purchase card program along with confidence in DoD to spend money prudently is improved.

Ongoing Management Actions. In an effort to address deficiencies in the purchase card program, the Under Secretary of Defense (Comptroller)/Chief Financial Officer established in March 2002 a Government Charge Card Task Force that would assess the DoD purchase and travel card programs and make recommendations for improvements. Subsequently, the Under Secretary of Defense for Acquisition, Technology, and Logistics established the DoD Charge Card Special Focus Group to achieve a balance between streamlining business processes and proper charge card use. An Integrated Product Team supports the Special Focus Group and is responsible for resolving policy and process issues related to implementation of the recommendations in the DoD Charge Card Task Force Final Report. Implementation of the recommendations in the DoD Charge Card Task Force Final Report should assist in reducing the number of questionable purchase card transactions discussed in this report.

The DoD Purchase Card Program Office, along with the Navy, also initiated actions that will strengthen internal controls by increasing the tools available to DoD managers. Those actions include data mining techniques designed to detect potentially inappropriate and fraudulent transactions. Specifically, the Navy initiated action to establish an automated and standardized process for reviewing high-risk purchase card transactions.

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Background

Section 1007, "Improvements in Purchase Card Management," of the National Defense Authorization Act for Fiscal Year 2003 (Public Law 107-314, December 2, 2002), states:

That the Inspector General of the Department of Defense . . . [will] perform periodic audits to identify--

- (a) potentially fraudulent, improper, and abusive uses of purchase cards;
- (b) any patterns of improper cardholder transactions, such as purchases of prohibited items; and
- (c) categories of purchases that should be made by means other than purchase cards in order to better aggregate and obtain lower prices.

In December 2001, the Office of the Inspector General of the Department of Defense (OIG DoD), the Defense Finance and Accounting Service (DFAS), and the DoD Purchase Card Program Management Office (PMO) agreed to initiate an automated oversight program that could identify through data mining techniques anomalies in purchase card transaction data that might indicate potential fraud, waste, or abuse. This summary report discusses the results of the data mining effort, the disposition of the referred transactions, and the systemic problems related to the DoD Purchase Card Program.

The Federal Purchase Card Program. The purchase card is a commercial charge card issued through a Government contract to Federal agency employees to pay for official Government purchases. The General Services Administration (GSA) is responsible for the Government purchase card program and in 1989 awarded the first Government-wide purchase card contract. The goal of the purchase card program is to increase the efficiency with which Federal agencies can purchase goods and services directly from vendors. Specifically, the purchase card (Figure 1) enables agencies to expedite purchases, streamline payment procedures, and reduce administrative costs.

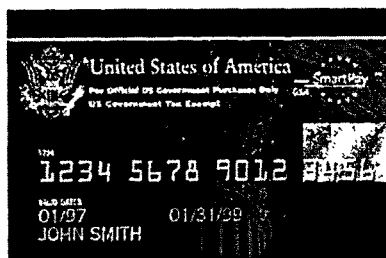


Figure 1. Government Purchase Card

The Federal Acquisition Streamlining Act of 1994 established \$2,500 as the threshold for micropurchases and eliminated most of the procurement restrictions for purchases identified within that threshold. Executive Order No. 12931, "Federal Procurement Reform," October 13, 1994, directs that agencies expand the use of the purchase cards and delegates micropurchase authority to program officials. In 1995, the Federal Acquisition Regulation designated the purchase card as the preferred method for paying for micropurchases.

The GSA purchase card program consists of one contract with five banking vendors, and each agency, according to need, can choose one or more of the contracts for providing purchase cards to employees of the Federal Government. The GSA reported that in FY 2001 Government cardholders made more than 24 million purchases valued at \$13.7 billion. GSA further reported that by using the purchase card, the Government saved approximately \$1.3 billion annually in administrative costs, and DoD earned \$28 million in rebates.

Purchase Cards in DoD. The Under Secretary of Defense for Acquisition, Technology, and Logistics is responsible for purchase card policy and oversight, and coordinates with the Under Secretary of Defense (Comptroller)/Chief Financial Officer on purchase card-related finance and accounting issues. In March 1998, the Deputy Secretary of Defense centralized management for the purchase card program by establishing the PMO as the executive agent for DoD purchase cards. The PMO reports directly to the Director, Defense Procurement and Acquisition Policy within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The PMO establishes the policies and procedures for use of the purchase cards within DoD. More specifically, the PMO coordinates contract requirements with GSA, manages delinquencies, standardizes purchase card management and reconciliation, and establishes purchase card training throughout DoD. The PMO reported that in FY 2002, about 214,000 DoD cardholders used the purchase card to make approximately 11 million purchases valued at \$6.8 billion.

Purchase Card Program Responsibilities. DoD Components are responsible for operating local purchase card programs that support the mission of each organization. Each Component must appoint an agency or organizational program coordinator that manages the day-to-day activities and ensures the overall integrity of the purchase card program. Program coordinators authorize purchase cards accounts, set spending limits, establish supplementary policies and procedures, and monitor the use of purchase card accounts. Approving officials are responsible for authorizing and approving purchases as well as certifying monthly billings for payment. Both the cardholder and the approving official must reconcile purchased goods and services with the bank statement before the invoice can be paid.

Prior Reviews and Identified Systemic Issues. The General Accounting Office (GAO) issued four reports and participated in three congressional hearings that relate to the DoD Purchase Card Program. In the reports issued between March 2002 and December 2002, GAO attributed the vulnerability of the DoD Purchase Card Program for the potentially abusive and fraudulent purchase card transactions to a weak internal control environment and breakdown of key internal control activities.

Between FY 1996 and FY 2002, IG DoD and the Military Department audit organizations issued more than 300 audit reports on purchase cards. IG DoD Report No. D-2002-029, "DoD Purchase Card Program Audit Coverage," December 27, 2001, identifies systemic issues in the purchase card program that include account reconciliation and certification, administrative controls, management oversight, property accountability, purchase card use, separation of duties, and training.

Congressional Interest. On October 8, 2002, the U.S. House of Representatives Committee on Government Reform, Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations held a hearing regarding purchase card use and abuse. The hearing, the fourth in a series of charge card hearings, highlighted the need for continued program oversight, implementation of effective internal controls, and accountability. Senator Charles E. Grassley challenged the IG DoD to assist DoD with oversight efforts and spoke of a real-time, continuous, and sustained data mining operation as a means of monitoring charge card transactions. Senator Grassley stressed that, with constant surveillance, credit card abuse either will cease or at the very least, be held to a minimum.

Charge Card Task Force. The Under Secretary of Defense (Comptroller)/Chief Financial Officer established a Government Charge Card Task Force in March 2002 for assessing DoD purchase and travel card programs and recommending improvements. The task force evaluation focused on three key areas. Those areas of evaluation include management emphasis and organizational culture, compliance, and process and workforce developments. On June 27, 2002, the task force issued the DoD Charge Card Task Force Final Report, which contains 25 recommendations for improving the travel and purchase card programs. The report recommends strengthening internal controls and increasing tools available to managers for enforcing the controls, including the use of data mining technologies that could detect fraudulent or abusive purchase and travel card transactions.

Data Mining. Data mining is the process that discovers correlations, patterns, and trends by sifting through large repositories of data using pattern recognition technologies and statistical techniques. Data mining tools help predict future trends and behaviors as well as allow businesses to make proactive, knowledge-based decisions. Used primarily by companies with a strong customer focus such as retail, financial, communications, and marketing organizations, data mining has a variety of applications. Data mining is useful for identifying transactions that have a higher risk of being inappropriate. For example, transactions made by a medical facility to an upholsterer should be looked at more closely than transactions the medical facility made to a pharmaceutical supplier.

Objectives

The objective of the joint effort was to determine whether data mining techniques led to the identification of potentially problematic transactions. An additional objective was to identify ways to both strengthen internal controls and provide tools that managers could use for enforcing those controls.

Purchase Card Transactions

Analysis of purchase card transactions identified that 182 of the 1,357 cardholders reviewed had potentially used their purchase cards inappropriately or fraudulently. The potential misuse occurred because DoD did not implement adequate internal controls that would preclude and quickly detect potentially inappropriate or fraudulent use. Moreover, management lacked tools such as data mining techniques designed to maximize existing resources for overseeing the purchase card program and identify transactions that have a higher risk for abuse and fraud. As a result, the 182 cardholders expended scarce resources of about \$5 million in transactions that were potentially inappropriate and fraudulent. With the use of data mining and other management controls, the integrity of the purchase card program along with confidence in DoD to spend money prudently is improved.

Joint Purchase Card Project

In December 2001, the IG DoD, DFAS, and the PMO agreed to begin a joint purchase card project that would use data mining techniques to detect purchase card transactions that appeared potentially inappropriate or fraudulent and warranted additional field research. Purchase card experts from the audit and investigative communities met to develop and prioritize indicators that could detect anomalies in purchase card transaction data. Those experts coded the indicators, and combinations of the indicators were applied to purchase card transaction data from July 1, 2001, through December 31, 2001. The process resulted in selection of 13,052 purchase card transactions for review. The transactions totaled approximately \$38.3 million and related to 2,036 DoD purchase cardholders.

The IG DoD then provided to each of the Services and the Defense agencies a cardholder profile. The profile contained flagged transactions as well as the transactions the cardholders made from October 1, 2000, through December 31, 2001. Table 1 shows the cardholders and transactions flagged for review as well as the scope of work performed by each of the Services and the Defense agencies.

Table 1. Purchase Cardholders and Transactions Selected for Review and Work Performed

Agency	Flagged Cardholders	Flagged Transactions	Related Transactions	Total Transactions Available for Review	Cardholders Reviewed	Transactions Reviewed
Army	922	6,377	196,181	202,558	674	4,624
Navy	485	2,809	193,699	196,508	282	9,043
Air Force	492	2,776	116,878	119,654	264	2,625
Other Defense	137	1,090	42,689	43,779	137	1,330
Total	2,036	13,052	549,447	562,499	1,357	17,622

Inappropriate and Potentially Fraudulent Transactions

Analysis of purchase card transactions made by 1,357 DoD purchase cardholders identified 182 cardholders that potentially used their purchase cards inappropriately or fraudulently. Table 2 shows the results as reported by each Service and Defense agency.

Table 2. Purchase Cardholders with Inappropriate Card Use and Those Referred for Criminal Investigations

Cardholders			
	Reviewed	With Inappropriate Card Use	Referred to Investigations
Army	674	84	4
Navy	282	36	8
Air Force	264	17	24
Defense Agencies	137	4	5
Total	1,357	141	41

Army. The Army Audit Agency and internal review personnel reviewed 674 cardholders and 4,624 purchase card transactions totaling approximately \$20.1 million. The Army identified 88 cardholders and 284 transactions valued at approximately \$520,000 that were potentially inappropriate or fraudulent. Examples of reported problems follow.

- A cardholder purchased a Santa suit for \$232 with the Government purchase card.
- A cardholder inappropriately rented a vehicle for \$910 using the Government purchase card.
- A cardholder accessed possible pornographic sites and sports-related Web sites with the Government purchase card.

Navy. The Naval Audit Service reviewed 282 cardholders and 9,043 purchase card transactions totaling approximately \$5.95 million. The Naval Audit Service identified 44 cardholders and 7,758 transactions^{*} valued at approximately \$3.17 million that were potentially inappropriate or fraudulent. Examples of reported problems follow.

- At a Navy facility, building renovations budgeted at more than \$500,000, were paid for with the Government purchase card by splitting the project into smaller transactions to stay below the \$2,500 micropurchase threshold.
- One Navy cardholder used the Government purchase card to purchase two automobiles, surgical enhancements, and a motorcycle. The cardholder made 59 fraudulent purchases that totaled more than \$132,000.

Air Force. The Air Force Audit Agency reviewed 264 cardholders and 2,625 purchase card transactions totaling approximately \$4.26 million. The Air Force Audit Agency identified 41 cardholders and 339 transactions totaling about \$554,000 that were potentially inappropriate or fraudulent. Examples of reported problems follow.

- A cardholder purchased personal goods and services such as meals, gasoline, and recreational activities with the Government purchase card. The cardholder made 29 inappropriate or unauthorized purchases that totaled about \$6,000.
- Unauthorized individuals used Air Force purchase card account numbers for 155 purchase transactions totaling \$30,196. The cardholders successfully disputed 118 of those charges, resulting in credits totaling \$28,365 (94 percent of the total loss). The transactions included charges to sexually explicit Internet Web sites and Internet gambling sites. Air Force auditors referred the transactions for further review to the Air Force Office of Special Investigation. Air Force Office of Special Investigation officials confirmed that the majority of the charges resulted from theft of the purchase card numbers. The Air Force Office of Special Investigation and Defense Criminal Investigative Service were reviewing

^{*} Of the 7,758 transactions the Navy identified as potentially inappropriate or fraudulent, 7,667 transactions (99 percent) were related to 8 cardholders referred to investigations from October 1, 2000, through December 31, 2001.

the transactions to determine whether any of the cardholders were responsible and whether commercial entities intentionally billed fraudulent charges to Air Force purchase cards.

- One cardholder split a \$9,131 requirement into four separate transactions within the same day to purchase new uniforms for military personnel. In that instance, the cardholder believed the mission was accomplished but disregarded established policy by splitting requirements without review by a warranted contracting officer to determine whether lower prices could be obtained or to ensure that the purchases met statutory requirements.

Defense Agencies. The IG DoD and Defense agency personnel reviewed 137 cardholders and 1,330 purchase card transactions totaling approximately \$3.11 million. The Defense agencies identified 9 cardholders and 90 transactions totaling approximately \$840,000 that were potentially inappropriate or fraudulent. Examples of reported problems follow.

- Data mining techniques identified 6 Washington Headquarters Service cardholders and 79 purchase card transactions for review. To obtain additional confidence in the audit results, the audit team reviewed additional transactions for each cardholder. After questionable transactions were identified, nine additional cardholders at Washington Headquarters Services were reviewed. The review resulted in \$1.7 million in fraudulent purchases from May 1999 through August 2002 and at least \$201,000 in additional abusive, improper, and unauthorized purchases by employees. Of those cardholders reviewed, two Washington Headquarters Services employees used the purchase card to make about 500 fraudulent purchases of goods and services from a company created solely to facilitate fraud. DoD did not receive any goods or services from the sales charged to the card. The two cardholders plead guilty to the charge of theft of Government property. One cardholder was imprisoned and the other was sentenced to probation to include home confinement. Both were ordered to make full restitution to the Government.
- One cardholder used the purchase card 52 times in an 8-week period to make a single purchase for more than \$551,000. The cardholder potentially used the Government purchase card inappropriately to circumvent DoD acquisition regulations. The cardholder did so by splitting a single purchase into numerous transactions below the micropurchase threshold.

Purchase Card Controls and Oversight

GAO and IG DoD prior audits and reviews identified that inappropriate and fraudulent purchase card transactions generally occurred because local organizations failed to follow operating policies and procedures for the Government purchase card program. Specifically, the overall control environment was inadequate, the review and approval process was inefficient, and the program monitoring and oversight was ineffective. Management also did not dedicate adequate resources that would ensure compliance with internal controls,

and approving officials did not have tools, such as data mining techniques, that could identify transactions with a higher risk of being potentially fraudulent, wasteful, or abusive.

DoD management needs to establish and maintain a culture that promotes a positive and supportive attitude toward internal controls and conscientious management. Such an environment is the foundation for all other control standards that provide discipline, structure, and a climate that influences quality. To correct purchase card program deficiencies, DoD should as a part of its regular control activities implement automated data mining tools for continuously monitoring transactions for potentially fraudulent, wasteful, and abusive activity. By using data mining to assign risk to individual transactions, managers and supervisors are forced to perform their oversight responsibilities, take appropriate actions to correct improper use, and perform followup. In addition, the use of ongoing monitoring as a matter of normal operations reduces the chance that cardholders will act improperly without detection. In recent testimony before the Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform, House of Representatives, GAO supported the need for a continuous monitoring system and identified data mining as a critical audit and investigative tool, stating that the results of data mining show "real consequence or effect of breakdowns in internal controls."

Management Actions to Implement a Continuous Monitoring Tool

DoD Improvements During This Review. In March 2003, the Under Secretary of Defense for Acquisition, Technology, and Logistics established the DoD Charge Card Special Focus Group to achieve a balance between streamlining business processes and proper charge card use. An Integrated Product Team supports the Special Focus Group and is responsible for resolving policy and process issues related to the implementation of the recommendations in the DoD Charge Card Task Force Final Report. One task that the focus group undertook was to identify practices that would best strengthen internal controls as well as increase available tools for managers to enforce internal controls. Part of the task included using data mining techniques that could detect purchase and travel card transactions with a high risk of being potentially fraudulent or abusive.

Navy Action. Based on recommendations by the IG DoD, the Navy initiated action to address purchase card fraud, misuse, and abuse by establishing an automated and standardized process for reviewing high-risk purchase card transactions.

Both the Navy and IG DoD envision a prototype system that would send an automated e-mail to the appropriate approving official requesting additional information for assessing the appropriateness of a transaction. The approving official's response to questions will populate a database, which can be used for reporting trends, identifying deficiencies, and providing data for fraud or misuse improvement.

The first phase of the prototype focuses on approving official review of cardholder transactions, and the U.S. Marine Corps is field testing a pilot program at Camp LeJeune, North Carolina. The prototype system, although being developed by the Navy, has applicability throughout DoD.

Based on the actions the DoD Purchase Card PMO and the Navy have taken or initiated, this report makes no recommendations for additional corrective action. See Figure 2 for a diagram of the continuous monitoring system.

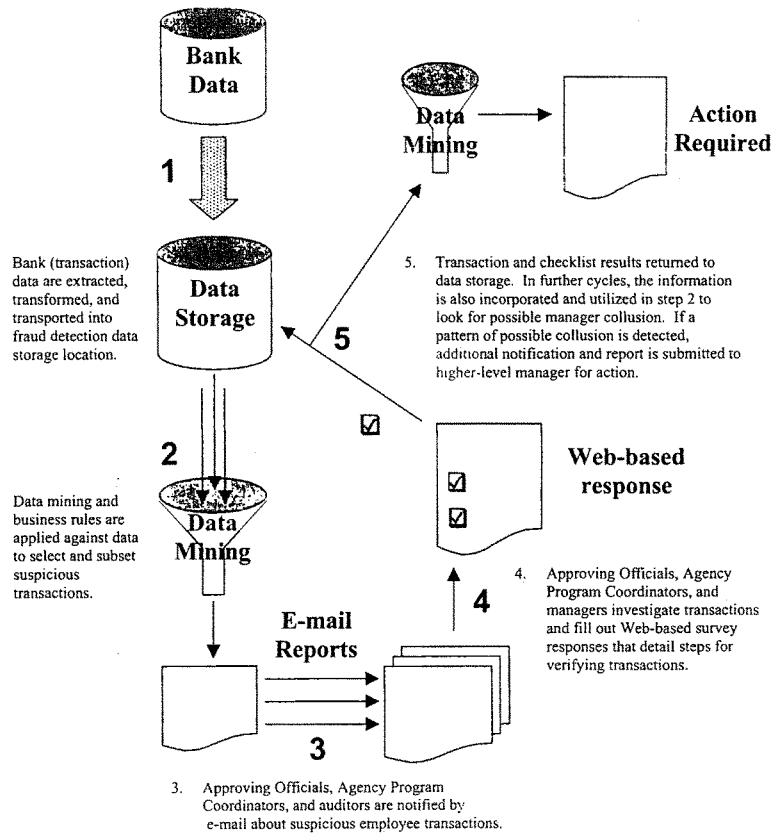


Figure 2. Continuous Monitoring System

Conclusion

The data mining effort identified transactions that were inappropriate or potentially fraudulent. Because DoD purchase cardholders continue to misuse the purchase card, continuous monitoring of the program is needed to maintain its credibility with Congress and the American public as a cost-efficient method of procurement. To ensure proper stewardship of the resources, DoD must implement effective internal controls and comply with established guidelines and standards. We believe effective controls can be facilitated by developing an automated oversight program using data mining techniques that can detect potentially fraudulent, wasteful, or abusive purchase card transactions. Increased surveillance can benefit management, allowing them to focus scarce resources on purchase card transactions with a higher risk of being potentially abusive or fraudulent. Based on the actions DoD management has initiated or taken, this report makes no recommendations for corrective action. The tool can eventually be refined and used to develop metrics that will assist management in resolving any weaknesses of internal controls as well as take timely action to correct deficiencies. Table 3 shows a comparison between the traditional oversight method that DoD currently uses and a continuous monitoring approach.

Table 3. Traditional Oversight versus Continuous Monitoring

Traditional Oversight Method	Continuous Monitoring Approach
<ul style="list-style-type: none"> Manual inquiries for documentation 	<ul style="list-style-type: none"> Automated e-mails Standard response formats Database format that facilitates data mining
<ul style="list-style-type: none"> Responses often vague with little value 	<ul style="list-style-type: none"> Responses objective Querying and tracking mechanisms in place Automated analysis capabilities
<ul style="list-style-type: none"> Transactions dated (1 to 2 years old) 	<ul style="list-style-type: none"> Most recent month's transactions
<ul style="list-style-type: none"> Top down inquiries 	<ul style="list-style-type: none"> Bottom up reporting to approving official

Appendix A. Scope and Methodology

We conducted this joint review with the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, and other Defense agency internal review officials. We did not request that the Services or Defense agencies issue separate reports or focus on additional causative research.

For this review, purchase card experts from the audit and investigative communities met to develop and prioritize indicators that could detect anomalies in purchase card transaction data. DFAS Internal Review coded the indicators, and combinations of the indicators were applied to purchase card transaction data from July 1, 2001, through December 31, 2001. As a result, we identified for review 13,052 purchase card transactions, totaling approximately \$38.3 million. The 13,052 transactions related to 2,036 cardholders and 1,604 approving officials in 752 cities. See Appendix B for the scope of our review of the DoD Purchase Card Program based on location. For the purposes of this review, we excluded from the purchase card data all nonappropriated fund and overseas transactions.

The IG DoD provided each of the Services and the Defense agencies with a cardholder profile. The cardholder profile contained the flagged transactions as well as transactions cardholders made from October 1, 2000, through December 31, 2001.

During this effort, we coordinated execution of the review with the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, and other Defense agency internal review officials. We also closely coordinated our efforts with personnel from the Defense Criminal Investigative Service, Military Criminal Investigative Organizations, the PMO, GAO, and GSA.

We performed this review from May 2002 through June 2003. Because this report is not an audit but is instead a summary of data, we did not meet generally accepted government auditing standards nor did we fully meet IG DoD audit standards. Specifically, we did not meet the evidence standard as set forth in Generally Accepted Government Auditing Standard 6.46 that we have incorporated into our audit standards. We were not able to fully verify all the data provided and contained in the report, and an experienced auditor having no previous connection with this review may have difficulty ascertaining from the working papers, evidence that supports the conclusions and judgments. However, we believe that the available verifiable information supports the finding and conclusions in this report.

We did not review the management control program because DoD identified the purchase card program as a systemic weakness in the FY 2002 Performance and Accountability Report. The FY 2002 Performance and Accountability Report recognizes that past audit coverage revealed that misuse, abuse, and fraud was caused by inadequate DoD emphasis on proper use, poor controls, and lax oversight of purchase cards. We did not assess management's self-evaluation.

Use of Computer-Processed Data. To achieve the objective, we relied on computer-processed data from U.S. Bank and Citibank, which were provided to us by the Defense Manpower Data Center. The DFAS Internal Review personnel applied data mining techniques that identified purchase card transactions with a higher probability for abuse and fraud. For example, we identified some inconsistencies in the data such as duplicate cardholders, incorrect single micropurchase limits, and monthly spending limits.

Although we relied on the data, we did not perform any formal reliability assessment of the computer-processed data. We were, however, able to establish data reliability for the information by comparing purchase card transaction data to source documentation. The comparison disclosed that the data were sufficient to support the conclusions.

Use of Technical Assistance. We received technical assistance from the Defense Manpower Data Center. The Defense Manpower Data Center provided us with the cardholder and transaction data from July 1, 2001, through December 31, 2001. The Defense Manpower Data Center is responsible for maintaining the DoD purchase card data, which are organized in three large repositories, categorized by transaction, cardholder, and approving official.

We also received technical assistance from DFAS Internal Review. DFAS coded the fraud indicators developed by the subject matter experts and then applied those indicators to purchase card transactions that could identify purchases with a greater likelihood of being potentially fraudulent or abusive.

General Accounting Office High-Risk Area. The GAO has identified several high-risk areas. This report provides coverage on the DoD high-risk area to improve processes and controls to reduce contract risk.

Prior Coverage

Between FY 1996 and FY 2002, more than 300 audit reports identified a wide range of implementation problems in the DoD Purchase Card Program.

General Accounting Office. GAO issued four reports and participated in three testimonies relating to the DoD Purchase Card Program. The most recent reports are GAO Report No. GAO-03-292, "Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 20, 2002, and GAO Report No. GAO-03-154T, "Purchase Cards: Navy Vulnerable to Fraud, Waste, and Abuse but is Taking Action to Resolve Control Weaknesses," October 8, 2002. In addition, GAO issued a report on data mining, GAO Report No. GAO-03-591T, "Data Mining: Results and Challenges for Government Program Audits and Investigations," March 25, 2003. GAO reports can be accessed in the Internet at <http://www.gao.gov>.

DoD Audit Organizations. The IG DoD and audit organizations in Military Departments and the Defense agencies issued more than 300 reports on purchase cards between FY 1996 and FY 2002. IG DoD Report No. D-2002-0029, "Summary of DoD Purchase Card Program Audit Coverage," December 27,

2001, identifies systemic issues with the program. IG DoD Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002, identifies specific risk factors existing in FY 2001 that required more proactive oversight. IG DoD reports can be accessed on the Internet at <http://dodig.osd.mil/audit/reports>. The Military Departments and other Defense agency reports can be viewed from the DoD Internet Web site at <http://www.defenselink.mil/>.



Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
 Director, Defense Procurement and Acquisition Policy
 Director, Purchase Card Joint Program Management Office
 Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
 Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
 Naval Inspector General
 Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
 Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Commissary Agency
 Director, Defense Contract Management Agency
 Director, Defense Finance and Accounting Service
 Director, Defense Information Systems Agency
 Director, Defense Intelligence Agency
 Director, Defense Logistics Agency
 Director, Defense Threat Reduction Agency
 Director, DoD Education Activity
 Director, DoD Human Resources Activity
 Director, Tricare Management Activity
 Director, National Imagery and Mapping Agency
 Director, National Reconnaissance Organization
 Director, National Security Agency
 Director, Washington Headquarters Service

Non-Defense Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

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GAO

United States General Accounting Office

Report to Congressional Requesters

March 2004

CONTRACT MANAGEMENT

Agencies Can Achieve
Significant Savings on
Purchase Card Buys



GAO-04-430



Highlights of GAO-04-430, a report to congressional requesters

March 2004

CONTRACT MANAGEMENT

Agencies Can Achieve Significant Savings on Purchase Card Buys

Why GAO Did This Study

From 1994 to 2003, the use of government purchase cards exploded from \$1 billion to \$16 billion. Most purchase card transactions are for small purchases, less than \$2,500. While agencies estimate that using purchase cards saves hundreds of millions of dollars in administrative costs, the rapid growth of the purchase card presents opportunities for agencies to negotiate discounts with major vendors, thereby better leveraging agencies' buying power.

To discover whether agencies were doing this, we examined program management and cardholder practices at the Departments of Agriculture, Army, Navy, Air Force, Interior, Justice, Transportation, and Veterans Affairs. GAO also examined why agencies may not have explored these opportunities.

What GAO Recommends

GAO is making several recommendations to each of the agencies as well as the Office of Management and Budget and the General Services Administration (GSA), aimed at encouraging agencies to begin taking steps to achieve savings through the purchase card program. GAO received comments on a draft of this report, either written or via e-mail, from the Departments of Agriculture, Defense, the Interior, Transportation, and Veterans Affairs and from GSA. In general, the agencies agreed with GAO's findings and recommendations.

www.gao.gov/cgi-bin/gettrp?GAO-04-430

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Cooper at (202) 512-5841 (dcooper@gao.gov) or Greg Kutz at (202) 512-9505.

What GAO Found

Although some agencies have begun to take actions to achieve savings through their purchase card programs, most have not identified and taken advantage of opportunities to obtain more favorable prices on purchase card buys—opportunities that could yield hundreds of millions of dollars in savings. For example, most agencies have established some discount agreements with major purchase card vendors (those vendors with whom they did more than \$1 million in purchase card business in fiscal year 2002), but these agreements cover only a few of the hundreds of major vendors and a limited number of products. Further, because agency purchase card training programs lack practical information to help cardholders take advantage of existing discount agreements or GSA's Federal Supply Schedule contracts, cardholders paid higher prices than necessary. The agencies that have taken steps to obtain better prices by negotiating discounts with their major vendors have achieved notable savings on purchase card buys. For example, in fiscal year 2003, the Agriculture Department negotiated a discount agreement for office supplies that yielded savings of \$1.8 million—about 10 percent off Schedule contract prices—and the Interior Department recently negotiated agreements with information technology vendors for discounts up to 35 percent off Schedule prices. A conservative approach indicates that, if the agencies we reviewed obtained discounts of only 10 percent with their major vendors, annual savings of up to \$300 million could be achieved.

Most agencies have not more aggressively pursued savings through the purchase card because of a lack of management focus—simply put, this issue has not been the center of attention for managers. Further, the Office of Management and Budget has not leveraged its governmentwide oversight role by collecting and disseminating information on the successful initiatives some agencies have undertaken. Agency officials also expressed concerns that imposing additional requirements on cardholders would undermine the program's intent to streamline acquisitions and that pursuing discount agreements with large suppliers would limit their ability to provide opportunities for small businesses. They also cited poor data as a barrier to identifying savings opportunities. However, as individual agencies have demonstrated, these concerns are not insurmountable. For example, the Air Force's Air Mobility Command provides its cardholders a list of community vendors—many of which are small businesses—that offer discounts, making it easy for the cardholders to obtain discounts from local small businesses. Despite data limitations, information such as vendor sales reports could be used to identify major vendors with whom to pursue discount agreements and to provide insight into cardholder activity.

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Abbreviations

FAR	Federal Acquisition Regulation
FASA	Federal Acquisition Streamlining Act
GSA	General Services Administration
JWOD	Javits-Wagner-O'Day Act
OMB	Office of Management and Budget

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United States General Accounting Office
Washington, DC 20548

March 12, 2004

The Honorable Susan M. Collins
Chairman
Committee on Governmental Affairs
United States Senate

The Honorable Russell D. Feingold
United States Senate

The Honorable Janice Schakowsky
House of Representatives

The introduction of government purchase cards fundamentally changed the way agencies make small, routine purchases of goods and services. The vast majority of purchase card transactions are micropurchases, purchases in amounts not greater than \$2,500. Purchase card use has increased significantly over the past decade—from less than \$1 billion in fiscal year 1994 to more than \$16 billion in fiscal year 2003. This explosive growth has presented both challenges and opportunities. While estimates indicate that the use of government purchase cards could save taxpayers hundreds of millions of dollars in administrative costs over time, our office has reported that inadequate controls over purchase card programs left agencies vulnerable to fraud, waste, and abuse. Agencies are working, under the guidance of the Office of Management and Budget (OMB), to strengthen these controls.

Given the rapid growth of this program, we and agency inspectors general have recently raised concerns about whether agencies and individual cardholders are seizing the opportunity to obtain discounts commonly available in the commercial marketplace for large volume purchasers.¹ Recognizing the potential for increased savings, you asked us to (1) determine whether agencies are taking advantage of opportunities to help

¹ For example, see U.S. General Accounting Office, *Purchase Cards: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses*, GAO-02-1041 (Washington D.C.: Sept. 27, 2002), 42-43; and Department of Veterans Affairs, Office of Inspector General, *Evaluation of The Department of Veterans Affairs Purchasing Practices*, Report No. 01-01855-75, (Washington, D.C.: May 15, 2001).

cardholders obtain more favorable purchase card prices and (2) if not, identify the reasons why.

We examined purchase card program management practices at eight federal agencies that account for over 85 percent of the government's purchase card spending: the Departments of Agriculture; the Interior; Justice; Transportation; Veterans Affairs; and within the Department of Defense (DOD), the Departments of the Army, Navy, and Air Force.² In addition, we reviewed selected fiscal year 2002 purchase card transactions, at or below the micropurchase level, with major vendors at the eight agencies and compared prices paid to prices available through the General Services Administration's (GSA) Federal Supply Schedule (Schedule)³ and telecommunications contracts. Although these transactions were selected at random from the population of micropurchase⁴ transactions with vendors having the highest purchase card sales at the eight agencies, we cannot project the results to the population of transactions governmentwide. We also engaged the Dun and Bradstreet Corporation to perform a spend analysis of the Interior Department's fiscal year 2002 purchase card transactions to illustrate how a detailed analysis could begin to identify opportunities for purchase card savings. We conducted our work in accordance with generally accepted government auditing standards. For more information on our scope and methodology, see appendix I.

Results in Brief

Although we found some initiatives under way to obtain vendor discounts, the agencies we reviewed generally had not seized opportunities to obtain more favorable prices on purchase card buys—opportunities that could yield hundreds of millions of dollars in savings. Agency efforts were generally fragmentary and incomplete. For example, most agencies had established some agencywide discount agreements with major purchase card vendors, but the agreements generally covered only a few of the

² We also met with officials of the Department of Homeland Security because certain components of the Departments of Agriculture, Justice, and Transportation were transferred to the new department in March 2003.

³ The Schedule program offers a large group of commercial products and services ranging from office supplies to information technology services.

⁴ Micropurchases are acquisitions of supplies or services the aggregate amount of which does not exceed the micropurchase threshold. Generally, the micropurchase threshold is \$2,500, but for certain purchases the Federal Acquisition Regulation defines a different threshold (FAR 2.101).

hundreds of major vendors—those with whom an agency spent \$1 million or more using the purchase card. Some discount agreements did not cover the full range of products cardholders purchased from the vendors. In addition, most agency training has appropriately focused on internal controls, but the training has not focused on incorporating practical information to help cardholders take advantage of existing discount agreements or Schedule contracts. Consequently, we found that some cardholders paid higher prices than necessary. For example, hundreds of Interior Department purchase card transactions with three major office supply vendors were for a particular model of ink cartridge, but most of these purchases were made at prices higher than the vendors' Schedule prices. The experience of some agencies demonstrates agencies can achieve significant savings on purchase card buys. For example, the Agriculture Department negotiated a discount agreement for office supplies that yielded savings of \$1.8 million—or about 10 percent off Schedule contract prices—during fiscal year 2003. Interior recently negotiated agreements with information technology vendors that give cardholders discounts of up to 35 percent off Schedule prices. If the agencies we reviewed negotiated and properly executed agreements providing discounts of just 10 percent off of Schedule prices with the major purchase card vendors from whom they currently buy in volume, a conservative approach indicates that \$300 million in savings could be realized annually.⁶

Agencies have not taken advantage of potential opportunities to capture purchase card savings because of a lack of management focus and oversight. The opportunity simply has not been the center of attention for most agency managers, who have been absorbed in improving internal controls and other priorities. Further, OMB has not leveraged its governmentwide oversight role by collecting and disseminating information on the successful initiatives some agencies have undertaken. In addition, agency officials identified several challenges that, in their view, have hindered them from more aggressively pursuing savings through the purchase card program. First, agencies are reluctant to impose additional requirements on cardholders, fearing that the intent of the program as a streamlined acquisition process would be subverted. Second, agency officials told us that actively pursuing discount agreements with large suppliers would provoke concerns about their ability to comply with socioeconomic requirements such as providing opportunities for small

⁶ See appendix I, "Scope and Methodology."

businesses. Third, officials cited the lack of detailed information on the specific products and services purchased as a hindrance to analyzing purchase card trends. These concerns are not insurmountable, and, in fact, individual agencies have been successful in addressing them. For example, some cardholders found Schedule contract and discount agreement vendors an effective and convenient way to fill their needs rather than a burden. The Air Force's Air Mobility Command provided its cardholders a list of community vendors—many of which were small businesses—that offered discounts, making it easy for the cardholders to obtain discounts from local small businesses. Further, despite the data limitations, agencies can fairly easily identify major vendors with whom they could pursue discount agreements. Vendor reports on sales under discount agreements can provide insight into whether cardholders are using the agreements.

To encourage agencies to begin taking steps to capitalize on opportunities for savings through the purchase card program, we are making recommendations to OMB, GSA, and the Departments of Agriculture, Defense, the Interior, Justice, Transportation, and Veterans Affairs concerning actions that could be taken to increase management attention on purchase card pricing issues, such as negotiating discount agreements with major vendors, improving cardholder training, and developing mechanisms for evaluating cardholder buying practices to assess whether cardholders are receiving favorable pricing. GSA and the Departments of Agriculture, Defense, and Veterans Affairs generally agreed with our recommendations. The Departments of Transportation and the Interior did not explicitly agree or disagree with our recommendations but offered several observations on our report. We did not receive comments from the Departments of Homeland Security or Justice or from OMB. The written comments we received are reproduced in appendixes II through V.

Background

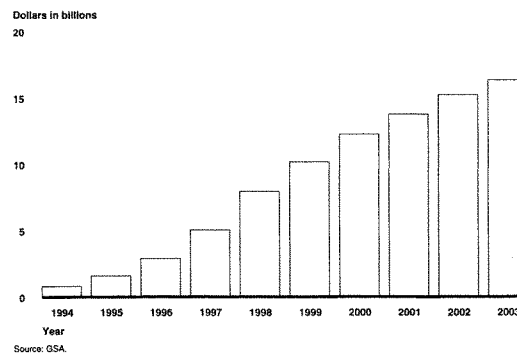
Through the purchase card program, agency personnel can acquire the goods and services they need directly from vendors. GSA, which manages the purchase card program governmentwide, has awarded contracts to banks to provide standard commercial charge cards for use by federal employees. When GSA first pilot-tested the purchase card in the late 1980s, its use was restricted to procurement personnel. In 1994, however, the Federal Acquisition Streamlining Act (FASA)⁶ defined micropurchases as purchases in amounts not greater than \$2,500. The act authorized

⁶ P.L. 103-355, Sec. 4301.

cardholders to make micropurchases without obtaining competitive quotations if they considered the price reasonable and directed that purchases be distributed equitably among qualified suppliers. The Federal Acquisition Regulation (FAR) designated the purchase card as the preferred method of making micropurchases.⁷ By shifting authority for small purchases from procurement offices to individual cardholders, agencies dramatically improved their ability to acquire quickly and easily items that were needed for day-to-day operations and to reduce administrative costs.

Since the passage of FASA, the dollar value of goods and services acquired through the purchase card has exploded, as figure 1 shows. This growth was accompanied by an increase in the number of personnel using the purchase card.

Figure 1: Purchase Card Expenditures—Fiscal Years 1994 to 2003



⁷ FAR 13.201(b). Further, FAR 13.301 establishes guidelines for the use and management of the purchase card.

Table 1 provides information on fiscal year 2002 purchase card activity for the eight agencies we reviewed. Purchase card transactions at these agencies account for over 85 percent of the government's purchase card spending. While purchase cards may be used to make payments under established contracts in addition to making micropurchases, an overwhelming majority of transactions are micropurchases. At the eight agencies reviewed, micropurchases represented 98 percent of transactions and accounted for 63 percent of the dollars expended. Appendix VI provides additional information on purchase card activity at the agencies we reviewed.

Table 1: Purchase Cards and Purchase Card Expenditures, Fiscal Year 2002

Agency	Purchase cards (as of Sept. 30, 2002)	Expenditures (dollars in thousands)
Department of Agriculture	23,448	\$592,296
Department of Defense		
Air Force	77,318	1,604,367
Army	101,398	2,739,612
Navy	22,594	1,784,128
Department of the Interior	88,736 ^a	487,282
Department of Justice	16,274	593,576
Department of Transportation	22,243	425,431
Department of Veterans Affairs	32,421	1,560,309 ^b
Total	384,432	\$9,787,001

Source: GSA, GAO analysis.

^aThe Department of the Interior has an integrated card program, with a single card being used for purchases, travel, or fleet expenditures. Data represent the total number of charge cards.

^bDoes not include about \$2.7 billion in purchase card transactions under Veterans Affairs' prime vendor program.

GSA, whose mission is to help federal agencies better serve the public by offering acquisition services at the best value, has created several tools that can help cardholders obtain more favorable pricing for goods and services. The most common of these is the Schedule program, which offers discounted prices on a wide range of commercial goods and services from multiple vendors.⁸ The GSA Advantage on-line shopping

⁸ Although GSA negotiates to obtain discounted prices on its Schedule contracts, the GSA Inspector General has raised concerns about whether GSA is getting the best possible prices from vendors. GSA is currently examining options to address these concerns.

service allows agencies to compare prices under various Schedule contracts, place orders, and make payments over the Internet. In addition, GSA has awarded contracts that offer federal agencies discounted prices on telecommunications services.

Our prior work found that weak internal controls left purchase card use at DOD and several civilian agencies vulnerable to fraud and abuse. The list of Related Products at the end of this report identifies recent work in this area. To address these concerns, Congress has enacted legislation that directs DOD to improve program management by limiting the number of purchase cards, providing appropriate training to purchase card officials and cardholders, monitoring purchase card activity, disciplining cardholders who misuse the purchase card, and assessing the credit worthiness of cardholders.⁹ We recently reported¹⁰ that DOD has taken a number of actions to improve the controls over the purchase card program based on congressional action and our recommendations. To improve management of the purchase card program governmentwide, the proposed Purchase Card and Travel Card Accountability Act of 2003¹¹ would require the Administrator of the Office of Federal Procurement Policy to prescribe a governmentwide policy regarding the appropriate and inappropriate uses of the purchase and travel cards. In addition, the proposed Credit Card Abuse Prevention Act of 2003¹² would require civilian agencies to promulgate regulations to establish safeguards and internal controls to prevent fraud, misuse, and abuse.

⁹ Bob Stump National Defense Authorization Act for Fiscal Year 2003, P.L. 107-314, Sec. 1007; Department of Defense Appropriations Act, 2003, P.L. 107-248, Sec. 8149 as amended by Department of Defense Appropriations Act, 2004, P. L. 108-37, Sec. 8144.

¹⁰ U.S. General Accounting Office, *Purchase Cards: Steps Taken to Improve DOD Program Management, but Actions Needed to Address Misuse*, GAO-04-156 (Washington, D.C.: Dec. 2, 2003).

¹¹ H.R. 3165, Sec. 2.

¹² H.R. 3329, Sec. 2(b)(c).

Agencies Generally Have Not Taken Advantage of Opportunities to Obtain Savings

Although we found some initiatives under way to obtain vendor discounts from major purchase card vendors, agencies generally had not seized opportunities to obtain more favorable prices on purchase card buys—opportunities that could yield hundreds of millions of dollars in savings. Agency efforts to obtain more favorable prices for purchase cardholders had generally been limited to a few agencywide agreements with major vendors—that is, vendors with whom an agency spent \$1 million or more in fiscal year 2002. Further, training for cardholders usually focused on internal controls and regulatory policies and did not provide practical information about steps cardholders can take to get better prices. As a result, cardholders often paid higher prices than necessary. The successful initiatives taken within some agencies demonstrate that, if agencies negotiated effective discount agreements with major purchase card vendors and improved communications to cardholders about how to obtain more favorable prices, significant savings could be realized.

Scope and Coverage of Negotiated Discount Agreements Varied

We found a wide variation in the number of agencywide discount agreements that the eight agencies we reviewed had negotiated with their major purchase card vendors. For example, Veterans Affairs had negotiated agencywide discount agreements with 37 of its 196 major purchase card vendors—the largest number of any of the agencies reviewed. The Army, Navy, and Air Force each had agencywide agreements with several major information technology vendors and one or more office supply vendors. Agriculture, Interior, and Justice each had a few agencywide agreements, which covered information technology products or office supplies. Transportation's senior procurement executive told us this agency had no discount agreements that could be used agencywide. As shown in table 2, cardholders at the agencies we reviewed are using the purchase card to a great extent to buy items from major purchase card vendors, an indication that opportunities exist to negotiate additional discount agreements with these vendors.

Table 2: Purchase Card Expenditures and Expenditures with Major Vendors, Fiscal Year 2002

Agency	Total expenditures* (dollars in thousands)	Number of major purchase card vendors	Expenditures with major purchase card vendors	
			Dollars (thousands)	Percent of total
Agriculture	\$592,296	34	\$71,932	12
Defense				
Army	2,739,612	217	774,361	28
Navy	1,784,128	145	395,142	22
Air Force	1,604,367	130	444,928	28
Interior	487,282	32	85,161	17
Justice	593,576	56	153,578	26
Transportation	425,431	27	73,732	17
Veterans Affairs	1,560,309	196	822,153	53
Total	\$9,787,001		\$2,820,987	29

Source: GAO analysis of bank-provided data.

*Does not include about \$2.7 billion in purchase card transactions under Veterans Affairs' prime vendor program.

The effectiveness of the agreements that are in place also varied widely, and we found a number of ways in which agencies had not maximized their agreements' potential to capture additional savings. First, agencies did not always take full advantage of competitive forces to ensure that their discount agreements with large vendors offered the most favorable prices, as shown in the following examples.

- The Army did not follow a competitive process awarding office supply discount agreements, but simply negotiated agreements with 12 office supply vendors that expressed interest in doing business with the Army. However, according to the results of an Army survey, cardholders found that the selected vendors offered high prices and poor service. The Army is now pursuing a formal competitive approach to establish new agreements that will replace the existing agreements.
- Agriculture competitively awarded a discount agreement with an office supply vendor—and points to \$1.8 million in savings in fiscal year 2003 as a result—but the agreement does not establish a specific expiration date. Because the benefits of the initial competition may not continue indefinitely, Agriculture cannot be assured that the agreement will continue to be the most advantageous source for office supplies.

Second, some agency discount agreements covered a limited range of products and therefore did not provide cardholders more favorable prices on all the items they purchase from a vendor. Overall, in 18 of the 27 transactions we reviewed where agencies had a discount agreement in place, the agreement did not cover the specific items that cardholders purchased, as demonstrated in the following examples.

- The agencywide Veterans Affairs discount agreements that we examined covered single products or product types—specimen containers, bandages, or washcloths—instead of the vendors' full product line. Estimated sales for the agreements we reviewed were relatively low, ranging from \$27,000 to \$1.6 million. According to agency officials, the intent of the agreements was to standardize specific products or product types throughout the agency, not to pursue savings from a vendor's entire product line. Veterans Affairs has identified its highest dollar value products and is standardizing these items to achieve savings.
- The Army's discount agreement with an information technology vendor covered only selected models of desktop and laptop computers and accessories and upgrades for these models. We found that one cardholder had bought computer accessories that were covered under the discount agreement, which provided cardholders a discount of about 29 percent off the vendor's Schedule price. Yet another cardholder bought several monitors that were not covered under the agreement, and this cardholder received no discount. According to an Army official, the discount agreement had been negotiated to cover the items the officials considered users would most likely order.

Finally, some discount agreements were not well-coordinated within the agency, creating the potential for overlap, as shown in the following example. Representatives of a number of agency components told us that, while they believed that their regional and local organizations had negotiated some discount agreements, they had no information on these agreements.

- Regional and local Veterans Affairs contracting centers had negotiated separate discount agreements with 18 of the same major purchase card vendors with whom the national contracting center also had agencywide discount agreements. In total, these 18 vendors had negotiated 94 separate agreements with local, regional, and national contracting centers. A Veterans Affairs task force recently recommended that regional and local contracting centers coordinate with the national center before initiating separate agreements with contractors. Officials at the national contracting center told us that they are now exploring the benefits of consolidating agreements with vendors to reduce the number of potentially overlapping contracts to ensure that cardholders have access to the best prices.

Most Guidance and Training Did Not Provide Practical Information on Obtaining Favorable Pricing

Each of the agencies we reviewed had developed guidance and training programs for their cardholders that focused on regulatory policies and internal controls intended to prevent misuse of the purchase card. However, most of the guidance and training programs did not provide cardholders with practical information to help them get better pricing by using Schedule contracts or agency discount agreements, as in the following examples.

- The Air Force's instruction on the purchase card assigned local program coordinators responsibility for training cardholders on various subjects, such as available sources—including Schedule contracts—that cardholders should consider when making purchases. (The FAR, Section 8.002, identifies a number of sources that government buyers must consider—such as excess agency inventories, non-profit agencies serving people who are blind or severely handicapped, and Schedule contracts. FAR also establishes the priority order in which buyers must consider these sources.) However, the Air Force instruction did not direct the local program coordinators to tell cardholders how to access the Schedule contracts.
- Guidance manuals issued by Agriculture, Interior, Veterans Affairs, and the Army provided Internet addresses for the Schedule program or the GSA Advantage on-line shopping service, but they did not provide additional information on how to access or use these services.
- Veterans Affairs' purchase card program handbook simply stated that cardholders should distribute purchases equitably among qualified suppliers and use required sources when applicable.
- DOD required Army, Navy, and Air Force cardholders to complete a 4-hour Web-based training course. However, the course simply noted that Schedule contracts and other discount agreements negotiated by the cardholder's organization can provide lower prices. While the course also mentioned the GSA Advantage on-line shopping service, coverage of the service was limited to a brief description and a link that allowed students to view the service's main Web page.
- Several civilian agency components told us that they also required cardholders to complete a shorter Web-based training program developed by GSA's purchase card program office. This course, however, simply noted that contracts negotiated by the cardholder's agency can provide good prices, service, and quality, and advised cardholders to check with their local contracting office for more information.

Some training programs, however, had successfully communicated practical information to their cardholders on how to seek better prices, as in the following examples.

- An Agriculture cardholder found that training provided by a Natural Resources Conservation Service state program coordinator was invaluable and enabled him to obtain discounted Schedule prices on the transaction we reviewed. The training discussed discounts available to the agency and included a demonstration of how to register as a federal purchaser with an office supply vendor's on-line ordering system in order to receive Schedule contract prices.
- Another cardholder at Agriculture's Forest Service told us the program coordinator for her regional office had recently provided training that described several office supply vendors that had Schedule contracts and provided information on toll-free numbers and Internet addresses for placing phone and on-line orders with these vendors. According to the cardholder, she has found that these vendor phone and on-line ordering services are convenient and save the government money compared to retail store prices.
- Officials at the Air Force's Air Mobility Command developed an extensive briefing that highlights the importance of comparison-shopping to identify more favorable pricing and introduces the GSA Advantage on-line shopping service as a tool for researching and comparing prices offered by Schedule vendors. The briefing also illustrates how cardholders can achieve savings by providing numerous examples of the varying prices vendors charge for common items at their on-line shopping portals and through their Schedule contracts. Finally, because some cardholders had experienced difficulty using GSA Advantage, the command invited GSA training teams to its installations to explain the features of GSA Advantage and demonstrate how to use the system. Command officials told us that in addition to providing cardholders with practical tools to help them be effective buyers, the enhanced training increased cardholder awareness of the importance of comparison-shopping.

**Lacking Information,
Cardholders Paid More
Than Necessary**

Dun and Bradstreet's analysis of fiscal year 2002 Interior transactions, conducted on our behalf, illustrates that cardholders frequently paid more than necessary. For example, the company analyzed Interior purchases from three office supply vendors that provided product descriptions along with their purchase card billing information. This analysis showed that ink cartridges were the most frequently purchased product. For one specific model of ink cartridge, 411 of 791 purchases were made at prices higher than the Schedule prices the vendors offered, indicating that cardholders had generally not taken advantage of discounts available through Schedule contracts. The prices paid for the same cartridge model ranged from \$20.00 to \$34.99.

Our review of selected transactions also showed that, because they lacked practical information on how to achieve savings on purchases,

cardholders paid more than necessary, as highlighted in the following examples. Some cardholders we talked to were simply unaware of the savings potential of using Schedule contracts or agency discount agreements. Of the transactions we reviewed where items were available through a GSA contract, a number of cardholders were unaware that the items could have been purchased through the GSA contract.

- A Veterans Affairs cardholder, who purchased office supplies at a price 12 percent higher than the prices available under the vendor's Schedule contract, told us that she had not been aware that the vendor offered lower prices under its Schedule contract.
- A Navy cardholder who was not aware of an information technology vendor's Schedule contract purchased a spare laptop battery for 14 percent more than he would have paid by using the vendor's Schedule contract.

Some cardholders appeared to not understand their fundamental responsibility for getting reasonable prices, as in the following examples.

- A Transportation cardholder paid about 20 percent more than the Schedule contract price for office supply items. The cardholder admitted he knew that the vendor had a Schedule contract, but did not offer reasons why he had not requested the Schedule discount.
- A Veterans Affairs cardholder paid about 12 percent more than the Schedule prices for office supply items. He was aware that Schedule contracts offered discounts, but stated that he preferred to do his shopping at local vendor locations.
- An Agriculture cardholder, who paid about 13 percent more for cellular telecommunications service than the GSA contract price, told us that her only role in the transaction was to pay the monthly bill for the cell phone user.

Other cardholders purchased products that were not available through the particular vendor's Schedule contract. Because the cardholders did not consider whether products that met their needs were available from other Schedule vendors, they were unable to take advantage of lower, discounted prices these vendors might have offered, as shown in the following examples. Of the 135 transactions we reviewed, 70 included items that were unavailable through the selected vendor's GSA contract.

- One Agriculture cardholder purchased six cases of copy paper from an office supply vendor that did not offer this item through a Schedule contract because, according to a vendor representative, the brand did not meet federal standards for recycled material content. The cardholder did not take advantage of discounted Schedule prices for acceptable recycled paper.
- An Army cardholder purchased word-processing software from an office supply vendor's retail store. The vendor did not offer the software through its Schedule contract, but the cardholder did not consider whether other vendors might offer discounts on the software through their Schedule contracts.
- A Veterans Affairs cardholder purchased various items—including paper, batteries, and computer data storage media—at an office supply vendor's retail store. Although most of the items purchased were not available through the vendor's Schedule contract, a few were, at a price about 10 percent less than the cardholder paid. This cardholder told us she had not reviewed the vendor's Schedule contract offerings because she preferred the convenience of shopping at local retail stores.
- A Transportation cardholder ordered a computer monitor from a particular information technology vendor because a user asked the cardholder to purchase the monitor from that vendor. The cardholder assumed that she received the Schedule contract price because she placed the order through the vendor's Web site; however, the vendor did not offer the monitor under its Schedule contract. The cardholder did not research other vendors to compare prices.

Other cardholders appeared to be confused about whether they were getting favorable prices.

- An Army cardholder purchased office supplies through a vendor's retail store, where prices were 20 percent higher than those under the same vendor's Schedule contract. The cardholder told us that while she had not actually checked Schedule prices she had believed that the retail store prices were generally lower than Schedule prices.
- An Agriculture cardholder purchased an item through an information technology vendor's federal Internet site, assuming that he would receive discounted Schedule contract prices. However, to obtain these discounts, customers must access a specific section of this vendor's federal Internet site—a step the cardholder was not aware of and did not complete. As a result, the cardholder paid about 20 percent more than Schedule contract prices for the item.
- An Air Force cardholder told us that a co-worker had checked the Schedule prices for certain information technology items before he ordered the items to ensure that he was paying reasonable prices. Despite this, the vendor he ordered the items from offered them under a Schedule contract for 7 percent less than the cardholder paid.
- An Interior cardholder purchased office supplies through a vendor's retail store and paid prices 20 percent higher than prices under the same vendor's Schedule contract. The cardholder told us that she had checked Schedule prices for the items before making this purchase, and recalled that the Schedule prices had been about the same or somewhat higher than prices at the retail store.

We also found cardholders who were not aware that they had received significant discounts, as in the following cases.

- A Veterans Affairs cardholder purchased computer data storage media from an information technology vendor for about 56 percent less than the Schedule contract price. A vendor representative told us that the company had lowered the price on the item in response to competitive pressures and had neglected to update the Schedule price.
- An Interior cardholder purchased a desktop computer from a vendor offering a promotional discount for 30 percent less than the Schedule contract price. However, the cardholder was unaware that he had benefited from promotional pricing.
- An Agriculture cardholder used her card to pay the monthly billing for 4 cellular telephones used by a fire-fighting team in a national forest. Team members had asked various cellular telecommunications service providers about discounts their federal agency might qualify for. One service provider offered the team a 20 percent discount on the monthly service charges, a much greater discount than this provider's GSA contract offered. At the same time this firefighting team received the 20 percent discount, other Agriculture cardholders who used the same service provider were paying regular consumer rates.

**Experience at Some
Agencies Suggests
Significant Savings Are
Possible**

Several agencies or agency components reported significant savings from their initiatives to leverage their buying power by negotiating discount agreements with major vendors, suggesting the potential for significant savings governmentwide. In all cases, the discount agreements are available to cardholders. Several examples follow.

- The Air Mobility Command initiated a program to promote the use of Schedule contracts by cardholders and to obtain customary trade discounts from local merchants in the vicinity of its installations. The command reported estimated savings of \$189,000 in the first 3 months after starting this program and anticipates that annual savings could reach \$13 million—out of total purchase card expenditures of \$260 million—when the program is fully implemented.
- Veterans Affairs anticipates annual sales of \$36.9 million under the discount agreements its National Acquisition Center awarded to vendors of medical and surgical supplies during fiscal years 2002 and 2003. Pricing under the agreements represents an estimated annual savings of \$8.5 million—or about 19 percent—from prices the department had been paying.
- Sales under Agriculture's discount agreement for office supplies totaled \$15.4 million during fiscal year 2003, and the agency achieved savings of \$1.8 million, or about 10 percent off of Schedule prices.
- Interior recently awarded several agencywide discount agreements for information technology products. These agreements provided for savings of about 8 percent compared to Schedule prices for desktop computers and servers and savings ranging from 20 to 35 percent for laptop computers.

While the scope of our work did not include developing a governmentwide estimate of the potential savings from leveraging purchase card buying power, these examples indicate that the potential for savings could be significant. Given the range of savings under discount agreements currently in place with major vendors (8 to 35 percent) at the agencies we reviewed, a conservative approach indicates that, if these agencies were to achieve savings of just 10 percent on their purchase card expenditures with major vendors, annual savings of \$300 million could be realized.

Lack of Management Focus Has Limited Efforts to Capture Savings

The primary reason that agencies have not taken advantage of potential opportunities to capture savings through the purchase card program is the lack of management focus on this issue. Further, OMB has not leveraged its governmentwide oversight role by collecting and disseminating information on the successful initiatives some agencies have undertaken. In addition, agency officials identified several challenges that, in their view, have hindered them from more aggressively pursuing savings through the purchase card program. First, they noted that the purchase card is intended to streamline buying, and they are reluctant to impose requirements on cardholders that would undermine the simple, quick purchase card buying process. Officials also cited the need to balance governmentwide socioeconomic requirements—including providing

opportunities for small businesses and purchasing products manufactured by non-profit agencies for the blind or severely handicapped (referred to as "JWOD" products)¹⁸—with efforts to get better purchase card prices. Finally, officials noted that little detailed information is available on the specific products and services purchased through the purchase card, hampering efforts to analyze trends in order to achieve more savings. Although agency officials consistently identified these challenges, our review suggests that the challenges are not insurmountable, as evidenced by individual agency initiatives to address them.

**Agencies and OMB Have
Not Focused on
Opportunities for Savings**

Agency purchase card managers have yet to turn their attention to capturing opportunities for savings in their purchase card programs. In the mid-1990s, managers were focusing on capturing the savings in administrative costs that use of the purchase card made possible and reengineering administrative processes that discouraged use of the card. In more recent years, our work and the work of agency inspectors general highlighted weaknesses in internal controls that left purchase card use vulnerable to fraud and abuse. Agency managers have made a concerted effort to address these internal control weaknesses, but have not paid similar attention to capitalizing on opportunities for savings on purchase card buys. In general, the agency management structures and processes do not establish departmentwide goals for the effectiveness of micropurchase activity, such as savings goals.

To monitor agencies' progress in implementing better internal controls, OMB requires agencies to report quarterly on such topics as investigations of potential fraud, disciplinary actions for fraudulent or improper card use, and initiatives to improve program management. However, OMB's reporting requirement does not include gathering information on agency efforts to save money on purchase card buys. Consequently, governmentwide information on opportunities to achieve savings is not available.

¹⁸ The Javits-Wagner-O'Day (JWOD) Act established the Committee for Purchase from People Who Are Blind or Severely Disabled and charters the Committee to develop a procurement list of commodities produced and services provided by nonprofit agencies (41 U.S.C. Sec. 46, Sec. 47). GSA's proposal instructions for office supply Schedule contracts require vendors that are authorized JWOD distributors to describe the procedures they have in place to ensure that federal customers do not purchase commercial items when JWOD products are available. The act also directs agencies to buy items or services on the procurement list from nonprofit agencies for the blind or severely handicapped if the items are available within the period required by the government. (41 U.S.C. Sec. 48).

OMB representatives stated that they would consider the benefits of having agencies share information on leveraging purchasing power. They believe that increased focus on purchase card pricing issues is appropriate and mentioned that periodic cross-agency forums, sponsored by GSA, could be one mechanism for agencies to share successes they have had in negotiating discounts with major vendors. They also acknowledged that the currently-required quarterly reports could be used to gather information on the steps agencies are taking to better leverage their purchase card buying. Most of the agency officials we met with expressed interest in learning of steps being taken within the government to capture purchase card savings, particularly in light of the challenges discussed below.

**Steps to Capture Savings
Need Not Burden
Cardholders**

Several agency officials noted that promoting—or in some cases, requiring—the use of specific vendors with whom they have negotiated discount agreements could hinder cardholders from meeting their needs in the simplest, most expeditious manner. They fear that cardholders, who are generally not procurement officials, would be expected to spend more time seeking better prices—time that should be spent meeting mission requirements. While the FAR requires agencies to obtain reasonable prices, it limits the actions agencies need to take to verify price reasonableness. Given the wide variety of missions that cardholders must meet on a daily basis, they must retain the flexibility to make their purchases in a way that meets their needs. Our work showed that in some cases, as those shown below, Schedule contracts and discount agreements were not effective in meeting cardholder needs. In these cases, the cardholders took advantage of the purchase card's flexibility to find other ways to fill their requirements.

- The Army had in place 12 mandatory discount agreements for office supplies and required cardholders to purchase office supplies through an on-line shopping service known as "DOD e-Mall." According to the results of an Army survey, cardholders perceived this service as customer unfriendly and as requiring too much effort to place simple orders, and many bought office supplies through other channels. All stakeholders are now committed to making the service easier to use.
- One Interior cardholder found that receiving orders from national office supply vendors under a Schedule contract was unpredictable because the vendors used a next-day delivery express service that did not visit the cardholder's remote, mountainous location on a daily basis. The cardholder now buys office supplies at a retail store in a town about 45 miles from her location.
- An Air Force cardholder was on a travel assignment near Canterbury, England and needed supplies to complete his mission assignment. Because he needed the supplies urgently, and was not aware of any sources that offered Schedule contract discounts at his location, he purchased the supplies through a retail store.
- A Transportation cardholder normally takes advantage of Schedule prices when purchasing supplies to restock the vessel he is responsible for. However, the cardholder told us that if the vessel is about to depart on patrol and supplies are low, he makes purchases at a local retail store to ensure the vessel is fully stocked before it sails.

On the other hand, some cardholders were pleased with the Schedule contracts and agency discount agreements they used. Cardholders were able to easily place orders with the vendor, and the vendor filled their orders promptly and reliably, as in the following examples.

- An Agriculture cardholder stationed in Atlanta, Georgia, routinely places orders under Agriculture's agencywide discount agreement for office supplies. According to the cardholder, the vendor's delivery service is prompt and reliable and saves him effort because the vendor delivers directly to the agency supply room rather than to the building loading dock. When the occasional delivery problems occur, the vendor's customer service representatives have been able to resolve them.
- Customers completing a satisfaction survey issued by a vendor that has a discount agreement with a Justice component were generally satisfied with the overall performance of the vendor. In particular, respondents were satisfied with the ease of ordering from the vendor.
- A Transportation cardholder told us he had positive experiences with a Schedule contract information technology vendor. According to the cardholder, the vendor was easy to work with, provided quick turn-around on orders, and offered competitive prices.
- A Justice cardholder expressed satisfaction with a Schedule contract information technology vendor, saying that the vendor had a good track record. Further, according to the cardholder, the vendor often offered him additional discounts from Schedule prices, even though his agency did not have a discount agreement with the vendor.

GSA is working to further simplify cardholder access to discounted prices. To receive Schedule discounts, cardholders generally must place orders with a vendor through the GSA Advantage on-line shopping service or other designated ordering procedures. Some of GSA's Schedule contracts, however, provide vendors the option of offering cardholders discounts at the point of sale in the vendors' retail stores. For example, one GSA contracting officer modified a vendor's contract to provide for point-of-sale discounts. The vendor then programmed cash registers in its retail stores to recognize a federal government purchase card when a shopper presents one and to apply the appropriate Schedule discount to the shopper's order. GSA has partnered with DOD purchase card program officials to explore ways to increase the number of vendors that offer point-of-sale discounts to federal purchasers. Civilian agency officials expressed strong interest in this approach to facilitating cardholder access to Schedule discounts.

Concerns about Balancing
Governmentwide
Socioeconomic Policies
with Purchase Card
Savings Initiatives Can Be
Mitigated

Balancing governmentwide socioeconomic policies—such as providing federal contracting opportunities to small businesses—with initiatives to leverage agency buying power has also been a recurring concern for agencies. Although agencies are not required to reserve micropurchases for award to small businesses, officials we met with repeatedly noted that because large national vendors would be in the best position to win agencywide discount agreements, concerns would be raised that opportunities for small, local vendors could be reduced. Officials similarly raised concerns about the effect agencywide discount agreements would have on their ability to meet requirements to purchase JWOD products.

Despite these concerns, some agencies have been able to leverage purchasing power while providing opportunities for small businesses, as highlighted in the following examples.

- The Army negotiated additional agreements with small business vendors in response to complaints that its agreements with large office supply vendors excluded small office supply vendors. The Army is considering a variety of other approaches to ensure that it purchases office supplies from small businesses, such as establishing separate agreements for selected high-volume products that would be reserved for these businesses.
- The Air Mobility Command initiative, discussed above, is supporting small businesses while generating savings through use of the purchase card. After the Command contacted local suppliers—many of which were small businesses—to determine whether they were willing to extend their customary trade discounts to cardholders, the command provided a listing of these suppliers and the discounts they provided to cardholders. Cardholders were encouraged to request the applicable discount—typically about 10 percent—when dealing with these suppliers. According to Air Force officials, this exercise was relatively simple because it did not involve negotiating formal contract arrangements with the suppliers.
- In response to concerns expressed by small businesses that its agencywide discount agreement for office supplies had adversely affected them, Agriculture officials explained to the small businesses that cardholders are free to patronize a small business if they find that it offers a better value.

Further, agency experience indicates that appropriately structured discount agreements can help ensure that cardholders purchase JWOD products when required, as in the following cases.

- Agriculture negotiated a discount agreement with a national office supply vendor that is an authorized distributor of JWOD products. The vendor was selected, in part, because it had developed a system that screens orders and blocks delivery of a commercial product when a JWOD product is available. According to agency officials, as sales under this discount agreement have increased, so have agency purchases of JWOD products. In addition, because the vendor's ordering system helps ensure that USDA employees purchase JWOD products when required, agency expenses for training employees on the importance of purchasing JWOD products have been reduced.
- During the first 3 months after a Justice component awarded a discount agreement to an authorized distributor of JWOD products, about 26 percent of the items sold were JWOD products.

Available Data, Though Limited, Can Be Used to Identify Potential Savings

Agency officials point to the lack of adequate data as a barrier to taking steps to analyze purchase card activity. They raised concerns about their ability to analyze purchase trends due to a lack of detailed information on the specific products and services purchased, known as "level 3" data.¹⁴ The banks that provide the agencies' purchase cards generally do not have such data. For example, our analysis of Interior's fiscal year 2002 transaction data indicated that less than 15 percent of all transactions included descriptions of the items and services purchased. Dun and Bradstreet found that many merchants have not invested in the electronic point-of-sale devices needed to transmit item descriptions along with other transaction information. A common reason offered by major vendors for not providing level 3 data is that their customers—the ordering agencies—have not requested it. Agency officials told us, however, that they have made clear to the banks that issue their purchase cards that access to level 3 information would be very helpful to them in gaining an understanding of what their cardholders are buying.

¹⁴ Level 1 data include basic information about the transaction, such as the date and amount and basic identifying information about the merchant. Level 2 data include information on sales tax charged and additional information about the merchant. Level 3 data include details on the descriptions, quantities, and prices of items purchased. Our report—U.S. General Accounting Office, *Contract Management: Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants*, GAO-03-56, (Washington, D.C. Dec. 13, 2002)—discussed the lack of detailed purchase card transaction data.

GSA and other agencies are pursuing initiatives to provide agencies better data on their purchase card activity. GSA's contracts with the banks that provide purchase cards, for example, require summary and analytical reports on agency purchase card activity, including information on the top 100 vendors by agency and on the types of vendors. According to the GSA purchase card program manager, these reports were intended to provide GSA with data it could use to help agencies gain insight into their purchase card expenditures and identify opportunities to leverage their purchasing power. The program manager indicated, however, that reports from the banks have frequently not been provided, not been provided timely, or not been provided in a format that facilitates analysis. For example, until the most recent reporting period, GSA had not received even basic information, such as the top 100 purchase card vendors, from some banks. The GSA program manager is pursuing efforts to encourage the banks to provide more useful reporting so that GSA will be able to provide more effective assistance to agencies, such as negotiating point-of-sale discounts with vendors. Other initiatives are also in place. GSA is working with DOD and other agencies to determine what barriers limit the level 3 data agencies receive and to explore ways to overcome these barriers. In addition, the Air Force Materiel Command is piloting a system intended to accumulate more consistent and specific information on purchase card transactions.

While the lack of level 3 data is a valid concern, agencies can use the information that is available to start taking steps to get better prices. For example, we obtained from the banks a listing of all fiscal year 2002 purchase card transactions for each agency we reviewed. Using this listing, we summarized information on the vendors with whom cardholders at each agency had done \$1 million or more in business during fiscal year 2002. All agencies have access to these data. When we shared this information with agency officials, several indicated that simply being able to identify major vendors was a useful first step in identifying opportunities to leverage their buying power.

Several agencies have taken the initiative to begin analyzing their purchase card expenditures to identify opportunities for additional savings, although these initiatives in some cases had limitations, as in the following examples.

- Agriculture hired a management consulting firm to conduct an agencywide analysis of purchase expenditures. This analysis considered all Agriculture purchasing activity, including contracts and purchase orders as well as purchase card transactions and identified several commodity categories-including telecommunications equipment, office technology, medical supplies and equipment, and office supplies and paper-where, due to the large number of transactions and/or amount of expenditures, the potential for leveraging the purchase card warranted further analysis. Agriculture is currently organizing teams to perform more detailed analysis of expenditures in selected commodity categories and develop acquisition strategies for capturing savings.
- Veterans Affairs is trying to achieve savings by identifying the medical and surgical products it spends the most money on and inviting vendors to compete to become the agency's nationwide source for those products. Officials told us that since their data system often does not include specific details on the items bought using the purchase card, the agency's analyses do not capture all purchase card activity.
- Interior has recently completed an analysis of contract and purchase card expenditures and identified information technology products, architect-engineer services, guard services, and relocation services as categories where savings can be achieved. Additional analyses in future years should identify more categories that cardholders typically buy, according to an agency official.
- About half of the Navy's major component organizations reported some efforts to identify high-volume vendors within their organizations. The Naval Sea Systems Command reported that purchase card coordinators at some of its installations had reviewed transactions to identify high volume vendors and that the command was beginning to do this command-wide.
- The Air Force had not completed a servicewide analysis of purchase card expenditures, but eight Air Force commands reported having performed such analyses.

While analyses conducted by agency components can provide useful insight into opportunities to leverage their purchasing power, they do not reflect the bigger picture of agencywide expenditures or agencywide opportunities to capture savings.

Several of the agency discount agreements we reviewed require vendors to report periodically on sales made under discount agreements. This information can help agencies determine whether cardholders are taking advantage of favorable pricing.

- In the case of the Army's discount agreements for office supplies, data submitted by the vendors indicated that sales of about \$8.6 million had been made through the agreements during the first 8 months of fiscal year 2003. Because the Army identified total purchase card expenditures of \$36.8 million over the same period for the same general class of supplies, it concluded that the agreements had not had the success anticipated.
- Under a Justice component's discount agreement for office supplies, the vendor reports periodically on total sales and on sales by regional office—data that can be used to assess whether cardholders are taking advantage of the agreement. In addition, the vendor's report separately identifies sales of certain higher-volume items on which the agreement provides for larger discounts.

Conclusions

Agencies have just begun to tap the potential of leveraging the purchase card for better pricing. If greater management attention were paid to capitalizing on the opportunities to obtain more favorable prices, hundreds of millions of dollars in savings could be realized annually. Given the volume of purchase card activity, agencies could take advantage of these opportunities without sacrificing the ability to acquire items quickly or compromising socioeconomic goals. If agencies were to build on their initial experiences and duplicate these steps governmentwide, they would have the opportunity to save the taxpayer almost \$300 million annually. OMB should take the lead in focusing management attention on this opportunity and guiding agencies towards capturing these savings.

Recommendations for Executive Action

We are making the following eight recommendations to OMB, GSA, and the agencies we reviewed:

To focus governmentwide management attention on taking advantage of opportunities to achieve savings on purchase card buys, we recommend that the director of OMB take the following two actions:

- Require agencies to report—either through the current quarterly reports or another mechanism—on the steps they are taking to leverage their purchase card buys in areas such as
 - negotiating discount agreements with major purchase card vendors,
 - implementing initiatives to better inform cardholders of opportunities to achieve savings,
 - conducting analyses to identify such opportunities, and

-
- assessing, through mechanisms such as vendor reports, whether cardholders are taking advantage of savings opportunities.
 - Annually report to Congress on the government's progress in identifying and taking advantage of opportunities for savings on purchase card micropurchases.

To assist agencies in identifying opportunities to achieve savings on purchase card buys and to facilitate cardholder access to discounted prices, we recommend that the administrator of GSA direct the purchase card program manager to take the following three actions

- continue efforts to improve reporting by the banks that provide purchase cards so that GSA will have the data it needs—including basic information such as top vendors and level 3 data where feasible—to assist agencies in effectively identifying opportunities to leverage their purchasing power;
- work with GSA's acquisition center contracting officers to pursue point-of-sale discounts with large vendors; and
- as part of the existing cross-agency forums for purchase card discussions, encourage agencies to share information on their successes in leveraging the purchase card to obtain better prices as well as strategies for overcoming challenges that could hinder agencies' ability to achieve purchase card savings.

To more effectively capture the significant potential for savings that agencies can achieve, we recommend that the Secretaries of Agriculture, Defense, the Interior, Justice, Transportation, and Veterans Affairs direct their purchase card program managers—in coordination with officials responsible for procurement, finance, small business utilization, and other appropriate stakeholders—to take the following three actions:

- Develop mechanisms that provide cardholders more favorable pricing from major vendors or for key commodity groups, such as agencywide discount agreements with major vendors or simpler mechanisms that capitalize on trade discounts offered by local merchants. In designing such mechanisms, purchase card program managers should consider the need to
 - take full advantage of competitive forces to assure the most favorable prices,
 - ensure that agreements cover an adequate range of the products cardholders are likely to buy,

-
- coordinate negotiation activities within the department to reduce duplication of effort, and
 - ensure that agreements appropriately support agencies' efforts to meet governmentwide socioeconomic requirements.
 - Revise programs for communicating with cardholders to ensure that the programs provide cardholders the information they need to effectively take advantage of mechanisms the agency has established to achieve savings. Such information would include telling cardholders about
 - the GSA Schedule contracts or agency-specific agreements chosen as vehicles for leveraging the agency's buying power; and
 - procedures cardholders should follow to access and use these vehicles when they plan to make a purchase from these vendors.
 - To the extent possible using available data, such as information on major vendors, analyze purchase card expenditure patterns to identify opportunities to achieve additional savings and to assess whether cardholders are getting good prices. Where available data are not sufficient for such analyses, investigate the feasibility of gathering additional information. In evaluating options for gathering additional information, purchase card program managers should carefully consider the costs and benefits of obtaining comprehensive information and imposing unwarranted burdens on cardholders, vendors, and other stakeholders.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from DOD, GSA, the Department of the Interior, and the Department of Veterans Affairs. We received comments via e-mail from the Departments of Agriculture and Transportation. The Department of Homeland Security, the Department of Justice, and OMB did not provide comments.

DOD concurred with our recommendation that the department develop mechanisms that provide cardholders more favorable prices, but stated that negotiating agencywide discount agreements might impede achieving the department's small business goals. Accordingly, DOD intends to emphasize installation-level initiatives to obtain discounts from local vendors and to pursue point-of-sale discounts with larger vendors. DOD also concurred with our recommendation to revise programs for communicating with cardholders and partially concurred with our recommendation to analyze purchase card expenditure patterns to identify opportunities for savings. DOD stated that, until data on specific purchases is widely available, the feasibility of developing informed and

cost-effective strategic sourcing decisions is questionable. Our recommendation, however, contemplated agencies using readily available data to gain insight into their purchase card expenditure patterns. Analysis of available purchase card transaction data could provide agencies a clearer understanding of which vendors are significant to their purchase card program. DOD's written comments are reproduced in appendix II.

GSA concurred with our findings and recommendations and stated that the report provides an objective analysis of the savings that agencies can obtain through the Schedule program and purchase card program. GSA's written comments are reproduced in appendix III.

The Department of the Interior did not specifically agree or disagree with our recommendations, but offered several observations on our report. The department took exception to our statement that lack of management focus and oversight had led to agencies' not taking advantage of opportunities to capture purchase card savings. This statement was intended to portray the general picture at all the agencies we reviewed, and our report discusses the instances we noted where agencies had focused management attention on capturing savings and the benefits agencies obtained by doing so. Interior also commented that our recommendation that departments develop mechanisms to provide cardholders with more favorable prices should be directed to GSA rather than Interior, and that GSA's buying programs should be revised to incorporate greater price reductions and be expanded to cover more vendors. We did not audit GSA's buying programs as part of this report; however, recognizing the benefits of point-of-sale discounts, we have made a recommendation to GSA to pursue these discounts with large vendors. At the same time, we found that individual agencies could achieve savings in the short term by negotiating discount agreements, such as Interior has done for information technology products. Interior—pointing to convenience and simplicity as key benefits of the purchase card program—also commented that we should further highlight in our recommendations the need for purchase card managers to take into account the costs and benefits of obtaining comprehensive information and imposing unwarranted burden on cardholders and others. We believe that our recommendations, as stated, afford program managers sufficient flexibility to develop mechanisms for more favorable pricing while not inconveniencing cardholders. Finally, Interior recommended that we incorporate into the report a table of "best practices." The scope of our work did not include gathering information to verify that the agreements agencies have negotiated represent best practices. Interior's written comments are reproduced in appendix IV.

The Department of Veterans Affairs concurred with our recommendations and cited a number of planned and ongoing actions intended to provide cardholders with more favorable prices. In addition, Veterans Affairs expressed concern that our recommendation to OMB would impose a cumbersome and costly data-gathering burden on agencies. Veterans Affairs is apparently interpreting our recommendation as requiring agencies to report on discounts obtained on specific transactions. We agree that the availability of data to prepare such a report may be an issue and therefore are not recommending that OMB require such a report. Instead, we recommend that OMB require agencies to report on initiatives they have taken, such as analyzing purchase card expenditure patterns and negotiating discount agreements that cardholders can use. Veterans Affairs also endorsed our recommendation that GSA pursue point-of-sale discounts with large vendors and suggested that GSA consider encouraging vendors to program point-of-sale devices to recognize that federal purchases are exempt from sales taxes. Veterans Affairs' comments are reproduced in appendix V.

In comments sent via e-mail, the Department of Agriculture concurred with our recommendations and outlined a number of steps the department will take to implement them. Commenting on our finding that Agriculture's discount agreement for office supplies did not take full advantage of competitive forces to ensure the most favorable prices, Agriculture stated that it reviews this agreement annually and will re-compete the agreement when these annual reviews indicate that re-competition is warranted. We believe that periodic—but not annual—re-competitions would provide the best information for assessing whether the agreement continues to offer the most advantageous prices for office supplies.

In comments sent via e-mail, the Department of Transportation did not specifically agree or disagree with our recommendations, but noted that our report could benefit by explicitly recognizing that the greatest savings could be achieved by pooling the buying power of the entire federal government. We agree that leveraging governmentwide buying power would result in the greatest savings. While this would be the best end-state, we see this as a long-term effort with many obstacles to be overcome before it can be achieved. Our work identified initiatives—relatively simple to implement—that agencies can begin now to start achieving savings. In addition, Transportation commented that our report does not adequately depict the fundamental difficulties of complying with JWOD purchase requirements while at the same time achieving best value. We believe our report appropriately reflects the concerns agency officials

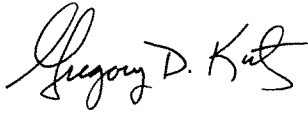
expressed to us about complying with socioeconomic requirements, including JWOD, and we provide several examples of how some agencies have taken steps appropriately structure discount agreements so that they help ensure that cardholders purchase JWOD products when required. In addition, Transportation commented that the report should discuss some of the positive accomplishments of the purchase card program. Our report acknowledges that the purchase card has fundamentally changed the way agencies make small, routine, purchases and we believe the report appropriately reflects the administrative cost savings and convenience purchase cards have provided. Finally, Transportation suggested a technical correction, which we have incorporated in the report.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to the Secretaries of Agriculture, DOD, Homeland Security, the Interior, Justice, Transportation, and Veterans Affairs; the director of OMB; the administrator of GSA; and other interested congressional committees. We will provide copies to others on request. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report or need additional information please call David Cooper at (202) 512-4841 (cooperd@gao.gov) or Gregory Kutz at (202) 512-9505 (kutzg@gao.gov). Key contributors to this report are acknowledged in appendix VII.



David E. Cooper
Director
Acquisition and Sourcing Management



Gregory D. Kutz
Director
Financial Management and Assurance

Appendix I: Scope and Methodology

We reviewed laws and regulations relating to the purchase card program, held discussions with GSA officials responsible for governmentwide program management and OMB representatives responsible for program policy and oversight, and reviewed governmentwide policy and guidance for the program. We also performed our work at the Departments of Agriculture, Defense (DOD), the Interior, Justice, Transportation, and Veterans Affairs. These agencies accounted for over 85 percent of governmentwide purchase card expenditures during fiscal year 2002. Within DOD, we focused our work at the Departments of the Army, the Navy, and the Air Force, which represented 92 percent of all DOD purchase card expenditures during fiscal year 2002. We contacted all major component agencies—referred to as major commands in the Army and Air Force and as major claimants in the Navy. At the civilian departments, we contacted the component agencies that were the largest users of purchase cards.

To determine whether agencies had taken advantage of opportunities to obtain more favorable purchase card prices, we held discussions with officials responsible for the purchase card program at each department to obtain information on (1) efforts to identify opportunities to obtain more favorable prices, (2) efforts to negotiate discount agreements that made more favorable prices available to cardholders, and (3) guidance and training provided to cardholders to inform them of opportunities to obtain more favorable prices. We reviewed policy and guidance manuals, training materials, and other agency documentation that provided information on these topics. We also contacted the components responsible for the largest volume of purchase card activity within each department. Finally, to assess cardholder buying practices and gain insight into whether they were obtaining favorable prices, we selected a limited number of fiscal year 2002 micropurchase transactions at each department for review. We obtained and reviewed documentation relating to the transactions, such as invoices, and discussed the transactions with cardholders.

To identify the reasons why agencies had not taken advantage of opportunities to obtain more favorable purchase card prices, we discussed these issues with officials responsible for departmental purchase card programs and reviewed applicable agency documentation.

To select transactions for review, we first obtained data files of fiscal year 2002 purchase card transactions from the banks that provided purchase cards to each of the departments reviewed. (In the case of the military services, we obtained data files from the Defense Manpower Data Center, which had previously obtained the files from the applicable banks.) We

reviewed these files to determine that they did not contain any apparent erroneous data and then summarized the total number and dollar value of transactions for each department. We reconciled these totals with totals reported by GSA for each department. Having determined that the data files were generally reliable, we summarized the data to determine the total number and dollar value of transactions by vendor and identified major purchase card vendors at each department. We defined major purchase card vendors as those vendors where the department had purchase card expenditures of \$1 million or more in fiscal year 2002.

We then combined the data on major purchase card vendors for the eight departments and summarized the number and dollar value of transactions by vendor to identify those vendors where the eight departments had the highest purchase card expenditures. From this combined listing, we determined that vendors providing information technology products, office supplies, and cellular telecommunications services were among the top vendors at all eight departments. Accordingly, we selected two of the top information technology vendors, two of the top office supply vendors, and two of the top cellular telecommunications service providers as the vendors for which we would select transactions for review.

For each department, we identified the population of micropurchase transactions with the selected vendors. If a department did not have \$1 million or more in micropurchase transactions with the vendor, we excluded that vendor's transactions from further analysis at that department. We then identified, for each vendor, the subpopulation of micropurchase transactions valued at \$100.00 or more for information technology and office supply vendors or \$25.00 or more for cellular telephone service providers at each department.¹ We selected—using a random selection process—3 transactions with each vendor at each department for a total of 135 transactions. Although these transactions were selected at random, we cannot project the results of the selected transactions to the population of transactions.

To assess the prices cardholders had paid on a transaction, we ascertained whether the vendor had a GSA contract or agency-negotiated discount agreement applicable to the items or services purchased. We obtained

¹ We excluded transactions valued at less than \$100.00 to limit our investment in researching transactions involving minimal amounts of money. We included smaller cellular telecommunications transactions because these are normally monthly, recurring charges that involve an annual amount greater than \$25.00.

information on prices for the items or services under these contracts or agreements and used these prices as benchmarks for assessing whether the cardholder had obtained favorable pricing. In addition to making these price comparisons, we contacted the cardholders to discuss the transaction and gain insight into their buying practices and awareness of vehicles that provide favorable pricing.

To assess the potential magnitude of savings that agencies can achieve by negotiating discount agreements with their major purchase card vendors, we considered the discounts individual departments had obtained on the agencywide discount agreements we reviewed during our work. Discounts offered under these agreements varied—for example, 8 percent under an Interior agreement for desktop computers, 10 percent under an Agriculture agreement for office supplies, and 35 percent under an Interior agreement for laptop computers. We considered the 10 percent discount that Agriculture obtained to represent a reasonable and conservative benchmark for the potential discounts departments could obtain from their major vendors.

Our analysis showed that the agencies reviewed spent about \$2.8 with major purchase card vendors in fiscal year 2002. Although some of these expenditures would have been covered by discount agreements the departments had negotiated, we found that agency discount agreements often did not cover all the items that cardholders purchased from those vendors. Further, we found that cardholders did not always know of, or take advantage of, the discounts agreements agencies had negotiated. A number of the transactions we reviewed were made at retail prices. If the agencies we reviewed obtained discounts of about 10 percent on the \$2.8 billion spent with their major purchase card vendors, their savings would amount to about \$282 million. Actual discounts would vary with factors such as sales volume, profit margin, and competitiveness of the industry. If agencies obtained discounts equivalent to the high end of the range we saw during our work, savings would amount to almost \$1 billion, although it is unrealistic to expect savings of this magnitude. Nonetheless, we believe it is reasonable to anticipate that the federal government could save hundreds of millions of dollars if agencies negotiated discounts with major purchase card vendors.

Finally, we engaged the Dun and Bradstreet Corporation to perform a spend analyses of Interior's fiscal year 2002 purchase card transactions to illustrate how a detailed analysis could begin to identify opportunities for purchase card savings. In addition to performing analyses of Interior's purchase card transactions, Dun and Bradstreet gathered information on

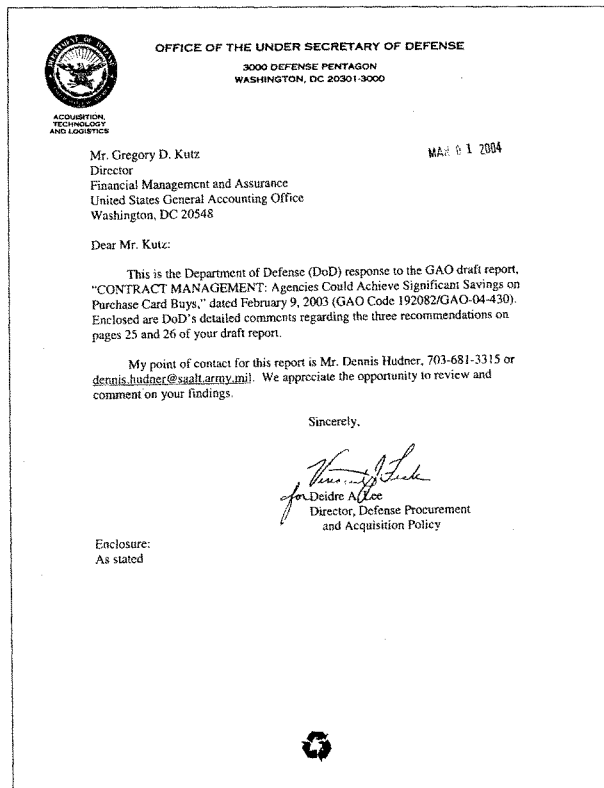
Appendix I: Scope and Methodology

the costs and benefits to merchants and other stakeholders of providing "level 3" data—which includes descriptions of the items and services purchased—and on barriers to vendors providing this information.

We conducted our review between March 2003 and January 2004 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Department of Defense

Note: Page numbers in the draft report may differ from those in this report.



GAO DRAFT REPORT DATED FEBRUARY 9, 2004
GAO-04-430 (GAO CODE 192082)"CONTRACT MANAGEMENT: AGENCIES COULD
ACHIEVE SIGNIFICANT SAVINGS ON PURCHASE CARD
BUYS"DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the DoD - in coordination with officials responsible for procurement, finance, small business utilization, and other appropriate stakeholders - develop mechanisms that provide cardholders more favorable pricing from major vendors or for key commodity groups, such as agency-wide discount agreements with major vendors or simpler mechanisms that capitalize on trade discounts offered by local merchants. (p. 25/GAO Draft Report)

DOD RESPONSE: Concur. The Department believes that a full range of measures should be utilized to more fully leverage our purchasing volume in the market-place. However, the Department believes that less emphasis should be placed on agency-wide contract agreements which are costly to establish and maintain and may work at cross purposes to the Department's small business goals. We believe that the same results can be achieved through less formal measures both at the local level and on a Department-wide basis. For example, your report cites the efforts of a number of Air Force bases to elicit significant discounts from local vendors who value the business opportunity provided by these DoD activities. We intend to promote this best practice and encourage similar efforts across DoD. In addition, we are in exploratory discussions with both card associations to determine the potential for negotiating DoD-wide pricing discounts at the point-of-sale (register) with our larger purchase card vendors. Our view is that this could be fairly easily applied at the register based on the recognition of the standard number (BIN) assigned to each DoD purchase card. Recognition of the Government purchase card BIN would trigger the agreed-to discount.

RECOMMENDATION 2: The GAO recommended that the DoD - in coordination with officials responsible for procurement, finance, small business utilization, and other appropriate stakeholders - revise programs for communicating with cardholders to insure that the programs provide cardholders the information they need to effectively take advantage of mechanisms the agency has established to achieve savings. (p. 25/Draft Report)

Appendix II: Comments from the Department of Defense

DOD RESPONSE: Concur. The Department has developed a web-based tutorial that is used to train all "new" cardholders and billing officials. Included in this tutorial is a section which prioritizes the use of various sources of supply for purchase card buys. Additionally, detailed instructions are provided in the training tutorial regarding the accessing and use of GSA Advantage and other Federal Supply Schedules.

RECOMMENDATION 3: The GAO recommended that the DoD - in coordination with officials responsible for procurement, finance, small business utilization, and other appropriate stakeholders - analyze purchase card expenditure patterns to identify opportunities to achieve additional savings and to assess whether cardholders are getting good prices. The GAO recommends that where available data are not sufficient for such analyses, the DoD investigate the feasibility of gathering additional information. (p. 26/Draft Report)

DOD RESPONSE: Partially concur. Until transaction level 3 data is widely available, a persuasive business case associated with this recommendation cannot be constructed which would result in informed and cost-effective strategic sourcing decisions. However, targeting our largest purchase card suppliers for point-of-sale discount agreements will largely have the same impact without the associated infrastructure burden.

Appendix III: Comments from the General Services Administration



GSA Administrator

March 3, 2004

The Honorable David M. Walker
Comptroller General
of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

Thank you for providing us with the opportunity to comment on the General Accounting Office (GAO) draft report entitled, "Contract Management: Agencies Could Achieve Significant Savings on Purchase Card Buys" (GAO-04-430), dated February 2004.

The draft report recommends that the General Services Administration (GSA): (1) continue efforts to improve reporting by the GSA SmartPay® banks so that GSA will have the data it needs to effectively assist agencies in identifying opportunities to leverage purchasing power, (2) pursue point of sale discounts with large vendors, and (3) encourage agencies to share information on their successes in leveraging the purchase card to obtain better prices, as well as strategies for overcoming challenges that could hinder their ability to achieve purchase card savings. GSA concurs with the draft report findings and recommendations.

The draft report provides an objective analysis of the savings that can be obtained by agencies through the use of our GSA Schedules and GSA SmartPay® programs. The report duly notes the history of Government purchase card program initiatives that have, until recently, superseded efforts to leverage spending opportunities. The use of purchase cards to improve process efficiency and reduce procurement cycle time has evolved from a mid-1990's best practice to a common practice today, and the annual administrative savings to the Government are tremendous -- approximately \$1.4 billion in fiscal year 2003 alone. In more recent years, the focus of Government purchase card programs has been on improving the management, control, and oversight of agency programs. Obtaining

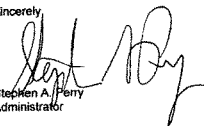
U.S. General Services Administration
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www.gsa.gov

Appendix III: Comments from the General
Services Administration

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better data about spending and leveraging spending to obtain more favorable pricing are emerging goals that GSA will meet through the implementation of GAO's recommendations.

Sincerely,

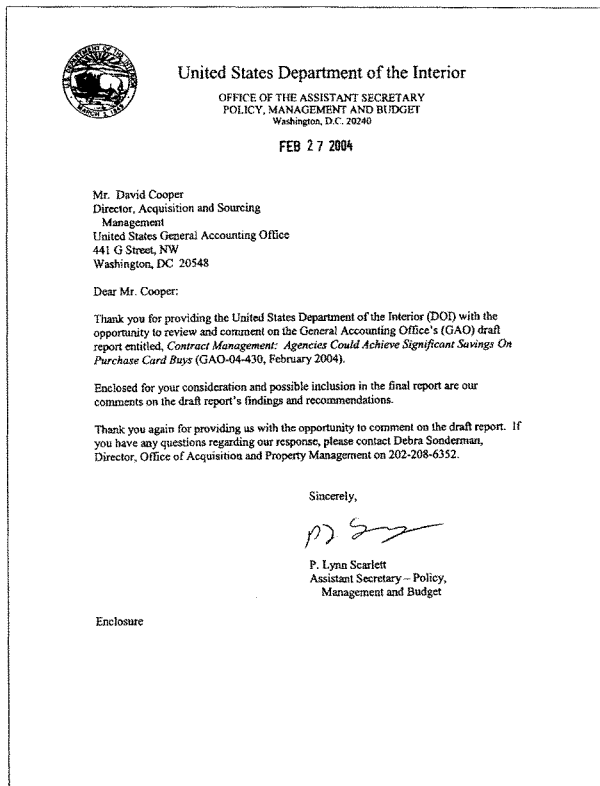


Stephen A. Perry
Administrator

cc:
Mr. David E. Cooper
Director
Acquisition and Sourcing Management
United States General Accounting Office
Washington, DC 20548

Mr. Greg Kutz
Director
Financial Management and Assurance
United States General Accounting Office
Washington, DC 20548

Appendix IV: Comments from the Department of the Interior



Appendix IV: Comments from the Department
of the Interior

United States
Department of the Interior
Comments on
General Accounting Office Draft Report
"Contract Management: Agencies Could Achieve Significant Savings on
Purchase Card Buys" (GAO-04-430, February 2004)

1. Page 3: In the course of the subject audit, Debra Sonderman, Director, Office of Acquisition and Property Management, and members of her staff, DOI Bureau Procurement Chiefs and representatives from their procurement and charge card program communities, spent considerable time with Messrs. Kelly and Peters, GAO, and representatives from Dun & Bradstreet in which they shared background and the Department's on-going efforts to use the purchase card effectively, efficiently, and in a manner compliant with laws and regulations.

We appreciate the draft report's reference (on page 22) to Interior's management initiative and analyses examining ways to leverage buying power and realize savings through consolidated buying in a number of product/service categories; and the reference on page 15, to Interior's agency-wide discount agreements for information technology products, which utilize the purchase card and have already realized significant savings for the agency.

In addition, as a pilot program, the Bureau of Land Management recently established a Blanket Purchase Agreement (BPA) with a small, woman-owned business for the purchase of toner and laser jet cartridges. The average savings from General Services Administration schedule prices is estimated at 49 percent. The BPA will be made available to all BLM purchase cardholders, and, depending on the pilot's results, will likely be expanded to all DOI purchase cardholders.

These initiatives did not develop overnight. They have been planned and considered for some time. Granted, implementation has been recent, simply because management's first duty was to ensure program soundness from an internal control standpoint. We have concentrated significant resources in the development of charge card-related training and reporting programs. Therefore, we take issue with the comment on page 3, that "agencies have not taken advantage of potential opportunities to capture purchase card savings due to lack of management focus and oversight," and request that it be deleted. The next line, beginning with the sentence, "The opportunity simply has not been the center of attention for most agency managers, who have been absorbed in improving internal controls and other priorities" is a more accurate and fair assessment.

2. Recommendations for Executive Action: Second bullet on Page 25, third sub-bullet: "...coordinate negotiation activities to reduce duplication of effort"

The draft report encourages individual agencies to establish agency-wide discount agreements. We believe that this recommendation would have far greater benefit and

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realize greater savings if extended beyond the six agencies to which it is addressed. Making an effort like this practical for purchase cardholders nation-wide (and even world-wide) would require the development of an on-line centralized list of vendors, products, and discounted prices by each of the six agencies. To a large extent, this already exists through the General Services Administration (GSA) Federal Supply Schedules and on-line GSA-Advantage programs, which leverage the entire Government's buying power and offer common discounts and easy on-line shopping to all Federal agencies. These programs have generally proven to be a useful and cost effective approach and they incorporate Government socio-economic programs and environmentally preferable products and services. Especially given the recent anti-bundling regulations, which prohibit the bundling of requirements unless measurably substantial benefits can be realized, we believe that the existing GSA programs should serve as the baseline and the area of focus for the incorporation of greater price reductions and delivery terms that will benefit purchase cardholders Governmentwide. Having the GSA expand these buying programs to include more national commercial vendors, coupled with purchase card point-of-sale discounts, will minimize the burden and increase the benefits for vendors, purchase cardholders and agencies.

Therefore, we recommend that the bulleted paragraphs on page 25 beginning with "Develop mechanisms that provide cardholders with more favorable pricing..." and on page 26 beginning with "To the extent possible..." should be moved to the previous section on page 24 under the GSA actions. This falls in line with the existing recommendation that the GSA purchase card program manager "work with GSA's acquisition center contracting officers to pursue point-of-sale discounts with large vendors."

3. Page 26, first paragraph, last line: "... purchase card program managers should carefully consider the costs and benefits of obtaining comprehensive information and imposing unwarranted burdens on cardholders, vendors and other stakeholders."

We believe that this is an important overriding concept. Some of the key benefits of the purchase card program have been its ability to meet the needs of highly decentralized organizations and programs, and its convenience and simplicity in use, as outlined in Federal Acquisition Regulation subpart 13.2. This efficient process, authorized under the Federal Acquisition Streamlining Act of 1994, must remain that – a streamlined, efficient process. Because it is a primary considerations, we recommend that the above wording from page 26 be moved the very beginning of the recommendation section for agency consideration in determining the appropriate course(s) of action, i.e., move to the top of page 24.

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4. Page 15, table: Although referenced in the table, we recommend that a "best practices" table be added to the report to include the following pertinent details regarding DOI's negotiated agreements for information technology:

The Blanket Purchase Agreements (BPA) for the purchase of computers and related items, were awarded against GSA Federal Supply Schedules.

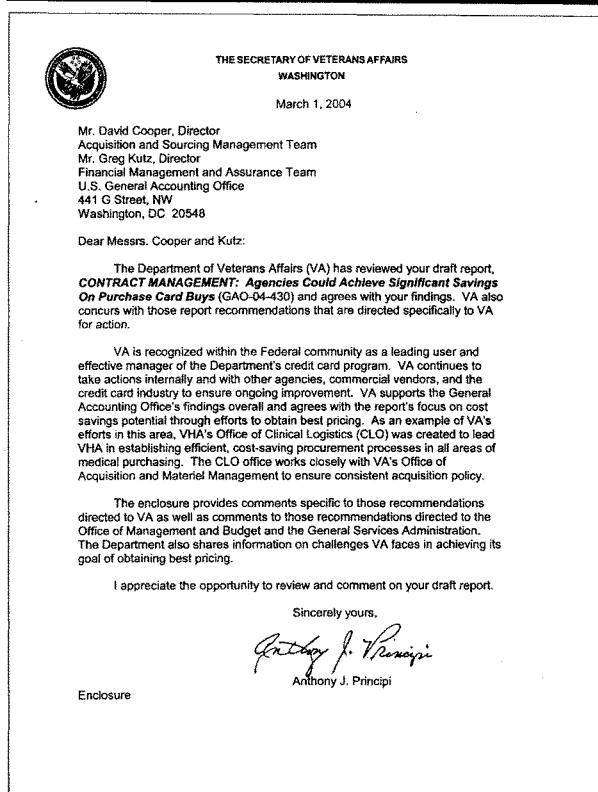
The BPAs include on-line ordering and payment by Departmental IT managers and procurement personnel (using their purchase cards), delivery of asset management reports, staggered shipping, single invoicing, and the potential for increased discounts on large orders. The BPAs also require the contractor to provide upgrades to the equipment as IT changes. To ensure compliance with the Department of the Interior IT architecture, ordering under the BPAs is mandatory. The BPAs provide the following additional discounts off of related GSA Federal Supply Schedules:

- 30 percent discount for standard computer configuration with monitor;
- 19 percent discount for standard computer configuration without monitor;
- 20 percent discount for laptop computers; and
- 16 percent savings on servers

The total estimated savings to the Department is \$5 million.

Once the BPAs were awarded, the Bureau of Land Management provided training to all DOI information technology managers on the use of the BPAs.

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Enclosure

THE DEPARTMENT OF VETERANS AFFAIRS COMMENTS
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To more effectively capture the significant potential for savings that agencies could achieve, GAO recommends that the Secretary of Veterans Affairs direct its purchase card program manager—in coordination with officials responsible for procurement, finance, small business utilization and other appropriate stakeholders—to take the following three actions:

- Develop mechanisms that provide card holders more favorable pricing from major vendors or for key commodity groups, such as agency-wide discount agreements with major vendors or simpler mechanisms that capitalize on trade discounts offered by local merchants. In designing such mechanisms, purchase card program managers should consider the need to:
 1. Take full advantage of competitive forces to assure the most favorable prices;
 2. Ensure that agreements cover an adequate range of the products cardholders are likely to buy;
 3. Coordinate negotiation activities to reduce duplication of effort; and
 4. Ensure that agreements appropriately support agencies' efforts to meet governmentwide socioeconomic requirements.

Concur - VA will continue to develop schedules and agreements to achieve the most favorable pricing. VA has instituted a hierarchy of contracting authority, which all procurement personnel and cardholders are required to follow. The first sources for procuring goods are from national contracts and Blanket Purchase Agreements (BPA) to achieve the best available price. In addition, all local BPAs are reviewed at VA's National Acquisition Center for possible application at the national level. All Veterans Health Administration (VHA) staff involved in procurement is required to receive and certify that they have received appropriate training on this hierarchy.

In addition, VHA's Office of the Chief Financial Officer has developed a series of oversight monitors for the purchase card program. Cardholders, for example, must comply with a checklist of required actions for each transaction. The first two items on the checklist address adherence to GSA contracts or agency-specific agreements, while also stipulating that potential competitively priced vendors are not excluded from business transactions with VA.

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VA's National Cemetery Administration (NCA) will provide guidance to its cardholders to seek out sources that provide favorable pricing and enter into agreements where possible to gain favorable pricing for volume purchases. NCA will also network with other VA elements to determine what agreements exist that NCA may use to obtain potential price discounts.

- Revise programs for communicating with cardholders to insure that the programs provide cardholders the information they need to effectively take advantage of mechanisms the agency has established to achieve savings. Such information would include telling cardholders about

1. the GSA contracts or agency-specific agreements chosen as vehicles for leveraging the agency's buying power, and
2. procedures cardholders should follow to access and use these vehicles when they plan to make a purchase from these vendors

Concur – VA's Office of Management (OM) will modify the guidance provided to VA staff on the need to take effective advantage of mechanisms that will achieve cost savings objectives. OM staff will also work with all other VA elements on the guidance provided to field facilities. The Department has established a web-based searchable database that provides item price comparisons, as well as each vendor's socioeconomic rating.

In addition, VHA's Clinical Logistics Officer (CLO) maintains a website that provides all the necessary information for medical/surgical procurement products that have been standardized at the national level. Several communication tools are used in conveying information to the purchase card holder, including instructions provided during training sessions and during new employee orientation. VHA's purchase card directive and the Department's purchase card handbook set policy requiring all cardholders to pay only reasonable prices and to provide justification for any outlier purchases that are made.

Annually, NCA will review how information is gathered to help ascertain which programs are successful and which programs should be curtailed. NCA will share the results of its review both internally and with other VA elements to identify beneficial programs as well as those that do not provide pricing advantages.

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- To the extent of possible using available data, such as information on major vendors, analyze purchase card expenditure patterns to identify opportunities to achieve additional savings and to assess whether cardholders are getting good prices. Where available data are not sufficient for such analyses, investigate the feasibility of gathering additional information. In evaluating options for gathering additional information, purchase card program managers should carefully consider the costs and benefits of cardholders, vendors, and other stakeholders.

Concur - VA will direct the program office responsible for the purchase card program to work with the Office of Acquisition and Materiel Management staff and other VA offices to identify additional opportunities for savings. For example, VHA's CLO office regularly analyzes weekly summaries of all Citibank transactions. The CLO office reviews compliance with nationally standardized products as well as identifies potential opportunities to add for national standardization. Price comparisons of like products from the same company, but with different costs to different medical facilities, also provide leverage in contract negotiations with vendors.

In addition, NCA will instruct purchase cardholders to review quarterly their purchases to identify repeat sources and the socioeconomic groups where purchases are being made and how to capture the data. NCA officials will also require purchase card program managers to consolidate quarterly reviews from the cardholders and analyze purchases to determine opportunities for consolidation of purchases, which will result in savings. Finally, annually, a consolidated report will be created to compare quarterly purchases so that trends can be analyzed to determine long term savings or if adjustments need to be made.

* * * * *

In addition to the recommendations directed to the Department of Veterans Affairs, VA offers the following comments to GAO's other two major report recommendations:

It is recommended that the Director of OMB "(1) require agencies to report – either through the current quarterly reports or through another mechanism – on the steps they are taking to leverage their purchase card buys..." and "(2) annually report to Congress on the Government's progress in identifying and taking advantage of opportunities for savings on purchase card micropurchases."

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Comment - VA manages a large decentralized operation. Gathering this information on a quarterly basis would be a cumbersome and costly task. As noted in the report, the availability of data may also be an issue. Identification of scheduled or discounted purchases is not easily done. Reporting this type of information would likely yield little useful data. It is for these reasons that VA believes GAO should change the recommendation to have OMB request agencies to submit a plan to OMB on how they propose to address these issues.

It is also recommended that the Administrator of GSA direct the purchase card program manager to "(3) continue efforts to improve reporting by banks that provide purchase cards so that GSA will have the data it needs...to effectively assist agencies in identifying opportunities to leverage their purchasing power," "(4) work with GSA's acquisition center contracting officers to pursue point-of-sale discounts with large vendors," and "(5) encourage agencies to share information on their successes in leveraging the purchase card to obtain better prices..."

Comment - Based on paper invoices received at VA's Financial Services Center, Austin, TX, vendors offer discounts on purchase card transactions, but no mechanism currently exists to take the discounts. The recommendation to use program vendor point of sale (POS) systems with an ability to take a discount based on the purchase card number would pay dividends. VA recommends considering programming these POS systems to recognize Government purchase card transactions as exempt from sales taxes, where appropriate. Expanding the Level 3 data availability would also provide agencies with better data with which to analyze payment volumes. VA also recommends that cardholder training on how to take advantage of existing discount arrangements include guidance regarding the exclusion of Government purchases from sales taxes.

Appendix VI: Information on Purchase Card Expenditures

Table 3: Department of Agriculture Purchase Card Expenditures by Transaction Dollar Value, Fiscal Year 2002

Dollar value range	Transactions		Expenditures (dollars in thousands)	
	Number	Percent	Dollar value	Percent
\$0.00 to \$2,500.00	1,584,822	98.4	\$396,797	67.0
\$2,500.01 to \$25,000	25,221	1.6	158,630	26.8
Over \$25,000	793	*	36,869	6.2
All transactions	1,610,836		\$592,296	

Source: GAO analysis.

*Less than 0.1 percent.

Table 4: Department of Defense Military Services Purchase Card Expenditures by Transaction Dollar Value, Fiscal Year 2002

Dollar value range	Transactions		Expenditures (dollars in thousands)	
	Number	Percent	Dollar value	Percent
Army				
\$0.00 to \$2,500.00	4,512,803	98.1	\$1,683,207	61.4
\$2,500.01 to \$25,000	81,670	1.8	585,759	21.4
Over \$25,000	7,710	0.2 [*]	470,646	17.2
All Transactions	4,602,183		2,739,612	
Navy				
\$0.00 to \$2,500.00	2,545,170	97.6	1,141,762	64.0
\$2,500.01 to \$25,000	57,595	2.2	407,594	22.8
Over \$25,000	4,451	0.2	234,772	13.2
All Transactions	2,607,216		1,784,128	
Air Force				
\$0.00 to \$2,500.00	2,938,898	97.5	1,022,646	63.7
\$2,500.01 to \$25,000	75,587	2.5	532,522	33.2
Over \$25,000	971	*	49,199	3.1
All Transactions	3,015,456		\$1,604,367	

Source: GAO analysis.

*Less than 0.1 percent.

*Exceeds 100 percent due to rounding.

Appendix VI: Information on Purchase Card Expenditures

Table 5: Department of the Interior Purchase Card Expenditures by Transaction Dollar Value, Fiscal Year 2002

Dollar value range	Transactions		Expenditures (dollars in thousands)	
	Number	Percent	Dollar value	Percent
\$0.00 to \$2,500.00	1,334,245	98.7	\$356,082	73.1
\$2,500.01 to \$25,000	17,438	1.3	103,500	21.2
Over \$25,000	545	^a	27,700	5.7
All Transactions	1,352,228		\$487,282	

Source: GAO analysis.

^aLess than 0.1 percent.

Table 6: Department of Justice Purchase Card Expenditures by Transaction Dollar Value, Fiscal Year 2002

Dollar value range	Transactions		Expenditures (dollars in thousands)	
	Number	Percent	Dollar value	Percent
\$0.00 to \$2,500.00	897,028	96.9	\$390,784	65.8
\$2,500.01 to \$25,000	28,988	3.1	195,883	33.0
Over \$25,000	146	^a	6,909	1.2
All Transactions	926,162		\$593,576	

Source: GAO analysis.

^aLess than 0.1 percent.

Table 7: Department of Transportation Purchase Card Expenditures by Transaction Dollar Value, Fiscal Year 2002

Dollar value range	Transactions		Expenditures (dollars in thousands)	
	Number	Percent	Dollar value	Percent
\$0.00 to \$2,500.00	935,892	97.9	\$279,300	65.7
\$2,500.01 to \$25,000	19,823	2.1	120,034	28.2
Over \$25,000	439	^a	26,097	6.1
All Transactions	956,154		\$425,431	

Source: GAO analysis.

^aLess than 0.1 percent.

Appendix VI: Information on Purchase Card Expenditures

Table 8: Department of Veterans Affairs Purchase Card Expenditures by Transaction Dollar Value, Fiscal Year 2002

Dollar value range	Transactions		Expenditures (dollars in thousands)	
	Number	Percent	Dollar value	Percent
\$0.00 to \$2,500.00	2,540,159	96.6	\$920,137	59.0
\$2,500.01 to \$25,000	87,739	3.3	506,769	32.5
Over \$25,000	2,620	0.1	133,403	8.5
All Transactions	2,630,518		\$1,560,309	

Source: GAO analysis.

Note: Data do not include about \$2.7 billion in purchase card transactions under Veterans Affairs' prime vendor program.

Appendix VII: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to the individuals named above, Robert Ackley, Victoria Klepacz, James Moses, Jerrod O'Nelio, Monty Peters, Jose Ramos, Harold Reich, Sanford Reigle, Kenneth Roberts, Sylvia Schatz, Quan Thai, Najeema Washington, and Gary Wiggins made key contributions to this report.

Related GAO Products

Products concerning purchase card internal controls:

Purchase Cards: Steps Taken to Improve DOD Program Management, but Actions Needed to Address Misuse, GAO-04-156 (Washington, D.C.: Dec. 2, 2003).

Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs, GAO-04-87G (Washington, D.C.: Nov. 1, 2003).

Forest Service Purchase Cards: Internal Control Weaknesses Resulted in Instances of Improper, Wasteful, and Questionable Purchases, GAO-03-786 (Washington, D.C.: Aug. 11, 2003).

HUD Purchase Cards: Poor Internal Controls Resulted in Improper and Questionable Purchases, GAO-03-489 (Washington, D.C.: Apr. 11, 2003).

FAA Purchase Cards: Weak Controls Resulted in Instances of Improper and Wasteful Purchases and Missing Assets, GAO-03-405 (Washington, D.C.: Mar. 21, 2003).

Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse, GAO-03-292 (Washington, D.C.: Dec. 20, 2002).

Purchase Cards: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses, GAO-02-1041 (Washington, D.C.: Sept. 27, 2002).

Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse, GAO-02-732 (Washington, D.C.: June 27, 2002).

FAA Alaska: Weak Controls Resulted in Improper and Wasteful Purchases, GAO-02-606 (Washington, D.C.: May 30, 2002).

Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse, GAO-02-676T (Washington, D.C.: May 1, 2002).

Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse, GAO-02-32 (Washington, D.C.: Nov. 30, 2001).

Related GAO Products

Products concerning strategic purchasing:

Contract Management: Restructuring GSA's Federal Supply Service and Federal Technology Service, GAO-04-132T (Washington, D.C.: Oct. 2, 2003).

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661 (Washington, D.C.: June 9, 2003).

Contract Management: Taking a Strategic Approach to Improving Service Acquisitions, GAO-02-499T (Washington, D.C.: Mar. 7, 2002)

Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services, GAO-02-230 (Washington, D.C.: Jan. 18, 2002)

