

**A BRIEF HISTORY AND REVIEW OF PURCHASING CARD USE BY THE
U.S. GOVERNMENT: 1990-2005**

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ABSTRACT. After fifteen years of use by U.S. Federal government agencies, purchase cards are still caught in a debate between the drive to improve governmental efficiency and the need to prudently manage and control spending of taxpayer resources. This paper gives decision makers facts by which to evaluate the purchase card experience to date by providing a brief history of legislative actions related to purchase cards, analyzing patterns of purchase card spending by Federal government agencies, estimating the potential size of the purchase card program, and identifying the costs and benefits of shifting low-value transactions to the purchase card. The paper concludes with recommendations for government action.

INTRODUCTION

Purchase cards (or purchase or p-cards) have received much attention as a tool to help U.S. Federal government employees acquire small-dollar goods from suppliers in a cost-effective and timely manner. Purchases under \$2,500 have been estimated by the GSA to account for a meager 2% of total federal government spending but 85% of total procurement transaction volume (U.S. General Service Administration, n.d. (a)). Purchase cards expedite payment to suppliers and reduce or eliminate the paperwork associated with requisitions, purchase orders, invoices, and checks.

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Estimates of Federal government cost savings by use of purchase cards have ranged from \$54 to \$92 per transaction (U.S. General Accounting Office, 1996; Department of Defense, 1998). Government estimates of transaction costs savings in 2003 alone was \$1.4 billion (U.S. Senate, 2004). Further, purchase cards have been found to reduce the time required to process paperwork transaction by 2 to 6 weeks (U.S. General Service Administration, n.d. (b)).

Recognizing the potential positive impact of purchase cards, Federal government agencies have steadily increased their use of purchase cards. To accomplish this spending growth, the government has taken actions to remove legal and administrative barriers to card use, reflecting the priority placed on cards as a best procurement practice.

While the benefits of purchase card use are widely known, incidents of card misuse have undermined support for Federal agency use of purchase cards. For example,

- a Marine Corps lance corporal uses a Pentagon credit card to buy herself a car, motorcycle, and cosmetic surgery, (Sealey, 2003),
- Navy personnel used government credit cards to buy jewelry, gamble and attend sporting events (U.S. General Accounting Office, October 2002a), and
- Agriculture Department employees used government credit cards to pay tuition at bartending school, make a down payment on a car, and buy Ozzy Osbourne tickets, lingerie, and tattoos (Gersema, 2003).

The anecdotal evidence of egregious abuse led some government decision makers to strongly oppose government use of the purchase card. Senator Charles Grassley (R, Iowa), most notable among critics, concluded on the basis of GAO reports that the Department of Defense's (DOD) purchase card program did little more than create "an army, 1.7 million strong, authorized to spend money with no checks and balances. The potential for abuse and fraud is virtually unlimited." He concluded that "Department of Defense credit cards are being taken on shopping sprees, and the cardholders think they are immune from punishment" (U.S. House of Representatives, 2001,

p. 10). Senator Grassley further asserted to the press that charge cards had given the Pentagon a “short-cut to the cash pile” and that Pentagon leaders were “giving everyone a big scoop shovel and telling them to rip into the national money sack at both ends” (Peckenpaugh, 2001).

On the basis of concerns raised by Senator Grassley and several GAO audits, the Office of Management and Budget (OMB) issued a memorandum in April of 2002 to executive branch agencies stating that card misuse identified by the GAO and Inspectors General was unacceptable and required prompt remedial action if the purchase card programs were to continue (U.S. General Accounting Office, 2002c). The memo requested that each agency review the adequacy of internal controls used to manage risk associated with purchase card programs, including an examination of the number of card issued at each agency. The OMB recommended that agencies deactivate all purchase cards at that time and reactivate them selectively for a smaller number of cardholders. Likewise, the Bob Stump National Defense Authorization Act for Fiscal Year 2003 required the Department of Defense (DOD) to take actions to improve the management of the purchase card program (Bob Stump National Authorization Act, 2003).

More recent Congressional legislative efforts reflect a continuing schism over purchase card use within government. On one hand, Senators Collins (R-Maine) and Fiengold (D-Wisconsin) have introduced a bill entitled, “Purchase Card Waste Elimination Act of 2005” which requires the Director of the OMB to issue guidelines to assist executive agencies in *improving* the management of the use of the purchase card and directs agencies to find opportunities to negotiate discounts on commodities often bought with purchase cards and direct agencies to share best practices (Purchase Card Waste Elimination Act, 2005). Further, “card-positive” legislative discussions are taking place to double or triple the \$2,500 purchasing card per transaction spending limit. According to Tom Davis (R-Va), Chairman of the House Government Reform Committee, the \$2,500 limit (unchanged since 1994) no longer enables personnel to buy what is required by government and there is strong justification for an increase (Pulliam, 2005). On the other hand, Senator Charles Grassley is opposed to raising the spending threshold and is reported to have plans to introduce a bill that orders agencies to install tighter internal controls over purchase card use,

including credit checks for cardholders and routine audits of card programs (Pulliam, 2005).

Thus, it appears that, after fifteen years of use by U.S. Federal government agencies, purchase cards are still caught in a debate between the drive to improve governmental efficiency and the need to prudently manage and control spending of taxpayer resources. This paper gives decision makers facts by which to evaluate the purchase card experience to date by providing a brief history of legislative actions related to purchase cards, analyzing patterns of purchase card spending by Federal government agencies, estimating the potential size of the purchase card program, and identifying the costs and benefits of shifting low-value transactions to the purchase card. The paper concludes with recommendations for government action.

OVERVIEW OF PURCHASE CARD ENABLING GOVERNMENT ACTIONS

As shown in Table 1, purchase cards have been the subject of a variety of enabling executive orders, pilot programs, and government memos, regulations, and legislation. This section briefly reviews the significance of these events.

TABLE 1
Government Actions Related to the Purchase Card Program

Government Actions	Year
Executive Order 12,352	1982
Pilot Phase of a Government Commercial Credit Card	1986
Introduction of Government-wide Purchase Card System	1989
National Performance Review (NPR) Recommendations	1993
Federal Acquisition Regulation (FAR) Interim Rule	1994
Federal Acquisition Streamlining Act (FASA)	1994
Executive Order 12,931	1994
Introduction of SmartPay	1998
Office of Management and Budget Memo	2002
Proposed legislation	2005

Executive Order 12,352

The government's interest in purchase cards began on March 17, 1982 as a procurement reform initiative embodied in Executive Order 12,352 issued by President Ronald Reagan. The Executive Order called for Federal Government agencies to reduce administrative costs connected with procurement. A portion of this Order proposed that purchase cards be implemented as part the government's effort to cut the cost of buying goods and services ("Executive Order No. 12,352," 1982).

Pilot Phase of a Government Commercial Credit Card

Three years after Executive Order 12,352, the Department of Commerce requested approval for a pilot program to test the use of a credit card program from the Office of Federal Procurement Policy (OFPP). In 1986, the OMB initiated the pilot program. According to a report issued about the pilot, the agencies found that use of purchase cards was a more efficient way to buy goods and services, primarily because end-users could acquire items directly from vendors instead of running the gauntlet of supporting procurement offices (U.S. General Accounting Office, 1996). The report also indicated that instances of abuse or intentional misuse of the card were negligible and that, in some circumstances,, purchase cards offered the potential to implement controls in areas where insufficient controls had previously existed (Joint Report, 1997).

Introduction of Government-wide Purchase Card System

As a consequence of the positive results of the pilot phase, the General Services Administration (GSA) introduced a government-wide purchase card system through Rocky Mountain BankCard System (RMBCS) in 1989. RMBCS named its government credit card, the "International Merchant Purchase Authorization Card" (I.M.P.A.C.). The GSA and RMBCS established model procedures for credit card use which included management controls for monitoring the program. Despite the potential of increased productivity, the acquisition professionals appeared to resist the introduction of electronic means into their way of doing business and success during the first few years was modest.

National Performance Review and OMB Memorandum

In 1993, the Clinton administration launched the National Performance Review (NPR), later known as the National Partnership for Reinventing Government. As part of this initiative, Vice President Gore led a 6-month review of the federal government which resulted in a report covering 27 federal agencies and 14 government systems, including procurement information technology, personnel, and budgeting. Among other findings, the Review recommended that all Federal agencies increase use of the cards. At that time, small purchases were defined as purchases of \$25,000 or less. Responding to a recommendation in the NPR, the Office of Federal Procurement Policy took the lead in advancing use of the card through a “pledge” program among members of the Procurement Executives Association in late 1993 (Poole, 2002).¹ The Procurement Executives Association asked members to volunteer managers with the ability to authorize employees to buy small-dollar items directly and to double purchase card spending over a one year period.² By September 1994, the Procurement Executives presented a report to the Director of the OMB, which read, in part - “...by the end of the tenth month (after signing the pledge), [our agencies] had increased purchase card usage by 119%, making 82,000 purchases per month worth almost \$19,000,000... Since starting this project, the ten agencies have made 750,000 purchases faster, better and at less cost with the card. Plus, they report virtually no waste or abuse” (Office of Management and Budget, 1994).

FASA and FAR

On October 13, 1994, Congress passed the Federal Acquisition Streamlining Act of 1994 (Federal Acquisition Streamlining Act of 1994), or FASA. FASA encouraged the use of purchase cards by removing certain restrictions and shifting micro-purchase (purchase transactions of less than \$2,500) authority to personnel other than government procurement professionals. Specifically, FASA reduced restrictions that required purchases from small businesses when certain conditions and competition standards were met and raised the Simplified Acquisition Threshold from \$25,000 to \$100,000. Thus, after FASA micro-purchases could be awarded non-competitively (and acquired via purchase cards) if the item being purchased is a non-recurring purchase of a competitively priced off-

the-shelf item. The rationale is that the benefits in convenience and transaction cost savings will exceed the cost of negotiating, maintaining, and ensuring compliance over small-dollar contracts. Notwithstanding the relaxation in procurement requirements, employees are required to “equitably distribute [purchases not greater than \$2,500] among qualified suppliers” (41 U.S.C. § 428, 2004). As part of FASA implementation, an interim Federal Acquisition Regulation for micro-purchase procedures was issued in December 1994 that identified the purchase card as the *preferred* method for micro-purchases and enabled their use for payments above the \$2,500 threshold (Federal Acquisition Circular, 1994).

Executive Order 12,931

Executive Order 12,931 took FASA a step further, instructing agencies to extend purchase card use and empower program officials with micro-purchase authority. The Order required government agencies “...to expand the use of the Government purchase card by the agency and take maximum advantage of the micropurchase authority provided in the Federal Acquisition Streamlining Act of 1994...” (“Executive Order No. 12,931,” 1994). The order focused on purchases under \$2,500 partly because these category of purchases are more conventional and do not require extensive procurement knowledge, and goods are often available for immediate delivery. The Executive Order had a significant impact because more than 90 percent of Federal government purchase transactions are under \$2,500 and it allowed front-line employees—the users of goods and services—to purchase needed goods and services, eliminating the need for contracting officials to be involved in purchases where their expertise is not required.

SmartPay

In 1998, the IMPAC program was replaced with the current General Services Administration (GSA) purchase card program, entitled “SmartPay.” The SmartPay program enables Federal agencies to choose to do business with any one of five qualified card issuers (Bank of America, Citibank, Bank One, U.S. Bank, and Mellon Bank).

OMB Actions

On April 18, 2002, the OMB issued a memorandum to executive branch agencies stating that card misuse identified by the GAO and Inspectors General was unacceptable and required prompt remedial action if the purchase card programs were to continue. The memo requested that each agency review the adequacy of internal controls used to manage risk associated with purchase card programs, including an examination of the number of card issued at each agency. The OMB recommended that agencies deactivate all purchase cards at that time and reactivate them selectively for a smaller number of cardholders.

Recent Legislative Actions

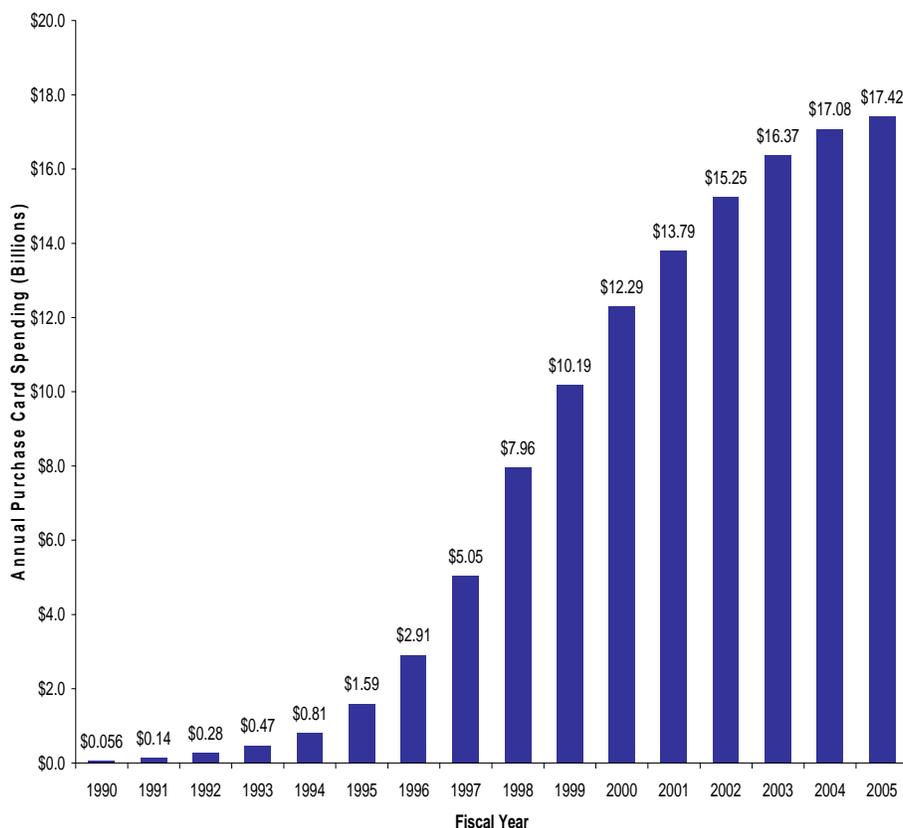
As noted in the Introduction, the Bob Stump National Defense Authorization Act for Fiscal Year 2003 requires the Department of Defense to take actions to improve the management of the purchase card program (Bob Stump National Authorization Act for Fiscal Year 2003; Department of Defense Appropriations Act, 2003). Specifically, the Act required the 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.

Further, a bill entitled the, "Purchase Card Waste Elimination Act of 2005" (S. 457) was introduced in the Senate February of 2005. The bill proposes that the Director of the OMB issue guidelines to assist executive agencies in improving the management of the use of the purchase card and directs agencies to find opportunities to negotiate discounts on commodities often bought with purchase cards and direct agencies to share best practices (Purchase Card Waste Elimination Act, 2005). The Committee on Homeland Security and Governmental Affairs ordered this bill to be report with amendments favorably to the Senate as a whole on June 22, 2005.

ANALYSIS OF PURCHASE CARD SPENDING PATTERNS

As shown in Figure 1, purchase card purchases by the Federal government agencies had grown from \$56 million in 1990 (the first

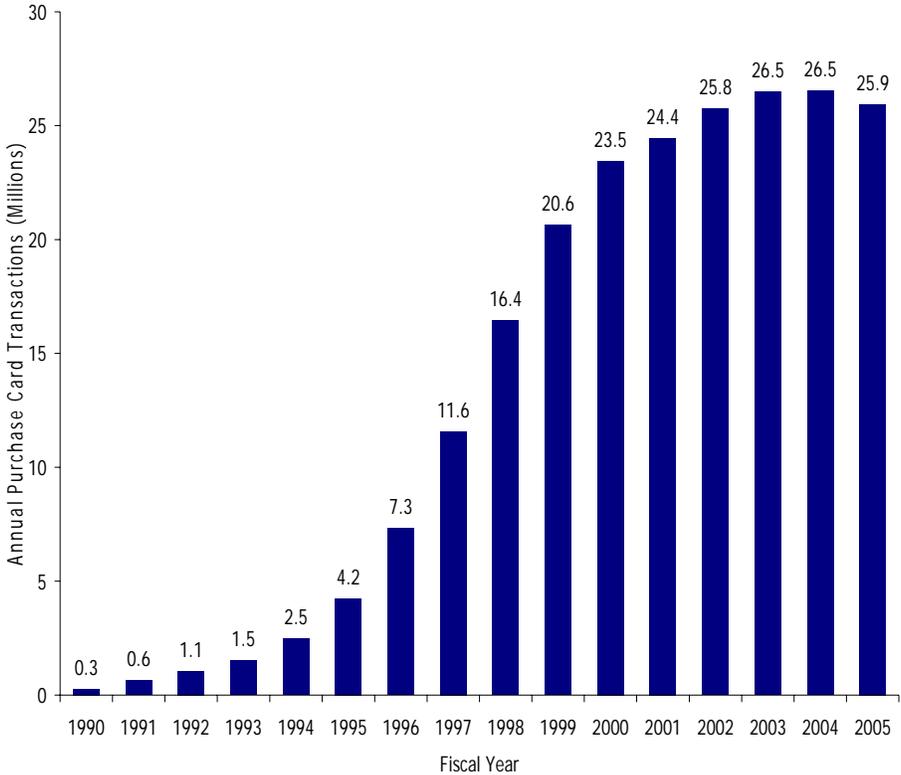
FIGURE 1
Purchase Card Spending by U.S. Federal Government Agencies (in \$ billions): Fiscal Years 1990-2005



Source: U.S. General Services Administration (2006); McHarg (2002).

full year purchase cards were used) to over \$17.4 billion in 2005. Figure 2 shows corresponding growth in the purchase card transactions from 271,000 in 1990 to 25.9 million in 2005. Detail amounts and sources of yearly spending dollars, transactions, budgets, headcount, and cardholder activity are found in the Appendix.

FIGURE 2
Purchase Card Transactions by U.S. Federal Government Agencies:
1990-2005

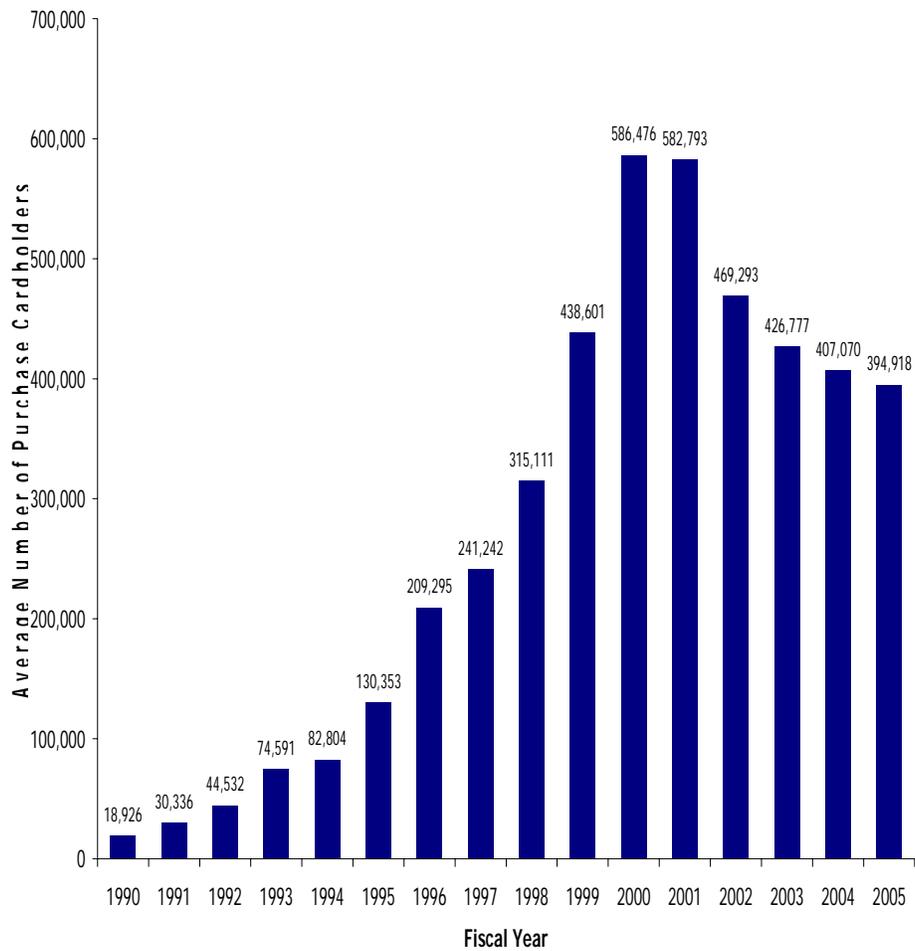


Source: U.S. General Services Administration (2006); McHarg (2002).

Purchase card use by Federal government employees had been encouraged by the distribution of increasing numbers of purchase cards from 1990 through 2000. Figure 3 shows that about 19,000 Federal employees held government credit cards in 1990 when the use of purchase cards began in earnest (U.S. General Service Administration, n.d. (c)). By the year 2000, over 700,000 Federal government employees held purchase cards. Since 2000, the

number of cardholders has steadily declined to its current level of 394,918.³

FIGURE 3
Average Number of Purchase Card Cardholders: 1990-2005

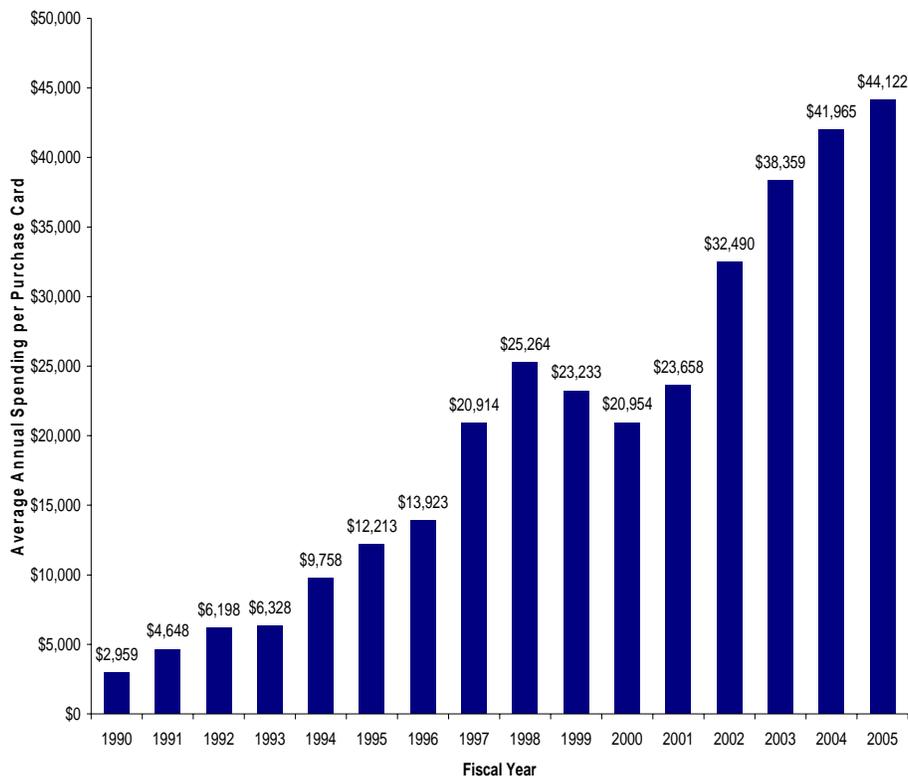


Source: U.S. General Services Administration (2006); McHarg (2002).

SPENDING BEHAVIOR AT THE CARDHOLDER LEVEL

The success of purchase cards as a procurement reform mechanism hinges on their acceptance and utilization by employees. Figure 4 reveals that continued increases in the average amount of annual purchase card spending per card since 2000 (the same year in which the average number of cards distributed throughout government agencies peaked), had risen from \$20,954 in 2000 to more than \$44,000 dollars per year in 2005.

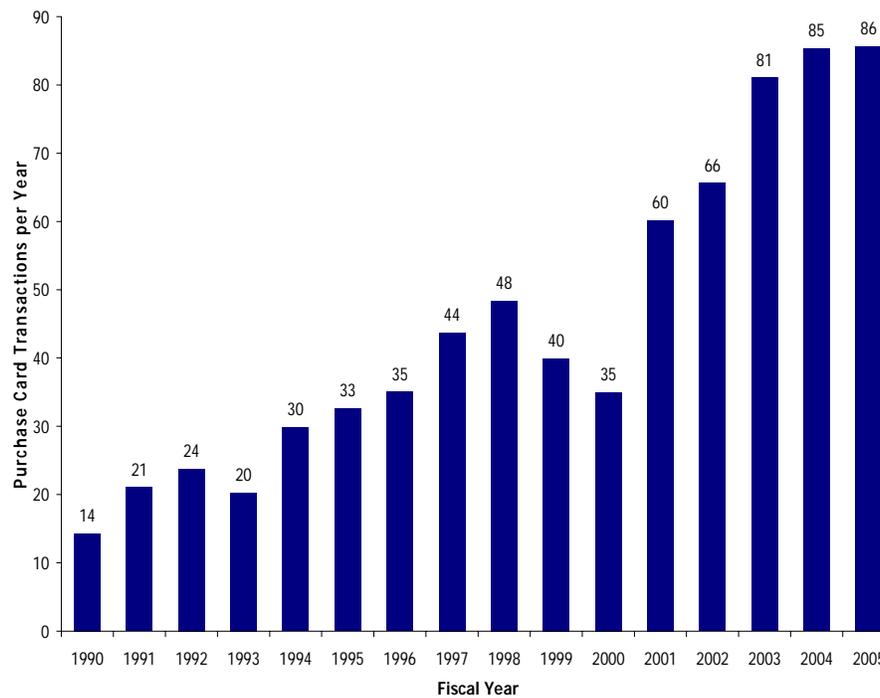
FIGURE 4
Average Annual Purchase Card Spending Per Federal Government Cardholder: 1990-2005



Note: Calculations based on data in Figures 1 and 3.

The average amount spent by a cardholder is a function of two factors: (1) card use (i.e., transactions per card) and the average transaction amount. Figure 5 shows that Federal government employees have increased the number of transactions placed on the purchase card from about 14 per year in 1990 to 86 transactions per year in 2005. In part, the increased number of transactions per card can be attributed to the reduction in the total number of purchase cards distributed throughout the agency as shown in Figure 3. Collectively, government spending on purchase cards continues to go up, but the spending is being directed to increasingly smaller number

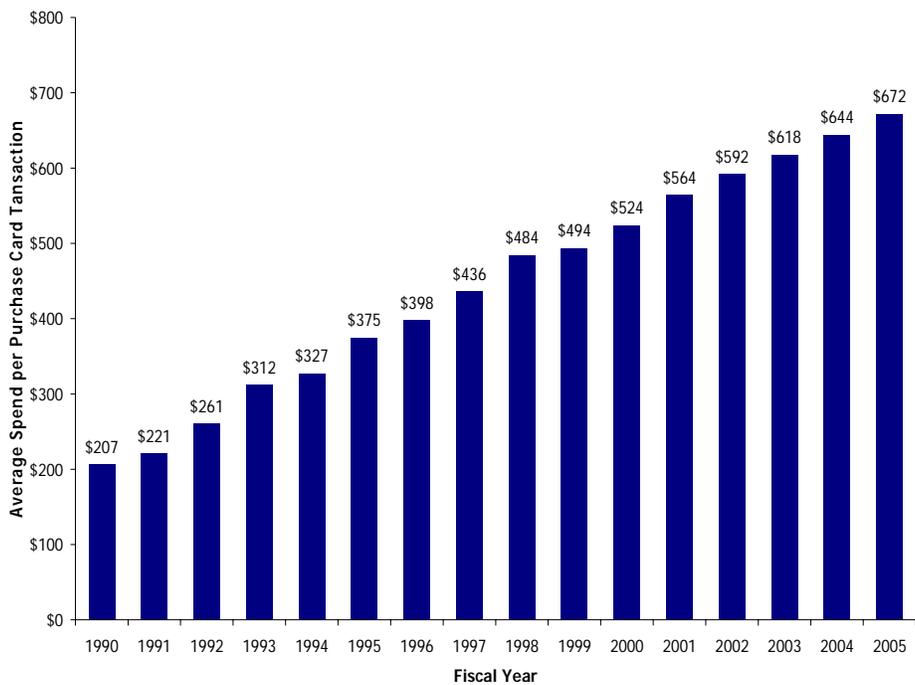
FIGURE 5
Average Number of Transactions per Year per Government Purchase Card: 1990-2005



Note: Calculations based on information found in Figures 2 and 3.

of cards within the organization. Figure 6 reveals that the average “ticket size” of purchase card transactions has also continued in an upward trajectory since card use began, rising from about \$207 in 1990 to \$672 per transaction in 2005.

FIGURE 6
Average Federal Government Agency Spending per Purchase Card Transaction: 1990-2005



Notes: Calculations based on information found in Figures 1 and 2.

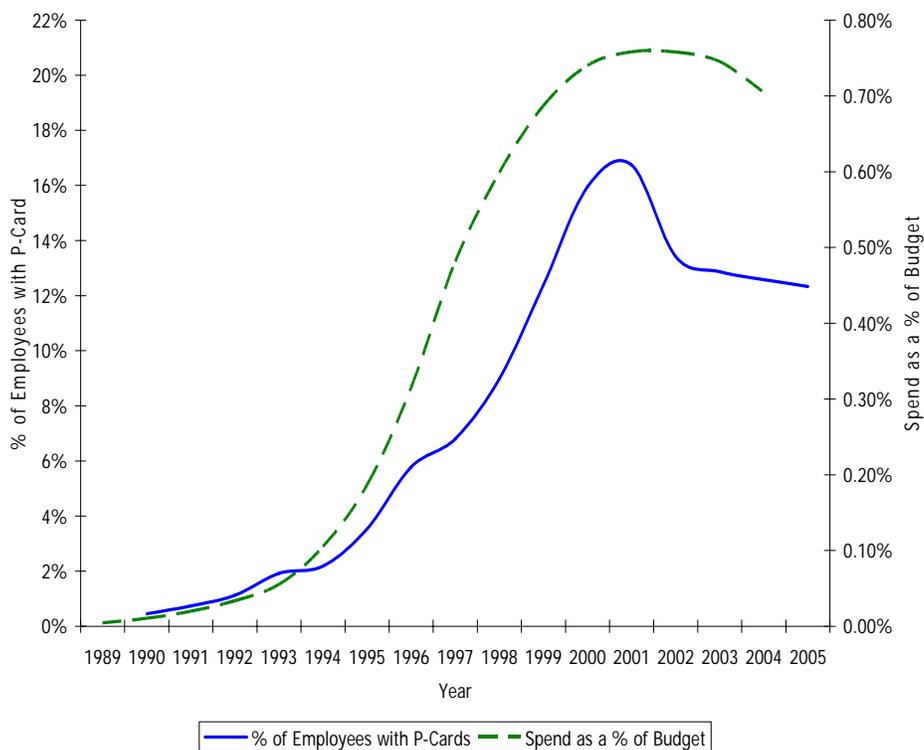
WHAT'S DRIVING SLOWER GROWTH?

While Federal government spending on the purchase card (in total) has grown steadily since 1990, the rate of spending growth has declined, falling from 97% yearly growth in 1994-1995 to the current annual growth of 2%. Further, Figure 2 reveals that the number of

transactions paid by purchasing card dropped for the first time in 2005.

In part, the slower growth of Federal purchasing card spending reflects the natural maturation of purchasing card program. However, there is other evidence suggesting that the purchasing card program is stalled. Figure 7 displays U.S. Federal agency purchase card spending as a percent of total budgeted U.S. spending

FIGURE 7
Purchasing Card-to-Employee and Purchasing Card Spend as a Percent of Budget (Lagged One Year) Ratios: U.S. Government, 1990-2005^c



Note: Calculations shown in Appendix.

(overlaid with the purchase-card-to-employee ratios) for the period 1990-2005.⁴ As shown in the figure, the percentage of the U.S. budget placed on purchasing cards steadily increased from .01% in 1990 to .74% in 2000. Since 2000, the U.S. government has steadily decreased both the number of and percentage of its workforce with purchasing cards. For the first two years of card reduction (2001 and 2002), purchasing card spending as a percentage of the budget continued to grow—though at a much slower pace—peaking at .76% of the U.S. budget in 2002. Since 2002, purchasing card spending as a percent of the budget has slowly declined, falling to its present level of .70% of U.S. Federal spending (with about 12% of Federal employees holding a purchasing card). Thus, the trend presented in the graph implies that the more recent government limitations on employee access to the purchase card may be reducing the percentage of governmental spending shifted to the purchase card.

CARD SPENDING VARIABILITY AMONG AGENCIES AND LOST OPPORTUNITY

Failure to use the purchase card has an opportunity cost which can be best demonstrated by reference to current Federal agency spending data. The right-most column in Table 2 shows purchase card spending as a percent of agency budget across the thirteen largest Federal government agencies in 2005. It is apparent in that column that significant variability exists in purchasing card spending as a percent of agency budget. The Veteran's Administration reports the highest capture of budgeted spending on the purchasing card (7.98%) and the Treasury Department reports the lowest (.03%). Average agency purchase card spending constituted .70% of total agency budget.

The failure of Federal agencies to use the purchase card to its highest potential is costly. Currently, it is estimated that the Federal government saves about \$70 in administrative costs for each of its 25.9 million transactions on the purchasing card, or \$1.8 billion in 2005 alone. If all Federal agencies used purchase cards in a manner similar to the "best in class" agency (the Veteran's Administration, which pays about 8% of budgeted spending by purchase card) then total U.S. government spending on the purchase card would increase eleven-fold—from the current \$17.4 billion to \$198 billion per year. Assuming an average purchasing card transaction amount of \$672

TABLE 2
Key Purchase Card Spending Statistics for Fiscal Year 2005, by Government Agency

Agency	FY 2005 Budgeted Expenditures (in Billions) ¹	Employee Base ¹	P-Card-to Employee Ratio ²	FY 2005 Average Number of P-cards ²	FY 2005 Annual Transactions per P-Card ²	Average P-Card Spend per Transaction	FY 2005 P-Card Spending by Agency	P-card Spend as a % of Agency Budget ³
Department of Veteran's Affairs	\$74.6	236,684	13.2%	31,325	136.64	\$1,391	\$5,953,119,236	7.98%
Department of Defense: Army	\$152.5	399,662	14.3%	57,363	78.82	\$783	\$3,541,314,614	2.32%
Department of Defense: Air Force	\$128.6	284,193	15.7%	44,648	64.36	\$561	\$1,611,265,854	1.25%
Department of Defense: Navy	\$125.9	426,950	4.0%	17,077	127.59	\$708	\$1,542,479,164	1.22%
Department of Defense: Other	\$69.1	98,007	7.0%	6,831	95.89	\$931	\$610,123,675	0.88%
Department of Interior*	\$14.8	69,665	132.2%	92,120	29.69	\$215	\$587,310,526	3.97%
Department of Transportation	\$57.7	55,766	13.4%	7,465	48.50	\$519	\$187,764,348	0.33%
Department of Health & Human Services	\$623.6	60,550	10.4%	6,297	123.44	\$541	\$420,328,517	0.07%
Department of Justice	\$23.3	105,054	11.9%	12,483	73.26	\$693	\$634,028,245	2.72%
Department of Agriculture	\$109.6	98,372	20.2%	19,828	77.56	\$270	\$414,947,079	0.38%
Department of Commerce	\$6.2	39,049	15.4%	5,999	55.36	\$476	\$158,188,188	2.55%
Dept. of Treasury	\$425.3	123,123	8.3%	10,281	34.39	\$323	\$114,168,798	0.03%
USPS	\$70.2	764,029	5.4%	41,503	37.39	\$262	\$406,461,479	0.58%
All Other	\$591.5	441,834	9.4%	41,698	68.56	\$435	\$1,243,000,073	0.51%
Total / Average	\$2,472.9	3,202,938	12.3%	394,918	65.66	\$672	\$17,424,499,796	0.70%

Notes: ¹ Agency civilian headcount data found in United States Office of Personnel Management (2004). Military head count data found in Department of Defense (2005).

² U.S. General Services Administration (2006). The number of cardholders for the Department of the Interior (a one-card program, combining travel and indirect purchases on one card platform) is available at <http://www.gsa.gov/Portal/gsa/ep/programView.do?pageTypeld=8199&oid=11490&programPage=%2Fep%2Fprogram%2FgsaDocument.jsp&programId=10137&channelId=-13503>.

³ Agency budget Federal agency budget data found in Department of the Treasury, Financial Management Service (2006).

(the 2005 norm), this would equate to 294 million transactions shifted to the purchase card and \$20.6 billion in transaction cost savings per year. Even if agencies uniformly shifted a modest 3% of budgeted spending to purchasing cards (a standard already attained by several agencies), administrative cost savings would increase to \$7.7 billion per year. Thus, it appears that the slowdown in the growth of the purchase card spending by Federal agencies is negatively affecting governmental efficiency, resulting in significant lost cost saving opportunity. And, as the saying goes in Washington (widely attributed to Senator Everett Dirksen), "A billion here, a billion there, and pretty soon you're talking real money."

CARD MISUSE

Every type of procure-to-payment process has an inherent risk of error and abuse which the government, through technology and administrative and management activities, attempts to minimize and control. In the case of purchase cards, deficiencies in control activities may provide employees with an opportunity to misuse the purchase card. While anecdotal evidence of card misuse is easy to find, there is no proof that *significant* card misuse exists in the Federal government. The limited research that exists indicates that purchase card misuse in aggregate is very small and below the levels of card misuse found in the private sector. In a survey by Palmer et al., 579 purchase card using organizations reported, in aggregate, that purchase card misuse represented .027% of purchase card spending, or \$270 per \$1 million spent (Palmer, Gupta, & Sprenger, (2007). A preliminary data mining exercise of purchase card spending by the Army, Navy, Air Force and other defense agencies conducted by the Office of the Inspector General at the DOD, found potentially inappropriate purchase card spending in only .12% of transactions, though the percentage varied widely depending on which branch of the military was under consideration (Department of Defense, 2003).

Further, numerous audits of purchase card programs, by both Inspectors General and the GAO, have occurred since 2000, including four civilian (FAA, HUD, VHA, and the Forest Service) and four military (DOD, Army, Navy, and Air Force) agencies.⁵ While these audits turned up numerous issues, nothing in audits leads one to conclude that purchase card programs were failing to deliver benefits to the taxpayer. The most common control weakness reported was a failure

to adequately train, support, and commit resources to program administrators. Indeed, one Inspector General chastised that agency for failing to obtain the benefits associated with purchase card use by poor program management (USAID, 2002).

OTHER BENEFITS LOST

In addition to lost administrative cost savings, reduced purchase card use also diminishes direct cost savings in the form of rebates from card issuers and through use of the amount of information available to the government procurement effort. In 2004, the GSA reported that the Federal government received \$123 million of card issuer rebates on the basis of about \$24 billion of purchase and travel card spending (General Services Administration, 2005).

Notwithstanding this notable benefit, purchase card use offers *far greater* potential benefit for cost savings to the government in the form of information. Specifically, recent efforts by the government have focused on exploiting the information about purchases that flows through the credit card system. This data can be mined to increase understanding of purchasing patterns with vendors across the spectrum of agency operations. That information can be used to leverage price concessions previously unavailable. The GAO (2002a, p. 21) recognized this opportunity when it observed:

The Navy has not proactively managed the purchase card program to identify opportunities for savings. Purchase card sales volume has grown significantly over the last few years with the Navy now using the purchase card to procure nearly \$2 billion a year in goods and services. We believe that the Navy could better leverage its volume of purchases and negotiate discounts with frequently used vendors.

The possibility of integrating card spending information into vendor negotiations and sourcing decisions observed at the Navy led to further government investigation and analysis. In 2004, the GAO reported that if the six agencies it had audited used card information to negotiate discounts of 10% from major vendors, the government could save over \$300 million per year (U.S. General Accounting Office, 2004).

Finally, the benefit from purchase card use will be elevated to a higher level if legislators, the GSA, and card issuers and associations

can create a tighter linkage between card uses and direct reductions in the price paid for goods. In April 2004, Neal Fox of the GSA testified that purchase card use by government employees at 19 stores and 32 catalogs resulted in *immediate* point-of-sale discounts to the agency (U.S. General Accounting Office, 2004a and 2004b). Expanding the program to electronically facilitate and manage vendor discounts holds great potential for directly reducing government costs.

CONCLUSION

Purchase card spending by the U.S. Federal government has been on a steady increase since 1990 to its present level of \$17.4 billion. Yet, recent spending activity indicates that the purchase card is losing momentum as a tool to acquire and pay for low value goods by the U.S. government. The total number of transactions paid for by the purchasing card fell for the first time in fiscal year 2005. Further, purchase card spending as a percent of budgeted expenditures is in its third year of modest decline.

The cost of a poorly utilized purchase card program can be significant. The loss from continuing unnecessary administrative costs alone is likely to be at least \$6 billion per year and arguably as high as \$18 billion per year. Other losses are also significant, including millions in lost rebates, potential savings from the use of card spending data in negotiations with vendors for discounts, and the potential impact of automated point-of-sale discounts on government spending. Based on reports of card abuse to date, it is difficult to construct a scenario in which the cost of card misuse is anything other than an insignificant fraction of the overall benefits of card use. While all card misuse is unacceptable and should be rooted out and dealt with, there is no good economic rationale for overly restricting a tool that is saving government and taxpayer's money.

The evidence provided in this paper indicates that (collectively) the U.S. Federal Government purchase card program is a large, but stalled, program. The drastic reduction in the number of purchase cards appears to be an over-correction to negative press, and that some of the actions taken are undermining efforts to improve efficiency. Nevertheless, the potential for the Federal agency purchasing card programs remains great. New methods, procedures

and technology to promote controlled growth of purchase card spending are unfolding in the marketplace. For example, the Navy has prototyped and is expanding powerful data-mining capabilities, which are powerful computer search algorithms that examine cardholder spending data to screen for and identify high-risk card transactions for subsequent investigation.⁶ These and other advances in both electronic and management controls over card spending should be evaluated and applied by Federal agencies to optimize their purchase card programs.

ACKNOWLEDGEMENTS

The authors thank Brandyn Traum, Michael Barnes, and Andreas Geier of Eastern Illinois University for their helpful research support throughout this project.

NOTES

1. The Procurement Executives Association is a group of senior procurement executives from the U.S. Departments of Commerce, Treasury, Interior, Health and Human Services, Transportation, Energy, State, and GSA.
2. Later, other agencies, including the Office of Personnel Management (OPM), the Federal Emergency Management Agency (FEMA), the Drug Enforcement Agency (DEA), and Federal Prison Industries, joined in the effort. An interagency work group, the Purchase Card Council, was chartered to lead the effort under the Treasury Department.
3. Note that most reviews of purchase card spending do not count the 92,120 cards used by the Department of Interior as purchase cards because they are “multi-purpose” in nature (used for both travel and other goods). Since most spending on multi-purpose cards is for “purchase card” type purchases (e.g., indirect materials, office supplies), we believe this undercounts purchase cards at play in the U.S. government.
4. Details of calculations in Figure 7 can be found in the Appendix.
5. GAO reports related to agency purchase card audits can be found at <http://www.gpoaccess.gov/gaoreports/index.html>.

6. See U.S. General Accounting Office (2003, p.10).

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APPENDIX
Federal Government Purchase Card Spending Statistics: 1990-2005¹

Fiscal Year	(A) ¹	(B) ²	(C) = D/B	(D) ³	(E) = I/D	(F) = H/D	(G)	(H)	(I)	(J) = H/D
1990	\$1,253	4,194,681	0.45%	18,926	14.3	\$2,959	\$207	\$56,313	271,000	0.004%
1991	\$1,324	4,123,854	0.74%	30,336	21.1	\$4,648	\$221	\$140,735	639,000	0.01%
1992	\$1,382	3,960,316	1.12%	44,532	23.8	\$6,198	\$261	\$275,574	1,059,000	0.02%
1993	\$1,409	3,876,816	1.92%	74,591	20.3	\$6,328	\$312	\$472,103	1,512,000	0.03%
1994	\$1,462	3,794,342	2.18%	82,804	29.8	\$9,758	\$327	\$808,473	2,471,000	0.06%
1995	\$1,516	3,686,257	3.54%	130,353	32.6	\$12,213	\$375	\$1,591,774	4,248,000	0.11%
1996	\$1,561	3,621,878	5.78%	209,295	35.0	\$13,923	\$398	\$2,914,369	7,328,000	0.19%
1997	\$1,601	3,545,719	6.80%	257,991	44.9	\$19,556	\$436	\$5,044,587	11,573,616	0.32%
1998	\$1,653	3,507,384	8.98%	334,667	49.1	\$23,787	\$484	\$7,959,127	16,447,721	0.48%
1999	\$1,702	3,542,158	12.38%	510,080	40.5	\$19,977	\$494	\$10,189,960	20,635,328	0.60%
2000	\$1,789	3,674,778	15.96%	724,783	32.4	\$16,955	\$524	\$12,288,744	23,457,456	0.69%
2001	\$1,863	3,480,561	16.74%	582,793	41.9	\$23,658	\$564	\$13,787,669	24,443,850	0.74%
2002	\$2,011	3,499,112	13.41%	469,293	54.9	\$32,490	\$592	\$15,247,502	25,752,314	0.76%
2003	\$2,160	3,315,273	12.87%	426,777	62.1	\$38,359	\$618	\$16,370,886	26,494,400	0.76%
2004	\$2,292	3,236,833	12.58%	407,070	65.2	\$41,965	\$644	\$17,082,563	26,523,928	0.75%
2005	\$2,473	3,202,938	12.33%	394,918	65.7	\$44,122	\$672	\$17,424,500	25,931,575	0.70%

Notes: ¹ Department of the Treasury Financial Management Service (2006).

² Agency headcount data found United States Office of Personnel Management (2006). Military head count data found Department of Defense (2006).

³ U.S. General Services Administration (2006); McHarg (2002); Department of the Interior (2006).

Column (A) = Budget (Billions of Dollars); Column (B) = Total Civilian & Military Head Count; Column (C) = % of Work-force with P-Cards; Column (D) = Average Number of Card-holders for Year Ended; Column (E) = Annual Transactions per Card; Column (F) = Annual Spending per Card; Column (G) = Purchase Card Spending per Transaction; Column (H) = Total Annual Purchase Card Spending (In \$1,000); Column (I) = Total Annual Purchase Card Transactions; Column (J) = Purchase Card Spending as a % of Agency Budget.