

## PURCHASE CARDS

### STATEMENT OF NEAL I. FOX ASSISTANT COMMISSIONER OFFICE OF COMMERCIAL ACQUISITION FEDERAL SUPPLY SERVICE

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.