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Report to Congressional Requesters

March 2004

CONTRACT MANAGEMENT

Agencies Can Achieve Significant Savings on Purchase Card Buys

GAO-04-430

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GAO Accountability • Integrity • Reliability

Highlights

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

Why GAO Did This Study

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

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

What GAO Recommends

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

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

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

What GAO Found

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

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

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Abbreviations

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

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United States General Accounting Office
Washington, DC 20548

March 12, 2004

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

The Honorable Russell D. Feingold
United States Senate

The Honorable Janice Schakowsky
House of Representatives

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

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

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

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

We examined purchase card program management practices at eight federal agencies that account for over 85 percent of the government's purchase card spending: the Departments of Agriculture; the Interior; Justice; Transportation; Veterans Affairs; and within the Department of Defense (DOD), the Departments of the Army, Navy, and Air Force.[2] In addition, we reviewed selected fiscal year 2002 purchase card transactions, at or below the micropurchase level, with major vendors at the eight agencies and compared prices paid to prices available through the General Services Administration's (GSA) Federal Supply Schedule (Schedule)[3] and telecommunications contracts. Although these transactions were selected at random from the population of micro-purchase[4] transactions with vendors having the highest purchase card sales at the eight agencies, we cannot project the results to the population of transactions governmentwide. We also engaged the Dun and Bradstreet Corporation to perform a spend analysis of the Interior Department's fiscal year 2002 purchase card transactions to illustrate how a detailed analysis could begin to identify opportunities for purchase card savings. We conducted our work in accordance with generally accepted government auditing standards. For more information on our scope and methodology, see appendix I.

Results in Brief

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

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

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

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

hundreds of major vendors—those with whom an agency spent $1 million or more using the purchase card. Some discount agreements did not cover the full range of products cardholders purchased from the vendors. In addition, most agency training has appropriately focused on internal controls, but the training has not focused on incorporating practical information to help cardholders take advantage of existing discount agreements or Schedule contracts. Consequently, we found that some cardholders paid higher prices than necessary. For example, hundreds of Interior Department purchase card transactions with three major office supply vendors were for a particular model of ink cartridge, but most of these purchases were made at prices higher than the vendors' Schedule prices. The experience of some agencies demonstrates agencies can achieve significant savings on purchase card buys. For example, the Agriculture Department negotiated a discount agreement for office supplies that yielded savings of $1.8 million—or about 10 percent off Schedule contract prices—during fiscal year 2003. Interior recently negotiated agreements with information technology vendors that give cardholders discounts of up to 35 percent off Schedule prices. If the agencies we reviewed negotiated and properly executed agreements providing discounts of just 10 percent off of Schedule prices with the major purchase card vendors from whom they currently buy in volume, a conservative approach indicates that $300 million in savings could be realized annually.[5]

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

[5] See appendix I, "Scope and Methodology."

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

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

Background

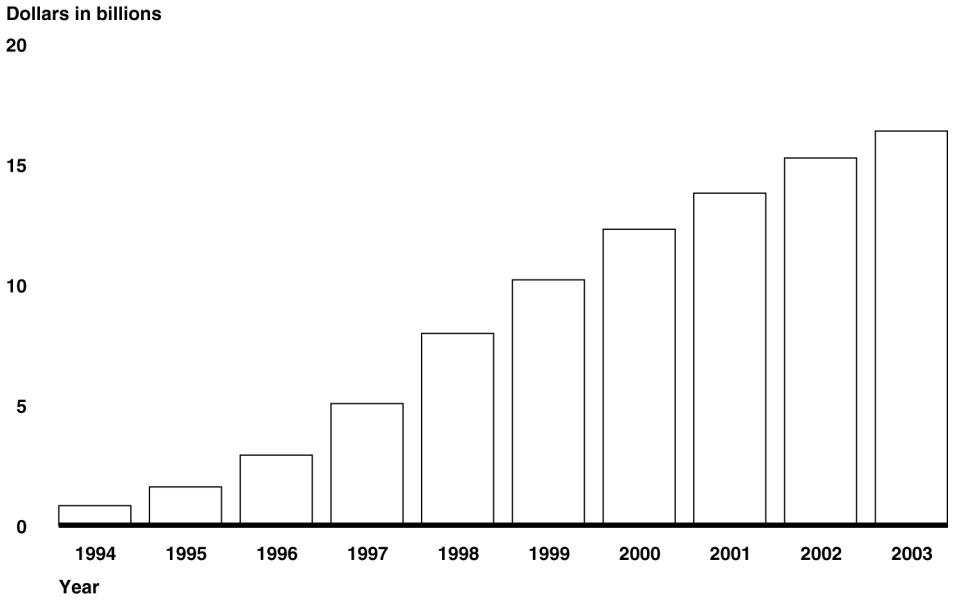
Through the purchase card program, agency personnel can acquire the goods and services they need directly from vendors. GSA, which manages the purchase card program governmentwide, has awarded contracts to banks to provide standard commercial charge cards for use by federal employees. When GSA first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

[6] P.L. 103-355, Sec. 4301.

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

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

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



Source: GSA.

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

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

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

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

Source: GSA, GAO analysis.

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

[b]Does not include about $2.7 billion in purchase card transactions under Veterans Affairs' prime vendor program.

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

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

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

Our prior work found that weak internal controls left purchase card use at DOD and several civilian agencies vulnerable to fraud and abuse. The list of Related Products at the end of this report identifies recent work in this area. To address these concerns, Congress has enacted legislation that directs DOD to improve program management by limiting the number of purchase cards, providing appropriate training to purchase card officials and cardholders, monitoring purchase card activity, disciplining cardholders who misuse the purchase card, and assessing the credit worthiness of cardholders.[9] We recently reported[10] that DOD has taken a number of actions to improve the controls over the purchase card program based on congressional action and our recommendations. To improve management of the purchase card program governmentwide, the proposed Purchase Card and Travel Card Accountability Act of 2003[11] would require the Administrator of the Office of Federal Procurement Policy to prescribe a governmentwide policy regarding the appropriate and inappropriate uses of the purchase and travel cards. In addition, the proposed Credit Card Abuse Prevention Act of 2003[12] would require civilian agencies to promulgate regulations to establish safeguards and internal controls to prevent fraud, misuse, and abuse.

[9] Bob Stump National Defense Authorization Act for Fiscal Year 2003, P.L. 107-314, Sec. 1007; Department of Defense Appropriations Act, 2003, P.L. 107-248, Sec. 8149 as amended by Department of Defense Appropriations Act, 2004, P. L.108.87, Sec.8144.

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

[11] H.R. 3165, Sec. 2.

[12] H.R. 3329, Sec. 2(b)(c).

Agencies Generally Have Not Taken Advantage of Opportunities to Obtain Savings

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

Scope and Coverage of Negotiated Discount Agreements Varied

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

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

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

Source: GAO analysis of bank-provided data.

[a]Does not include about $2.7 billion in purchase card transactions under Veterans Affairs' prime vendor program.

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

- The Army did not follow a competitive process awarding office supply discount agreements, but simply negotiated agreements with 12 office supply vendors that expressed interest in doing business with the Army. However, according to the results of an Army survey, cardholders found that the selected vendors offered high prices and poor service. The Army is now pursuing a formal competitive approach to establish new agreements that will replace the existing agreements.

- Agriculture competitively awarded a discount agreement with an office supply vendor–and points to $1.8 million in savings in fiscal year 2003 as a result–but the agreement does not establish a specific expiration date. Because the benefits of the initial competition may not continue indefinitely, Agriculture cannot be assured that the agreement will continue to be the most advantageous source for office supplies.

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

- The agencywide Veterans Affairs discount agreements that we examined covered single products or product types–specimen containers, bandages, or washcloths–instead of the vendors' full product line. Estimated sales for the agreements we reviewed were relatively low, ranging from $27,000 to $1.6 million. According to agency officials, the intent of the agreements was to standardize specific products or product types throughout the agency, not to pursue savings from a vendor's entire product line. Veterans Affairs has identified its highest dollar value products and is standardizing these items to achieve savings.

- The Army's discount agreement with an information technology vendor covered only selected models of desktop and laptop computers and accessories and upgrades for these models. We found that one cardholder had bought computer accessories that were covered under the discount agreement, which provided cardholders a discount of about 29 percent off the vendor's Schedule price. Yet another cardholder bought several monitors that were not covered under the agreement, and this cardholder received no discount. According to an Army official, the discount agreement had been negotiated to cover the items the officials considered users would most likely order.

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

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

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

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

- The Air Force's instruction on the purchase card assigned local program coordinators responsibility for training cardholders on various subjects, such as available sources–including Schedule contracts–that cardholders should consider when making purchases. (The FAR, Section 8.002, identifies a number of sources that government buyers must consider–such as excess agency inventories, non-profit agencies serving people who are blind or severely handicapped, and Schedule contracts. FAR also establishes the priority order in which buyers must consider these sources.) However, the Air Force instruction did not direct the local program coordinators to tell cardholders how to access the Schedule contracts.

- Guidance manuals issued by Agriculture, Interior, Veterans Affairs, and the Army provided Internet addresses for the Schedule program or the GSA Advantage on-line shopping service, but they did not provide additional information on how to access or use these services.

- Veterans Affairs' purchase card program handbook simply stated that cardholders should distribute purchases equitably among qualified suppliers and use required sources when applicable.

- DOD required Army, Navy, and Air Force cardholders to complete a 4-hour Web-based training course. However, the course simply noted that Schedule contracts and other discount agreements negotiated by the cardholder's organization can provide lower prices. While the course also mentioned the GSA Advantage on-line shopping service, coverage of the service was limited to a brief description and a link that allowed students to view the service's main Web page.

- Several civilian agency components told us that they also required cardholders to complete a shorter Web-based training program developed by GSA's purchase card program office. This course, however, simply noted that contracts negotiated by the cardholder's agency can provide good prices, service, and quality, and advised cardholders to check with their local contracting office for more information.

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

- An Agriculture cardholder found that training provided by a Natural Resources Conservation Service state program coordinator was invaluable and enabled him to obtain discounted Schedule prices on the transaction we reviewed. The training discussed discounts available to the agency and included a demonstration of how to register as a federal purchaser with an office supply vendor's on-line ordering system in order to receive Schedule contract prices.

- Another cardholder at Agriculture's Forest Service told us the program coordinator for her regional office had recently provided training that described several office supply vendors that had Schedule contracts and provided information on toll-free numbers and Internet addresses for placing phone and on-line orders with these vendors. According to the cardholder, she has found that these vendor phone and on-line ordering services are convenient and save the government money compared to retail store prices.

- Officials at the Air Force's Air Mobility Command developed an extensive briefing that highlights the importance of comparison-shopping to identify more favorable pricing and introduces the GSA Advantage on-line shopping service as a tool for researching and comparing prices offered by Schedule vendors. The briefing also illustrates how cardholders can achieve savings by providing numerous examples of the varying prices vendors charge for common items at their on-line shopping portals and through their Schedule contracts. Finally, because some cardholders had experienced difficulty using GSA Advantage, the command invited GSA training teams to its installations to explain the features of GSA Advantage and demonstrate how to use the system. Command officials told us that in addition to providing cardholders with practical tools to help them be effective buyers, the enhanced training increased cardholder awareness of the importance of comparison-shopping.

Lacking Information, Cardholders Paid More Than Necessary

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

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

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

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

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

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

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

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

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

- An Army cardholder purchased office supplies through a vendor's retail store, where prices were 20 percent higher than those under the same vendor's Schedule contract. The cardholder told us that while she had not actually checked Schedule prices she had believed that the retail store prices were generally lower than Schedule prices.

- An Agriculture cardholder purchased an item through an information technology vendor's federal Internet site, assuming that he would receive discounted Schedule contract prices. However, to obtain these discounts, customers must access a specific section of this vendor's federal Internet site–a step the cardholder was not aware of and did not complete. As a result, the cardholder paid about 20 percent more than Schedule contract prices for the item.

- An Air Force cardholder told us that a co-worker had checked the Schedule prices for certain information technology items before he ordered the items to ensure that he was paying reasonable prices. Despite this, the vendor he ordered the items from offered them under a Schedule contract for 7 percent less than the cardholder paid.

- An Interior cardholder purchased office supplies through a vendor's retail store and paid prices 20 percent higher than prices under the same vendor's Schedule contract. The cardholder told us that she had checked Schedule prices for the items before making this purchase, and recalled that the Schedule prices had been about the same or somewhat higher than prices at the retail store.

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

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

Experience at Some Agencies Suggests Significant Savings Are Possible

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

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

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

Lack of Management Focus Has Limited Efforts to Capture Savings

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

opportunities for small businesses and purchasing products manufactured by non-profit agencies for the blind or severely handicapped (referred to as "JWOD" products)[13]—with efforts to get better purchase card prices. Finally, officials noted that little detailed information is available on the specific products and services purchased through the purchase card, hampering efforts to analyze trends in order to achieve more savings. Although agency officials consistently identified these challenges, our review suggests that the challenges are not insurmountable, as evidenced by individual agency initiatives to address them.

Agencies and OMB Have Not Focused on Opportunities for Savings

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

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

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

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

Steps to Capture Savings Need Not Burden Cardholders

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

- The Army had in place 12 mandatory discount agreements for office supplies and required cardholders to purchase office supplies through an on-line shopping service known as "DOD e-Mall." According to the results of an Army survey, cardholders perceived this service as customer unfriendly and as requiring too much effort to place simple orders, and many bought office supplies through other channels. All stakeholders are now committed to making the service easier to use.

- One Interior cardholder found that receiving orders from national office supply vendors under a Schedule contract was unpredictable because the vendors used a next-day delivery express service that did not visit the cardholder's remote, mountainous location on a daily basis. The cardholder now buys office supplies at a retail store in a town about 45 miles from her location.

- An Air Force cardholder was on a travel assignment near Canterbury, England and needed supplies to complete his mission assignment. Because he needed the supplies urgently, and was not aware of any sources that offered Schedule contract discounts at his location, he purchased the supplies through a retail store.

- A Transportation cardholder normally takes advantage of Schedule prices when purchasing supplies to restock the vessel he is responsible for. However, the cardholder told us that if the vessel is about to depart on patrol and supplies are low, he makes purchases at a local retail store to ensure the vessel is fully stocked before it sails.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Conclusions

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

Recommendations for Executive Action

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

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

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

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

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

- continue efforts to improve reporting by the banks that provide purchase cards so that GSA will have the data it needs—including basic information such as top vendors and level 3 data where feasible—to assist agencies in effectively identifying opportunities to leverage their purchasing power;

- work with GSA's acquisition center contracting officers to pursue point-of-sale discounts with large vendors; and

- as part of the existing cross-agency forums for purchase card discussions, encourage agencies to share information on their successes in leveraging the purchase card to obtain better prices as well as strategies for overcoming challenges that could hinder agencies' ability to achieve purchase card savings.

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

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

- coordinate negotiation activities within the department to reduce duplication of effort, and
- ensure that agreements appropriately support agencies' efforts to meet governmentwide socioeconomic requirements.

- Revise programs for communicating with cardholders to ensure that the programs provide cardholders the information they need to effectively take advantage of mechanisms the agency has established to achieve savings. Such information would include telling cardholders about
  - the GSA Schedule contracts or agency-specific agreements chosen as vehicles for leveraging the agency's buying power, and
  - procedures cardholders should follow to access and use these vehicles when they plan to make a purchase from these vendors.

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

Agency Comments and Our Evaluation

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

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

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

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

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

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

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

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

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

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

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

David E. Cooper
Director
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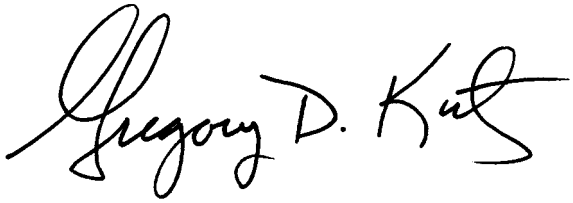

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Director
Financial Management and Assurance

Appendix I: Scope and Methodology

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix II: Comments from the Department of Defense

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

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION, TECHNOLOGY AND LOGISTICS

MAR 0 1 2004

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

Dear Mr. Kutz:

This is the Department of Defense (DoD) response to the GAO draft report, "CONTRACT MANAGEMENT: Agencies Could Achieve Significant Savings on Purchase Card Buys," dated February 9, 2003 (GAO Code 192082/GAO-04-430). Enclosed are DoD's detailed comments regarding the three recommendations on pages 25 and 26 of your draft report.

My point of contact for this report is Mr. Dennis Hudner, 703-681-3315 or dennis.hudner@saalt.army.mil. We appreciate the opportunity to review and comment on your findings.

Sincerely,

for Deidre A. Lee
Director, Defense Procurement
and Acquisition Policy

Enclosure:
As stated

GAO DRAFT REPORT DATED FEBRUARY 9, 2004
GAO-04-430 (GAO CODE 192082)

"CONTRACT MANAGEMENT: AGENCIES COULD ACHIEVE SIGNIFICANT SAVINGS ON PURCHASE CARD BUYS"

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS

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

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

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

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

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

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

Appendix III: Comments from the General Services Administration

GSA

GSA Administrator

March 3, 2004

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

Dear Mr. Walker:

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

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

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

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

Sincerely,

Stephen A. Perry
Administrator

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

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

Appendix IV: Comments from the Department of the Interior

United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, D.C. 20240

FEB 27 2004

Mr. David Cooper
Director, Acquisition and Sourcing
Management
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Cooper:

Thank you for providing the United States Department of the Interior (DOI) with the opportunity to review and comment on the General Accounting Office's (GAO) draft report entitled, *Contract Management: Agencies Could Achieve Significant Savings On Purchase Card Buys* (GAO-04-430, February 2004).

Enclosed for your consideration and possible inclusion in the final report are our comments on the draft report's findings and recommendations.

Thank you again for providing us with the opportunity to comment on the draft report. If you have any questions regarding our response, please contact Debra Sonderman, Director, Office of Acquisition and Property Management on 202-208-6352.

Sincerely,

P. Lynn Scarlett
Assistant Secretary – Policy,
Management and Budget

Enclosure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix V: Comments from the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

March 1, 2004

Mr. David Cooper, Director
Acquisition and Sourcing Management Team
Mr. Greg Kutz, Director
Financial Management and Assurance Team
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Messrs. Cooper and Kutz:

The Department of Veterans Affairs (VA) has reviewed your draft report, ***CONTRACT MANAGEMENT: Agencies Could Achieve Significant Savings On Purchase Card Buys*** (GAO-04-430) and agrees with your findings. VA also concurs with those report recommendations that are directed specifically to VA for action.

VA is recognized within the Federal community as a leading user and effective manager of the Department's credit card program. VA continues to take actions internally and with other agencies, commercial vendors, and the credit card industry to ensure ongoing improvement. VA supports the General Accounting Office's findings overall and agrees with the report's focus on cost savings potential through efforts to obtain best pricing. As an example of VA's efforts in this area, VHA's Office of Clinical Logistics (CLO) was created to lead VHA in establishing efficient, cost-saving procurement processes in all areas of medical purchasing. The CLO office works closely with VA's Office of Acquisition and Materiel Management to ensure consistent acquisition policy.

The enclosure provides comments specific to those recommendations directed to VA as well as comments to those recommendations directed to the Office of Management and Budget and the General Services Administration. The Department also shares information on challenges VA faces in achieving its goal of obtaining best pricing.

I appreciate the opportunity to review and comment on your draft report.

Sincerely yours,

Anthony J. Principi

Enclosure

Enclosure

THE DEPARTMENT OF VETERANS AFFAIRS COMMENTS
TO GAO DRAFT REPORT
CONTRACT MANAGEMENT: Agencies Could Achieve Significant Savings on Purchase Card Buys
(GAO-04-430)

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

- **Develop mechanisms that provide card holders more favorable pricing from major vendors or for key commodity groups, such as agency-wide discount agreements with major vendors or simpler mechanisms that capitalize on trade discounts offered by local merchants. In designing such mechanisms, purchase card program managers should consider the need to:**

  1. **Take full advantage of competitive forces to assure the most favorable prices;**
  2. **Ensure that agreements cover an adequate range of the products cardholders are likely to buy;**
  3. **Coordinate negotiation activities to reduce duplication of effort; and**
  4. **Ensure that agreements appropriately support agencies' efforts to meet governmentwide socioeconomic requirements.**

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

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

THE DEPARTMENT OF VETERANS AFFAIRS COMMENTS
TO GAO DRAFT REPORT
CONTRACT MANAGEMENT: Agencies Could Achieve Significant Savings on Purchase Card Buys
(GAO-04-430)
(Continued)

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

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

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

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

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

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

THE DEPARTMENT OF VETERANS AFFAIRS COMMENTS
TO GAO DRAFT REPORT
CONTRACT MANAGEMENT: Agencies Could Achieve Significant Savings on Purchase Card Buys
(GAO-04-430)
(Continued)

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

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

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

* * * * *

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

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

THE DEPARTMENT OF VETERANS AFFAIRS COMMENTS
TO GAO DRAFT REPORT
CONTRACT MANAGEMENT: Agencies Could Achieve Significant Savings on Purchase Card Buys
(GAO-04-430)
(Continued)

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

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

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

Appendix VI: Information on Purchase Card Expenditures

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

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

Source: GAO analysis.

[a]Less than 0.1 percent.

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

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

Source: GAO analysis.

[a]Less than 0.1 percent.

[b]Exceeds 100 percent due to rounding.

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

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

Source: GAO analysis.

[a]Less than 0.1 percent.

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

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

Source: GAO analysis.

[a]Less than 0.1 percent.

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

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

Source: GAO analysis.

[a]Less than 0.1 percent.

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

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

Source: GAO analysis.

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

Appendix VII: GAO Contacts and Staff Acknowledgments

GAO Contacts

John Kelly (202) 512-6926
Michele Mackin (202) 512-4309

Acknowledgments

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

Related GAO Products

Products concerning purchase card internal controls:

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

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

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

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

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

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

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

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

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

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

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

Products concerning strategic purchasing:

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

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