



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

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G A O

Accountability \* Integrity \* Reliability

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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](http://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.

## 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.

Our 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
<b>Total</b>	<b>\$2,821</b>

Source: GAO analysis.

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 report<sup>1</sup> 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 years<sup>2</sup> 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 micropurchase<sup>3</sup> limit and payments on contracts. The benefits of using purchase cards versus traditional contracting and

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

<sup>2</sup>A list of related GAO products is included at the end of this statement.

<sup>3</sup> 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,<sup>4</sup> 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.<sup>5</sup> 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

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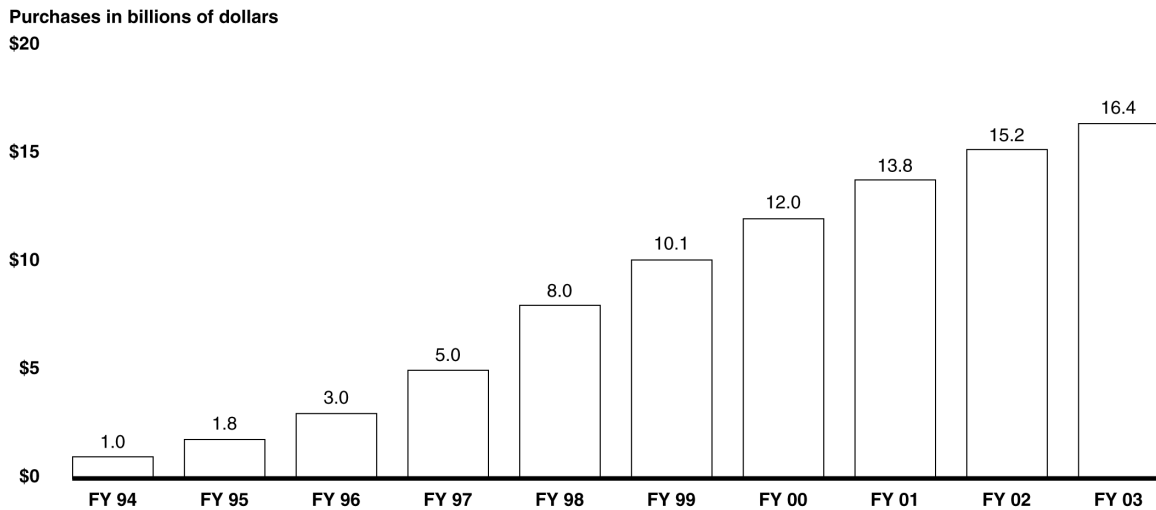
<sup>4</sup>GAO-04-430.

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

suppliers.<sup>6</sup> 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.<sup>7</sup>

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**



Source: GSA.

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

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

<sup>7</sup>48 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.<sup>8</sup> Further, the GSA Advantage on-line 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,<sup>9</sup> improper,<sup>10</sup> and abusive<sup>11</sup> charges. The importance of the role of management in establishing a strong control environment cannot be overstated. GAO's *Standards for Internal Control*<sup>12</sup> discuss management's key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and

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<sup>8</sup>Although 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.

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

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

<sup>11</sup>Abusive 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.

<sup>12</sup>U.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.<sup>13</sup> 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

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<sup>13</sup>Under 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 2000<sup>14</sup> 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

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<sup>14</sup>According 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
<b>Type of Disciplinary Action</b>	
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
<b>Total disciplinary actions</b>	<b>20</b>
<b>No disciplinary actions</b>	<b>94</b>
<b>Still under review/investigation or written policy authorizing purchase</b>	<b>6</b>

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**

<b>Item Purchased</b>	<b>Justification provided to GAO auditors and investigators</b>	<b>Action taken</b>
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 acts<sup>15</sup> 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

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<sup>15</sup>Bob 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 2004<sup>16</sup> 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 report<sup>17</sup> 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:

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<sup>16</sup>According to GSA.

<sup>17</sup>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 guidelines<sup>18</sup> 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,<sup>19</sup> 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 reported<sup>20</sup> 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

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<sup>18</sup>Military employees are subject to the Uniformed Code of Military Justice.

<sup>19</sup>U.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.)

<sup>20</sup>GAO-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.<sup>21</sup> 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 to 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 this 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

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<sup>21</sup> 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 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.

- Steps to Capture Savings Need Not Burden Cardholders. Several agency officials noted that promoting—or in some cases, requiring—the use of specific GSA Schedule vendors with whom they have negotiated discount agreements could hinder cardholders from meeting their needs in the simplest, most expeditious manner. An Agriculture cardholder stationed in Atlanta, Georgia, routinely placed orders under Agriculture's discount agreement for office supplies. According to the cardholder, the vendor's delivery service is prompt and reliable and saves time and effort because the vendor delivers directly to the agency supply room. In some other cases, we



found that 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. A Transportation cardholder said that he normally takes advantage of GSA Schedule prices when purchasing supplies to restock the vessel for which he is responsible. 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 rather than a GSA Schedule vendor store to ensure the vessel is fully stocked before it sails.

- Savings Initiatives Can Be Integrated With Governmentwide Socioeconomic Policies. 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. Despite these concerns, some agencies have been able to leverage purchasing power while providing opportunities for small businesses. 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.

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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 DeVecchio, 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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