

December 2002

CONTRACT MANAGEMENT

Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants



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Why GAO Did This Study

Government purchase cards have streamlined the process of acquiring goods and services by allowing employees to purchase directly from merchants rather than going through the regular procurement process. The government spent \$13.8 billion using purchase cards in fiscal year 2001. However, the government does not know how purchase card spending impacts small businesses and other socio-economic categories, such as woman-owned small businesses, and small disadvantaged businesses. Because of these uncertainties, the General Services Administration (GSA), which administers the purchase card program, has begun to collect socioeconomic data on merchants doing business with the federal government through purchase cards. This report assesses GSA's efforts and identifies the challenges to collecting and reporting this data.

What GAO Recommends

We recommend that the Administrator of GSA (1) clarify the socioeconomic information requested from banks and payment card associations and ensure the data is consistent, and (2) specify a disciplined approach for identifying sources of socioeconomic data. GSA agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-56.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Dave Cooper at (202) 512-4841 or cooperd@gao.gov.

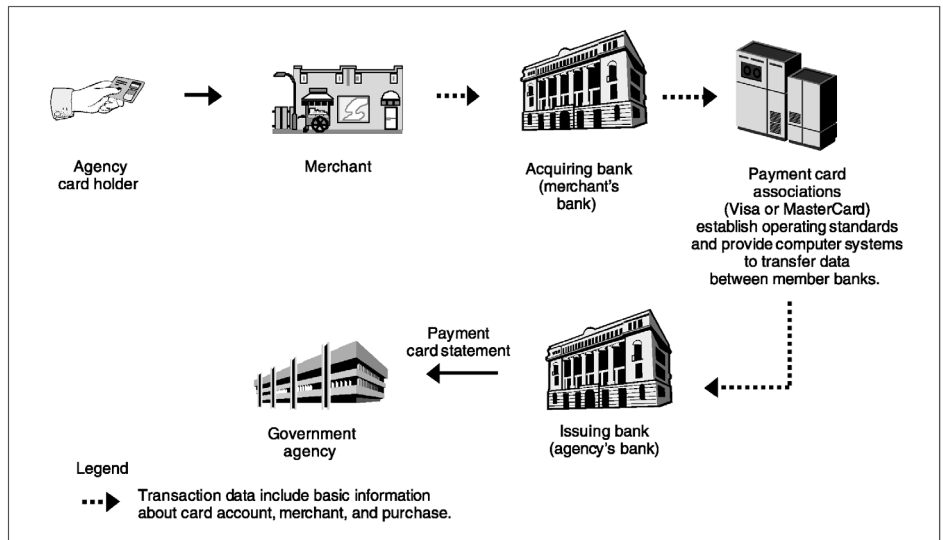
What GAO Found

GSA's effort to collect socioeconomic data in fiscal year 2001 was ineffective because of incomplete, inconsistent, and, therefore, unreliable data gathered by banks and payment card associations on behalf of GSA. The data were inconsistent primarily because GSA did not precisely define criteria for the information it was seeking from the banks. Therefore, no meaningful conclusions can be drawn at this time about where agencies spend purchase card dollars or the effect of purchase cards on small businesses. Nevertheless, GSA has been working with the Small Business Administration, the Department of Defense, and the private sector to develop strategies to improve the data's reliability. By building on the lessons learned in its initial attempt to collect the data, GSA hopes to produce more reliable socioeconomic data for future fiscal years.

We identified several challenges that prevent GSA from gathering data on 100 percent of the merchants doing business with the federal government. These challenges stem from the nature of the purchase card transaction processing system, which focuses on the data needed to ensure that the merchant is paid and the cardholder's account is charged. It is not designed to collect socioeconomic data for the government.

Despite the challenges that prevent the collection of socioeconomic data on all purchase card merchants, well-defined criteria and consistent use of available data sources would provide decisionmakers with a clearer picture of the extent to which small businesses are receiving federal dollars through purchase cards.

Overview of the Purchase Card Transaction Data Flow



Source: GAO analysis.

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Abbreviations

DOD	Department of Defense
FPDS	Federal Procurement Data System
GSA	General Services Administration
NAICS	North American Industrial Classification System
SBA	Small Business Administration



United States General Accounting Office
Washington, DC 20548

December 13, 2002

The Honorable John F. Kerry
Chairman
The Honorable Christopher S. Bond
Ranking Minority Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Donald A. Manzullo
Chairman
The Honorable Nydia M. Velázquez
Ranking Minority Member
Committee on Small Business
House of Representatives

The amount of money spent on goods and services via government purchase cards has increased rapidly over the past decade. In fiscal year 2001, the federal government spent \$13.8 billion in transactions using government purchase cards for individual purchases—the vast majority of which are under \$2,500—and for payment on existing contracts. Purchase cards streamlined the process of acquiring goods and services by authorizing a broad range of government employees to purchase directly from merchants¹ rather than going through the regular procurement process. However, because the government does not collect detailed socioeconomic data on purchase card expenditures and cannot accurately determine the share of such expenditures going to small businesses, the impact of purchase cards on small businesses is unknown. Currently, individual purchase card transactions are not counted toward achievement of the annual governmentwide goal of awarding 23 percent of prime contract dollars to small businesses.²

¹ We are using the term “merchant” to refer to all suppliers of goods and services procured by the government using the purchase card.

² The Small Business Reauthorization Act of 1997 directed the President to establish a goal of not less than 23 percent of the federal government’s prime contracting dollars to be awarded to small businesses for each fiscal year. The federal government did not meet this goal in fiscal years 2000 or 2001.

Federal agencies, along with the congressional small business committees, would like to capture data on purchase card merchants to track the amount of spending that is going to small businesses. They believe that better data would enable decisionmakers to assess the impact of purchase card policies on small businesses. In October 2001, the General Services Administration (GSA), which administers the purchase card program, took steps to collect socioeconomic data on merchants doing business with the government through purchase cards during fiscal year 2001. The Department of Defense (DOD), payment card associations (MasterCard and Visa), and the five banks under contract with GSA as card issuers³ also participated in GSA's effort.

Because of the uncertainties about the impact of purchase cards on small businesses, you requested that we (1) assess GSA's governmentwide efforts to collect data on the socioeconomic status of merchants and (2) identify the challenges to collecting and reporting the data. You also asked us to verify the information collected by the banks and payment card associations by means of a survey. However, due to the lack of basic data on many purchase card merchants, we determined that such a survey would not be feasible. Our scope and methodology section sets forth our rationale in greater detail (see app. I).

Results in Brief

GSA's effort to collect socioeconomic data on purchase card merchants for fiscal year 2001 was ineffective due to inconsistent and incomplete—and therefore unreliable—data. Thus, it is impossible to come to any meaningful conclusions about the distribution of purchase card dollars based on that effort. Due to GSA's lack of clear definitions and guidance for the collection of socioeconomic data, the banks and payment card associations—MasterCard and Visa—interpreted the initial data request differently and reported the data inconsistently. In addition, payment card associations were unable, in many cases, to collect complete and reliable information from the available sources of socioeconomic data. Since May 2002, GSA has taken a number of steps to improve the data it collects from banks and associations. For example, GSA has hosted several working meetings with officials from the Small Business Administration (SBA), DOD, the Office of Management and Budget's Office of Federal Procurement Policy, and the private sector to develop strategies to

³ Bank of America, Bank One, US Bank, Mellon Bank, and Citibank have contracts with GSA to issue purchase cards.

improve the data's reliability. GSA hopes to collect more reliable socioeconomic data on purchase card merchants for future fiscal years.

Notwithstanding the ongoing efforts to improve the reliability of the data, inherent challenges will limit the government's ability to gather data on 100 percent of the merchants. These challenges suggest that complete socioeconomic information cannot be captured for all of the purchase card merchants. The data captured by the transaction processing systems focus on information needed to ensure that the merchant is paid and the cardholder's account is charged. Challenges to collecting data include:

- GSA's contract with the card-issuing banks cannot ensure collection of socioeconomic data on purchase card merchants.
- A purchase card transaction between the government and a merchant does not establish a contractual relationship that requires the merchant to provide socioeconomic data, and, in fact, a significant number of merchants are not reporting such data. Attempts by government agencies, banks, and payment card associations to collect socioeconomic data directly from merchants have produced poor results.
- According to banks and payment card associations, banks do not generally collect socioeconomic data when merchants apply to accept payment cards, because the banks are concerned about possible discrimination complaints as well as client privacy.

While these challenges suggest that the government cannot capture complete socioeconomic data on all purchase card merchants, our recommendations to GSA focus on steps that can provide more consistent and complete data on those merchants whose information is retrievable. In comments on a draft of this report, GSA concurred with our recommendations. We also received comments from SBA, the Office of Federal Procurement Policy, Visa, Mastercard, the three largest card-issuing banks, and Austin-Tetra, a private sector firm, none of which disagreed with our findings.

Background

The Federal Acquisition Streamlining Act of 1994 established a micropurchase threshold of \$2,500. Purchases that do not exceed the threshold are not subject to the Small Business Act reservation requirement,⁴ may be made without obtaining competitive quotations (if the price is reasonable), and may be made by authorized government employees—such as those who will be using the supplies or services—not just by contracting officers. Under the Federal Acquisition Regulation, the governmentwide commercial purchase card is now the preferred method of paying for micropurchases. Further, the purchase card is also authorized to be used in greater dollar amounts to place a task or delivery order under an existing contract (if authorized in the basic contract, basic ordering agreement, or blanket purchase agreement) and to make payments under existing contracts when the contractor agrees to accept payment by the card.

GSA administers the purchase card program governmentwide. This program has issued more than 2 million purchase cards to federal employees at government agencies, organizations, and Native American tribes. Purchase card volume increased by almost \$1.5 billion, to \$13.8 billion, between fiscal years 2000 and 2001. GSA's master contract for the purchase card program defines the agreement between GSA and the five banks that issue purchase cards to government agencies. The government may exercise the option to renew the contract for up to five 1-year periods beginning in December 2003.

⁴ Prior to the Federal Acquisition Streamlining Act, each contract for the procurement of goods or services that had an anticipated dollar value of less than \$25,000 and that was subject to small purchase procedures was reserved exclusively for small businesses unless the contracting officer was unable to obtain offers from two or more small businesses competitive with market prices and in terms of quality and delivery. The Federal Acquisition Streamlining Act amended this reservation so that purchases with an anticipated value greater than \$2,500 but not greater than \$100,000 are reserved for small businesses.

In October 2001, GSA requested that the five banks provide data on the socioeconomic status of merchants who did business with the government via purchase cards in fiscal year 2001. An estimated 4 million U.S. merchants accept MasterCard, Visa, or both, and at least 2.1 million of these merchants did business with the government in fiscal year 2001.⁵ Because the banks that issue purchase cards do not have access to data on all of the merchants accepting the cards, MasterCard and Visa collected this information on the banks' behalf, contracting in one case with Austin-Tetra, a private firm, to assist in the task.⁶ GSA compiled the information provided by banks and associations in a March 2002 preliminary report.

In their efforts to improve the collection of socioeconomic information on purchase card merchants and to track governmentwide small business goals, SBA and GSA are interested in targeting the categories of businesses outlined in table 1.

⁵ The 2.1 million figure is based on Visa's estimate.

⁶ During the fiscal year 2001 effort, MasterCard contracted with Austin-Tetra to assist with gathering socioeconomic data. Visa has now also contracted with this firm to assist with further data gathering.

Table 1: Small Business Categories

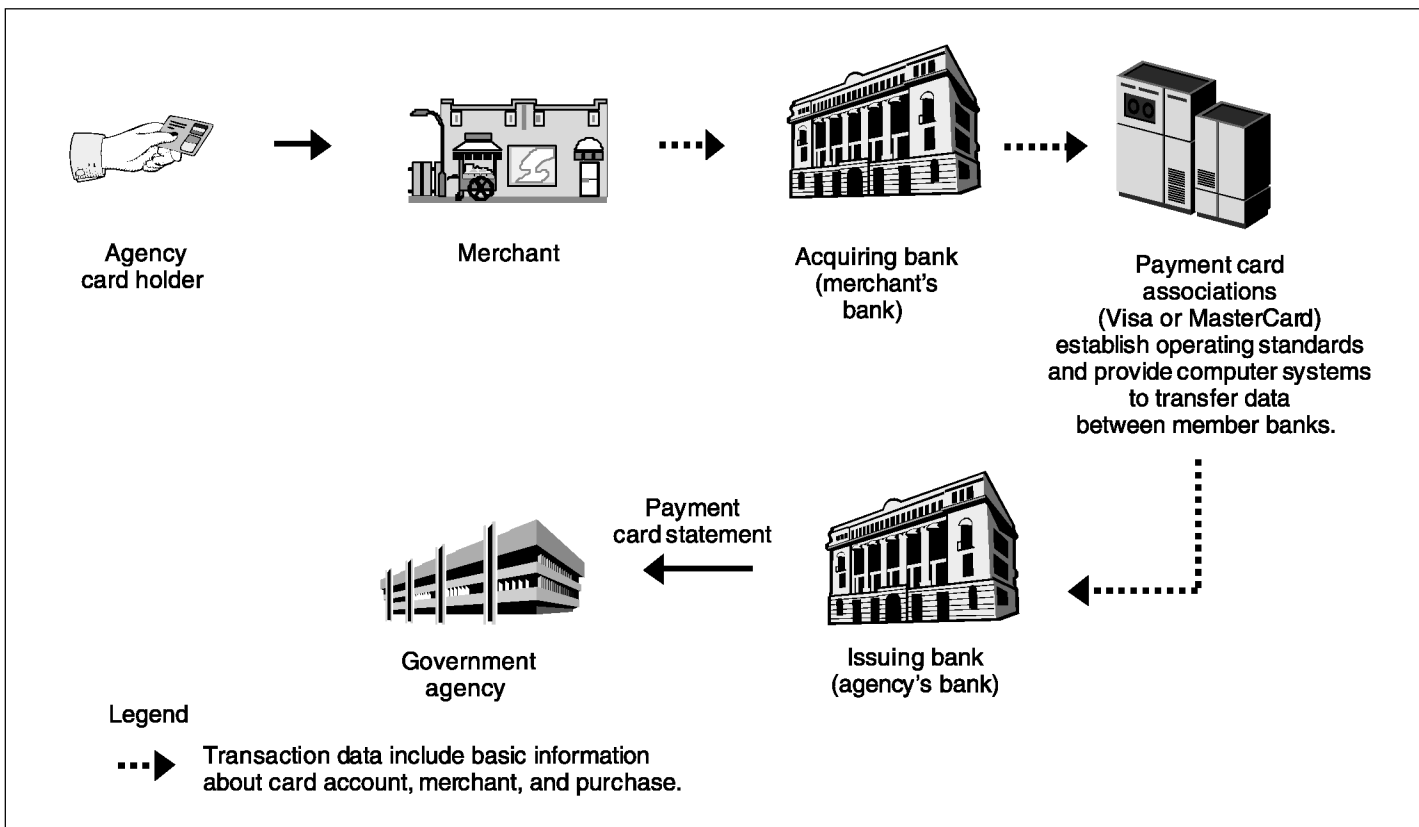
Category	Definition
Small business	A business entity organized for profit, including affiliates, that is independently owned and operated, not dominant in the field of operations in which it is bidding, and qualifies under SBA's criteria for determining the size of the business. The definition varies by industry and is based on the number of employees or the gross revenues.
Woman-owned small business	A small business that is at least 51 percent woman-owned, and whose management and daily business operations are controlled by one or more women.
8(a) business	A small business that is at least 51 percent owned by and whose management and daily business operations are controlled by socially and economically disadvantaged individuals who are eligible to receive federal contracts under the SBA's 8(a) Business Development Program. Under this program, SBA enters into contracts with federal agencies and lets subcontracts for performing those contracts to eligible firms. To qualify for the program, a firm must be certified by SBA.
Small disadvantaged businesses	A small business that is at least 51 percent owned by, and (with certain exceptions) whose management and daily business operations are controlled by, one or more socially and economically disadvantaged individuals. SBA certifies small disadvantaged businesses to make them eligible for certain procurement benefits. Certification strictly pertains to benefits in federal procurement. Firms certified as 8(a) automatically qualify for certification as a small disadvantaged business.
HUBZone small business	The HUBZone (Historically Underutilized Business Zone) Empowerment Contracting Program ^a provides Federal contracting assistance to small businesses that are located in designated rural and urban areas and that hire employees who live in such areas. SBA certifies firms for eligibility to receive HUBZone contracts and maintains a listing of qualified HUBZone small businesses that federal agencies can use to locate prospective vendors.
Veteran-owned small business	A small business that is at least 51 percent owned by, and whose management and daily business operations are controlled by, one or more veterans.
Service-disabled veteran-owned small business	A small business concern that is at least 51 percent owned by, and whose management and daily operations are controlled by, one or more service-disabled veterans, or, in the case of a veteran with a permanent and severe service-connected disability, by the spouse or permanent caregiver.

^aEstablished by the Small Business Reauthorization Act of 1997.

Source: GAO analysis.

The purchase card transaction process involves the agency cardholder, the merchant and its bank, the payment card associations, and the banks that issue purchase cards to government agencies. When an agency cardholder purchases goods or services from a merchant that accepts MasterCard or Visa, the merchant transmits the transaction to its bank, through the MasterCard or Visa computer systems, to the issuing bank for payment. Figure 1 shows how transaction data are shared between the key players.

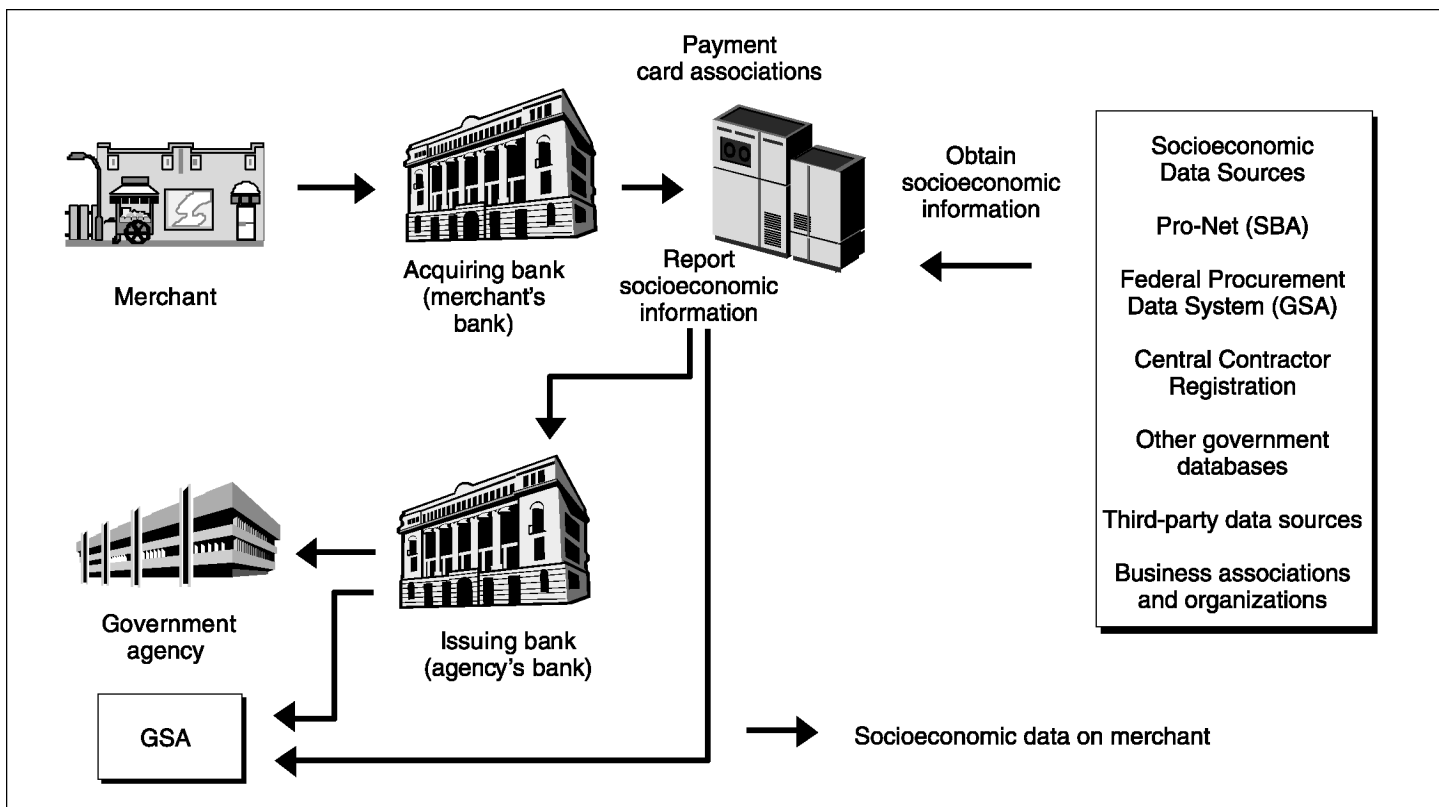
Figure 1: Overview of the Purchase Card Transaction Data Flow



Source: GAO analysis.

Socioeconomic data are generally collected after a transaction takes place. The payment card association or its contractor collects socioeconomic information from a variety of sources. This information is appended to transaction data to create reports to GSA and the agencies. Figure 2 shows the key players involved in collecting socioeconomic information on the purchase card merchants.

Figure 2: Overview of the Socioeconomic Data Collection Process



Source: GAO analysis.

Note: Pro-Net is the SBA's internet-based database of information on more than 91,000 small businesses. Central Contractor Registration is the primary vendor database for DOD, the National Aeronautics and Space Administration, and the Departments of Transportation and Treasury. Current and potential government vendors are required to register in order to be awarded contracts by these agencies. The Federal Procurement Data System is the central repository of statistical information on federal contracting. The system contains detailed information on contract actions over \$25,000 and summary data on procurements that do not exceed \$25,000.

Data Collected to Date Are Inconsistent and Incomplete, but Improvements Are Being Made

In response to GSA's request for fiscal year 2001 socioeconomic data on purchase card merchants, banks and payment card associations reported that they could obtain size or socioeconomic information on about 40 percent of the merchants. They reported that about 50 percent of the purchase card dollars spent with these merchants went to small businesses. However, this information is not useful because the data collected were inconsistent and incomplete, making them unreliable. The lack of clear definitions and guidelines from GSA for the collection of socioeconomic data resulted in inconsistent reporting by the banks and payment card associations. In addition, some available sources of socioeconomic data are incomplete and unreliable. Therefore, at this time, no meaningful conclusions can be drawn about where purchase card dollars are spent or the effect on small businesses of the government use of purchase cards. Drawing on lessons learned in its first attempt at a governmentwide socioeconomic data report, GSA is continuing to work with SBA, DOD, and the private sector to improve the reliability of the data for subsequent reports.

Inconsistent Data Due to Lack of Clear Definitions and Guidelines

To verify and identify the characteristics of those merchants doing business with the government through purchase cards, a match had to be made between transactional data and the socioeconomic data from government and private databases.⁷ However, in its initial data collection effort, GSA did not precisely define the information it was requesting or clearly specify the criteria to be used by the banks and associations as they categorized merchants. Therefore, the data reported to GSA contained widely varying information on the socioeconomic status of merchants. The following are examples of the inconsistencies we found:

- A payment card association, reporting on behalf of some of the card-issuing banks, reported that it had socioeconomic information for 89 percent of the merchants, while another bank reported that it had this information for 23 percent of the merchants. These differences do not reflect relative success or failure in collecting the information; rather, they were due to varying interpretations of GSA's guidance.
- Neither the associations nor the banks reported the number of merchants whose socioeconomic status was unknown. As a result, the information

⁷ As the transaction information does not always contain unique identifying numbers, such as a Taxpayer Identification Number, banks and associations said that they used business names and addresses found in transaction data to match to other databases.

presents an incomplete and misleading picture of the socioeconomic status of purchase card merchants.

- MasterCard, Visa, and the banks used different methods to classify merchants. One method placed businesses that were corporations but where no socioeconomic data were available in the same category with large businesses. Another method followed SBA standards more closely in categorizing the size of businesses.

In one case, GSA's guidance compounded the problem. GSA instructed banks to use the criterion of 500 employees or fewer to identify small businesses, if no other verification was available, rather than directing them to follow SBA's guidance that ties size to specific industry classifications. SBA officials, who had not been involved in GSA's initial data collection effort, raised concerns about this definition and are now providing GSA with assistance in determining appropriate guidelines to categorize the data. An SBA official explained that, in certain industry categories such as construction, using 500 employees or fewer as a criterion would encompass virtually all businesses.

Data Are Incomplete and Unreliable

No meaningful conclusions can be drawn using the data compiled by GSA for fiscal year 2001, as the reported data are incomplete. The banks and payment card associations were only able to establish merchants' size or socioeconomic status for about 40 percent of total purchase card dollars because, in some cases, available data sources did not provide complete and reliable information. For example, Pro-Net yielded information on size status for only 9.5 percent of merchants. While some categories of small businesses are required to register in SBA's Pro-Net in order to be certified, other categories of small business are not required to register. Therefore, businesses requiring certification, such as HUBZone and small disadvantaged businesses, are easier to categorize than businesses for which registration is voluntary, such as woman-owned small businesses.

Further, according to industry officials, it is not uncommon for the data in some merchant transaction data fields to contain incorrect information. For example, merchants sometimes place their customer service telephone numbers in the field designated for city so that their telephone number is included on the customer's credit card statement. In our review of MasterCard and Visa reports and merchant data files, we found obvious errors such as this, as well as duplicate files for the same merchant, the same telephone number for multiple businesses, and missing zip codes.

GSA, Agencies, and Private Sector Working to Improve Data

Since the spring of 2002, GSA has been working with SBA and other agencies to create more specific guidance for banks and payment card associations. GSA has also included banks and payment card associations in these discussions. GSA's efforts include defining small business categories, establishing quality standards for data sources, and standardizing reporting. After some initial data have been collected, SBA officials agreed to develop policies for the use of the data in tracking progress towards agencies' small business goals. According to officials from Austin-Tetra, if definitions and guidelines are agreed upon and adhered to, information about size status may be available for an estimated 65 to 80 percent of merchants.

Some officials expressed concern about the potential for double-counting small business dollars if, in the future, purchase card data are automatically transferred to the Federal Procurement Data System (FPDS) and socioeconomic data are applied toward agencies' small business achievements. If purchase cards are used for payments on contracts or orders that have already been reported to FPDS, double-counting could occur. However, it is not clear that this problem would materialize on a widespread basis. For example, the Director of DOD's Purchase Card Joint Program Management Office told us that there is little likelihood that DOD's dollars would be double-counted. Currently, DOD generates automatic reports to FPDS for contracts or orders that are placed through traditional procurement methods such as purchase orders. The official said that it is extremely rare for a purchase card to be used for payments that have already been reported to FPDS.

Inherent Challenges Prevent Collection of Socioeconomic Data on All Purchase Card Merchants

While GSA's efforts eventually may enable the government to obtain socioeconomic information on a large percentage of purchase card merchants, inherent challenges suggest that it is not possible to gather complete data on all merchants. Payment card associations' transaction systems were designed to clear transactions, not to meet the socioeconomic reporting needs of the federal government. The data exchanged during transactions generally focus on information needed to ensure that the merchant is paid and the cardholder's account is charged. As a result, the infrastructure and processes of the purchase card systems and the legal relationships between the merchants, banks, payment card associations, and the government were not designed to accommodate the collection of socioeconomic data.

Purchase Card Master Contract Cannot Ensure the Collection of Socioeconomic Data

The master contract between GSA and the five banks that issue purchase cards cannot ensure the collection of socioeconomic information. Although the contract requires the contracting banks to provide transaction data to the government, which might include limited socioeconomic data, banks are only required to provide this information if the merchant provides it and the contracting banks obtain it. The contract clauses referring to reports containing socioeconomic data are vague, both in specifying the data required and in establishing the level of obligation involved. While the contract mentions a report that includes “summary merchant demographic information,” and “size standard,” which “is generally used by the agency/organization in fulfilling its small business and small disadvantaged business goals,” it does not require that the actual size status of the merchant be provided, nor does it expressly require that the reports be provided at all. Rather, in describing the reporting requirements, the contract states that “the Government prefers that the data . . . be provided,” and that “agencies/organizations may choose to receive some or all of [these] reports.”

Moreover, there is no contractual relationship between GSA and the merchants’ banks or the payment card associations, the parties most likely to have access to the information. While GSA is currently considering modifications to the master contract with the card-issuing banks to include more specific guidance on reporting socioeconomic data—such as decision rules for data sources and business status—these changes will not alter the fact that the contract can only establish obligations between the parties to the contract. The master contract is only binding on the five issuing banks, which do not have access to information on other banks’ customers and cannot compel the merchants’ banks to provide information on the socioeconomic status of their customers. While payment card associations do have relationships with both the issuing and acquiring banks, and might be better positioned to collect socioeconomic data on behalf of the issuing banks, they are under no contractual or other legal obligation to collect the information, and there are significant practical impediments to doing so.

Many Merchants Do Not Provide Socioeconomic Data

A purchase card transaction between the government and a merchant does not establish a contractual relationship that requires the merchant to provide socioeconomic data. Further, merchants that are not government contractors have no incentive to report this data if they do not anticipate contracting with the government. Attempts by government agencies and payment card associations to gather missing data through surveys and mailings have been largely unsuccessful. Visa has been involved in two

campaigns to collect and update merchant data. According to Visa officials, as recently as last year, Visa mailed half a million letters to merchants requesting socioeconomic information, but less than 2 percent of merchants responded. In January 2000, MasterCard sent out 30,000 letters on behalf of DOD to current DOD suppliers accepting the government MasterCard from DOD buyers. The letter encouraged merchants to update their socioeconomic information with their banks.⁸ However, information on only 16 percent of merchants was subsequently updated.

Attempts to use government databases are also ineffective due to the relatively small proportion of merchants who have registered in governmentwide databases, such as Pro-Net, or other government databases that are limited to certain agencies (such as the Central Contractor Registration, used for merchants contracting with DOD, the National Aeronautics and Space Administration, and the Departments of Treasury and Transportation). Of the roughly 360,000 vendors with whom DOD uses the purchase card, very few were included in government databases. According to agency officials, merchants may be inclined to register in these databases only if they are trying to win government contracts. Furthermore, Pro-Net relies on merchants to update their own profiles. Of the 173,374 firms registered in Pro-Net as of August 1, 2002, records for only 87,257, or 50 percent, had been updated within the prior 18 months. According to SBA officials, Pro-Net merged with the Central Contractor Registration in October 2002, and SBA purged its system of inactive firms. As of November 1, 2002, there were 91,656 firms in Pro-Net.

Merchants' Banks Do Not Always Collect Socioeconomic Information on Merchants

Because the purchase card program only establishes a contractual relationship between the government and the five card-issuing banks, the merchants' banks are not contractually or otherwise legally required to obtain socioeconomic information about their merchant customers for the purchase card program. Further, according to bank and payment card representatives, banks usually avoid requesting certain customer socioeconomic information because of concerns about client privacy and the prospect of discrimination complaints (should the bank, for example, fail to approve a merchant account). In addition, the bank officials say

⁸ The letter specifically asked merchants to verify their business ownership classification using a merchant type code worksheet (which indicates socioeconomic status), verify the accuracy of their Merchant Category Code, and request a software or terminal upgrade, so that DOD could receive accurate data with merchants' purchase card transactions.

they do not need socioeconomic data to make a business decision on whether to approve a merchant account. However, both payment card associations have attempted to increase the availability of socioeconomic information on merchants by providing financial incentives, such as lower fees, to merchant banks for collecting this data.

Conclusions

Although the government likely will never be able to capture complete socioeconomic information on 100 percent of purchase card merchants, the available data can be strengthened to provide more accurate and consistent information that would provide decisionmakers a clearer picture of the extent to which small businesses are receiving federal money through the purchase card program. GSA has made a first step toward understanding the complexities of collecting socioeconomic data on merchants accepting government purchase cards. With the lessons learned from that effort, GSA, with the assistance of other federal agencies and the private sector, can take additional steps toward improving the reliability of the data.

Recommendations for Executive Action

While the government faces a number of challenges in collecting socioeconomic data on all purchase card merchants, there is an opportunity to improve the available data. Therefore, in order to strengthen the ongoing efforts, we recommend that the Administrator of GSA (1) clarify the socioeconomic information that banks and payment card associations are asked to report and conduct periodic assessments to verify that they are interpreting and reporting the data consistently, and (2) specify a rigorous, disciplined approach to identifying and using appropriate information sources for the socioeconomic data and ensure the participants agree to it.

Agency Comments

We received written comments on a draft of this report from GSA, SBA, Bank of America, and Austin-Tetra. The Office of Federal Procurement Policy, MasterCard, Visa, Citibank, and US Bank offered oral or e-mail comments. DOD did not provide comments.

GSA concurred with our findings and recommendations. GSA indicated that it has begun taking steps to identify and solve problems related to the capture of consistent, accurate, and reliable socioeconomic data, toward a goal of modifying the GSA's purchase card contract and reporting socioeconomic data to one centralized source, FPDS. GSA reports that it has made significant progress in these areas and states that

its progress ultimately implements the recommendations in our report. However, we do not believe that our recommendations have been fully implemented. An October 2002 meeting with industry officials left many issues open—including whether transactions over \$2,500 would be reported, how the socioeconomic information would be used, and who would be responsible for reporting to whom. GSA should continue to work with the agencies, banks, and payment card associations to ensure that socioeconomic information on purchase card merchants is accurately and consistently collected and reported. GSA's letter appears in appendix II.

SBA provided technical comments, which we incorporated as appropriate. SBA suggested that we include GSA's role in figure 1 to show that GSA does not directly influence data collection; however, this graphic was not meant to illustrate the data collection process. Figure 1 depicts the flow of information during a purchase card transaction, a process in which GSA is not involved. Figure 2 illustrates GSA's role in the data collection process. SBA's letter appears in appendix III.

Bank of America offered written comments to assist in clarifying sections of the report. We incorporated these comments where appropriate. Bank of America expressed concern that there is an expectation of a fully revised report on purchase card merchants' socioeconomic data for fiscal year 2002, despite the fact that decisions on definitions and data elements have not been finalized. We agree with this assessment. The letter further notes that double counting of payments on existing contracts could be a problem if GSA requires banks to include transactions over \$2,500. As we discuss on page 11 of this report, according to a DOD official, this issue is not a concern; however, the working group, led by GSA, may want to clarify this issue in subsequent meetings. Bank of America's comments appear in appendix IV.

Austin-Tetra provided written comments, concurring with our findings and providing additional recommendations to GSA for obtaining socioeconomic data, such as providing incentives for merchants to submit socioeconomic data to their banks. The letter notes that these steps would come at an additional cost to the government. Austin-Tetra's comments appear in appendix V.

In oral comments, Office of Federal Procurement Policy officials concurred with our findings, stating that the report is balanced and accurately portrays the difficulties the government faces in collecting socioeconomic data on purchase card merchants. They suggested that

we add more background information on the impetus for GSA's data collection effort.

A Visa official provided oral comments. He concurred with our report, stating that it was enlightening, "on the mark," and helped to clarify some misconceptions. The official noted that there is a tradeoff between the desired level of accuracy and the cost of obtaining socioeconomic information on purchase card merchants. He said that, because the purchase card makes up a relatively small proportion of total procurement dollars, the level of granularity the government is requesting might not be worth the dollars needed to obtain this information on each merchant. Further, the official pointed out that there is little known about how the purchase card affects small businesses. Therefore, Visa's position is that care must be taken not to assume that the effects are negative. Visa also provided technical comments, which we incorporated as appropriate.

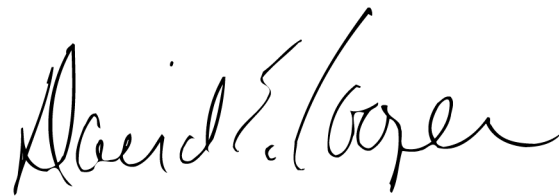
In e-mail comments, a US Bank official generally concurred with our findings. However, he stated that our recommendations failed to account for the inherent challenges the government faces in its efforts to collect socioeconomic data on purchase card merchants. The official stated that the government contracted with the banks for a "commercially standard" purchase card program, but then sought to require a number of non-standard features from the contractors. He stressed that the issuing banks and payment card associations have very limited leverage to elicit this information from merchants. He suggested that GSA ask the banks to report only that information that is in their purview and expertise—namely, transaction data—and that GSA could then use government-owned or private sector services to match the transaction data against socioeconomic databases. Technical comments were incorporated as appropriate.

Representatives from MasterCard and Citibank provided technical comments, which we incorporated as appropriate.

As requested by your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies of this report to other interested congressional committees and the Secretary of Defense; the Director, Office of Management and Budget; the Administrator, GSA; the Administrator, SBA; and the Administrator, Office of Federal Procurement Policy. We are also sending copies to MasterCard, Visa, Citibank, Bank of America, US Bank, and Austin-Tetra. We will make copies available to

others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions regarding this report, please contact me at (202) 512-4841 or Michele Mackin, Assistant Director, at (202) 512-4309. Other major contributors to this report were Heather L. Barker, Lara L. Carreon, and Barbara A. Johnson.

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, sweeping initial "D".

David E. Cooper
Director, Acquisition
and Sourcing Management

Appendix I: Scope and Methodology

You requested that we include at least the following elements in our report:

- Determine the steps that federal agencies have taken to require that socioeconomic data be collected on purchase card use, including the standards and requirements established for such collection.
- Identify the information that federal agencies, especially the General Services Administration (GSA) and the Department of Defense (DOD), have collected for fiscal year 2001 on the socioeconomic status of purchase card merchants and the sources of such information.
- Identify and compile the information that credit card companies issuing purchase cards for use by federal agencies have collected for fiscal year 2001 on socioeconomic status of purchase card merchants and the sources of such information.
- Determine the standards and criteria under which the credit card companies collect socioeconomic information—including the definitions of “small business” that are used and the extent to which such definitions deviate from those promulgated by the Small Business Administration (SBA).
- Identify, to the extent possible, whether in each transaction purchase cards are being used to make payment on existing contracts or are distinct purchase card transactions.

Each of these questions has been addressed in the report.

You also asked us to verify the information collected by the banks and payment card associations by means of a survey. However, due to the lack of basic data on many purchase card merchants, we determined that such a survey would not be feasible. The challenges at each stage of the survey process create significant potential for error. For example, defining a universe of merchants from which to draw a sample would be difficult, as the amount of information available for each merchant varies widely. Because so little basic information on merchants exists, a representative sample cannot be ensured. The lack of contact information due to missing or inaccurate data would make it impossible to reach some of the merchants. Because of short life cycles, small businesses are generally more difficult to track. Given that response rates to surveys of small businesses have historically been low, high error rates can also be expected. Without basic information to describe the universe, it would be impossible to determine whether response bias exists. Further, the impact of the use of the purchase card on small businesses cannot be determined without prior years' data. Finally, because merchant data is separate from transaction data, and there is no unique identifier that is consistent for all

merchants, any analysis would involve development of new data management and analysis techniques—including extremely complex programs—to match merchant and transaction data.

To assess GSA’s governmentwide efforts to collect data on the socioeconomic status of merchants, we reviewed (1) data reported to GSA by the banks and payment card associations for fiscal year 2001, (2) data provided to GSA for their internal purchase card program from Visa, and (3) MasterCard’s merchant file. Our analysis of electronic data files included statistical information on missing data, obvious errors, and duplication. We also reviewed relevant documents and legislation. We interviewed officials at GSA, SBA, DOD, Visa, MasterCard, the three largest banks contracting with GSA (Citibank, Bank of America, and US Bank), and a third party data source, Austin-Tetra.

Because of the associations’ reliance on Austin-Tetra as a third party data source, we also assessed the reliability of its database and processes. We reviewed documentation, observed, and discussed Austin-Tetra’s business strategy and customers, the extensiveness of its database, the matching methodology (including both electronic and manual matching), the methodology for assigning socioeconomic characteristics to businesses, the procedures for source attribution, and their data assurance practices, including use of a data assurance group.

To identify the challenges to the collection and reporting of socioeconomic data on merchants, we interviewed government officials from GSA’s purchase card program, SBA, DOD, and the Office of Federal Procurement Policy. We also interviewed industry officials from the three largest banks providing purchase card services; MasterCard, Visa and American Express; Austin Tetra; and a third party data processor, First Data Merchant Services. We also gathered information on small business and socioeconomic definitions from relevant guidance and legislation and discussions with SBA. We gathered information on sources of socioeconomic information and database matching processes from payment card associations and third party data sources.

We conducted our review between March and September 2002 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the General Services Administration



GSA Administrator

December 2, 2002

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: Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants" (GAO-03-56), dated October 22, 2002. The draft report recommends that the General Services Administration (GSA): (1) clarify the socioeconomic information requested from banks and payment card associations, and ensure the data is consistent, and (2) specify a disciplined approach for identifying sources of socioeconomic data. GSA concurs with the draft report's findings and recommendations.

Small business reporting by the GSA SmartPay® contractors to the individual agencies has been a longstanding contractual requirement. Since the inception of the contract, GSA recognized the weaknesses in the reports that have been received from the contractors. In the spring of 2002, we started a series of meetings with GAO, Small Business Administration, Departments of Defense (DOD), Interior, and Veterans Affairs, GSA SmartPay® contractors, and the MasterCard and Visa charge card associations to identify and solve problems related to the capture of consistent, accurate, and reliable socioeconomic data concerning purchase card merchants. I am pleased to report that we have made significant progress in these areas, which ultimately implement the recommendations contained in your report. Specifically, the aforementioned participants have, in principle, agreed upon business size classifications, quality standards for data sources, and standardized reporting methodologies.

Having clarified the data requirements and having specified a disciplined approach for its collection, the GSA SmartPay® contractors and card associations, along with GSA, are currently exploring the technical feasibility of reporting socioeconomic data to a

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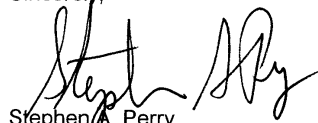
centralized source, namely, the Federal Procurement Data System. Once this action is completed, all new/revised reporting requirements will be incorporated formally in a contract modification. A contract modification is necessary not only to clarify the data and collection requirements, but also to establish GSA as the recipient of the socioeconomic data reports. Under current reporting requirements, individual agencies receive the reports. Our target completion date for these actions is December 31, 2002.

The draft GAO report states in its conclusion that "...the government likely will never be able to capture complete socioeconomic information on 100 percent of purchase card merchants..." GSA concurs with this finding. Nonetheless, the successful implementation of these recommendations will mark the beginning of a new, more reliable, method for measuring the impact of Government purchase card use on the small business community. It will also mark the culmination of a tremendous effort by GSA and other agencies to improve small business reporting.

Finally, we would like to offer the following additional comments on the draft report. First, the term "SmartPay" should be revised to read "GSA SmartPay®" due to copyright and trademark restrictions. Second, we recommend that the number cited for U.S. merchants accepting MasterCard, Visa, or both be validated, as well as the number of vendors accepting the purchase card from DOD. Based upon our discussions with the card associations and banks, these numbers may be understated.

In closing, I would like to express my sincere gratitude for the guidance and support that Ms. Michele Mackin and her staff have provided throughout this review. Their participation has been instrumental in helping to identify the reporting challenges and analyze viable solutions.

Sincerely,



Stephen A. Perry
Administrator

cc:

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

Appendix III: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

NOV 18 2002

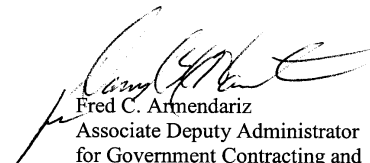
Mr. David E. Cooper
Director
Acquisition and Sourcing Management
U.S. General Accounting Office
Washington, DC 20416

Dear Mr. Cooper:

Thank you for your letter of October 22, 2002, giving the U.S. Small Business Administration the opportunity to review and provide comments on your draft report "Contract Management, Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants." Our detailed comments are provided as an enclosure to this letter.

If you have any questions or need additional information, please contact Stephanie King in our Office of Congressional and Legislative Affairs, at 202-205-6895.

Sincerely,



Fred C. Armendariz
Associate Deputy Administrator
for Government Contracting and
Business Development

Enclosure

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Small Business Administration

Comments on GAO Draft Report

Contract Management, Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants

1. Title Page

- a. Under GAO Highlights, the reference to “woman- and minority-owned business” should be woman-owned small business and small disadvantaged business (SDB).
- b. Under “What GAO Found”
 - 1) In the second and third paragraph, the report discusses “challenges that will prevent GSA from gathering data.” GSA has in the past and is currently having difficulty collecting data. Change the tense by dropping the “will.”
 - 2) In the graphic “Overview of the Purchase Card Transaction Process” include GSA’s role where it enters into the process to show that it does not directly influence data collection.

2. Page 2, first paragraph, the report refers to “the five banks under contract.” The banks should be listed.

3. Page 4

- a. First paragraph, revise the wording of the sentence to conform with the Federal Acquisition Regulation language. The sentence should read “Further, the purchase card is also authorized to be used to place a task order on an existing indefinite delivery/indefinite quantity contract; and to make payments on existing contracts . . .”
- b. Last sentence of the third paragraph refers to a “preliminary report in March 2002.” You should include a statement as to what the report showed?

4. Page 5 lists the various Small Business Category definitions, revise the following:

- a. Small business should read “A business entity, organized for profit, including affiliates . . .” (this change is made because non-profit entities do not qualify as business concerns), and also change the tense of “qualified” to “qualifies;”

- b. 8(a) business should read “A small business that is at least 51% owned by and whose management . . .;”
 - c. Under Small disadvantaged businesses, line four, change the word “bidding” to “procurement;”
 - d. Under Veteran-owned small business, on the first line, eliminate the words “one or more veteran(s)” as it duplicates the next phrase and change “veterans” to “veteran(s);” and
 - e. Under Service-disabled veteran-owned business, on the first line, eliminate the words “and managed” as it duplicates the next phrase.
5. In the graph on Page 6, as on the title page, include GSA’s role where it enters into the process to show that it does not directly influence data collection.
6. On Page 7, in the overview graph, change the number of small business in Pro-Net to 91,656. When the system was merged with the Central Contractor Registration system, SBA purged Pro-Net, eliminating inactive profiles.
7. On Page 8, under “Inconsistent Date Due to Lack of Clear Definitions and Guidelines,” the first paragraph discusses the matching between transactional data and the socioeconomic data. Clarify how this matching was accomplished (was it done by the use of a single identifier such as the Duns number or TIN?).
8. On Page 9, under “Data Are Incomplete and Unreliable,” the first paragraph, add the word “small” to the following:
 - a. On line eight “businesses are required” should read “small businesses are required;”
 - b. On line 10, “for other categories of businesses” should read “for other categories of small businesses;” and
 - c. On line 13, “woman-owned businesses” should read “woman-owned small businesses.”
9. On Page 12, in the second paragraph, the reference to Pro-Net needs to be revised. In October, when Pro-Net was merged with the Central Contractor Registration, SBA purged its system of inactive firms. As of November 1, 2002, there are 91,656 firms in Pro-Net.

Appendix IV: Comments from the Bank of America



Bank of America, N.A.
VA6-300-09-18
2 Commercial Place
Norfolk, VA 23510-2104

Mr. David E. Cooper, Director
U.S. General Accounting Office
Washington, DC 20548

Re: Feedback on the proposed report *Small Business: Government Faces Challenges in Gathering Socioeconomic Data on Purchasing Card Merchants* (GAO-03-56; job code 120126)

Dean Mr. Cooper:

We appreciate this opportunity to provide our comments. We have reviewed the above referenced report and offer the following comments that may assist in clarifying sections of the report:

Page 3, first paragraph, last sentence "GSA hopes to produce a more useful report for the fiscal year 2002." The completion of the report GSA hopes to produce is contingent upon finalization of definitions and data elements by the card associations (Visa and MasterCard), contractors, and GSA. These elements are still undecided and unresolved. Our concern is that an expectation is set that a fully revised report will be available for the fiscal year 2002 when decisions, driven by GSA and shared with all parties prior to production, have not even been finalized.

Page 5, last paragraph, 2nd sentence "When an agency cardholder purchases . . . through the MasterCard or Visa computer system." We recommend that the word "computer system" be changed to "interchange system" (in this paragraph as well as throughout the document wherever applicable) to better describe the system utilized by the card association.

Page 10, first paragraph. We recommend that GAO solicit and document input from other agencies as to the likelihood of double counting. The issue of double counting hinges upon what GSA defines as a 1057 reporting requirement. Should GSA include transactions over \$2,500 in the reporting requirement, that will likely increase the possibility of double counting as those transactions are already reported under an existing reporting mechanism.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/S/

Frank J. Chunderlik
Senior Vice President
Manager, Contract Administration
757-677-4470

FJC/mkb

Appendix V: Comments from Austin-Tetra



November 15, 2002

Mr. David E. Cooper
Director Acquisition and Sourcing Management
U.S. General Accounting Office
441 G. ST. NW
Washington, DC 20548

Re: Report to Congress – *Contract Management: Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants*

Dear Mr. Cooper:

As the primary provider of merchant business demographic and socioeconomic information to both MasterCard and Visa in support of their merchant data tracking and reporting efforts related to the Federal SmartPay Purchase Card Program, we have appreciated the opportunity to participate with the GAO in this report to Congress.

Because of our extensive work in the private sector to provide supplier information management services to the largest corporations in the U.S. and our business data collection expertise, we are in concurrence with the GAO's recommendations as outlined in the proposed report to Congress entitled: *Small Business: Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants*. These recommendations are restated as follows: the Administrator of GSA (1) clarify the socioeconomic information requested from banks and payment card associations and ensure the data is consistent, and (2) specify a disciplined approach for identifying sources of socioeconomic data.

We believe that if these two recommendations are implemented, that consistent and comprehensive socioeconomic data can be captured, tracked and reported for 65 – 80% of merchants with government procurement card transactions.

We also believe that the percentage of merchant business demographic and socioeconomic information available can increase further as a result of additional efforts to capture and analyze more merchant data. We also recognize that these additional efforts will come at an additional cost that must be addressed by the GSA. Following are some suggested steps to capture better, more comprehensive merchant business demographic and socioeconomic data:

1. Provide an incentive for merchants to provide and merchant banks to collect better data. One suggested incentive for the merchants themselves is that upon completing a more detailed business profile, their information would go into a central procurement database used by both the public and private sectors to source and solicit suppliers.

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Mr. David Cooper
November 15, 2002
Page 2

2. Provide an easier means for merchants to initially submit and then update their business demographic and socioeconomic data to merchant banks. One suggestion here is for all merchant or acquiring banks to offer Web-based merchant data intake portals similar to ones developed and managed by Austin-Tetra for U.S. corporations. These Web-based merchant intake systems would not only allow for more centralized information gathering for the merchant banks, but would also allow for the more consistent and comprehensive collection of business demographic and socioeconomic data. Additionally, information provided by the merchants can be compared to other public and private sector databases to identify inconsistencies. Through the electronic link established with the merchant, inconsistencies and incomplete answers can be brought to the attention of the merchant and corrected. The Web-based system will also allow for an automated e-mail process reminding and encouraging merchants to update their merchant profiles online on a regular basis.
3. Conduct additional and consistent mailings to merchants directing them to the new Web-based merchant data intake portals.
4. Expand the utilization of reliable third party sources to gather business demographic and socioeconomic data on merchants that have not responded to attempts to gather information directly. The GSA can and should audit the third party sources on a regular basis for data accuracy.

With the aforementioned additional steps taken over a period of a few years, it is our belief that consistent merchant business demographic and socioeconomic data could be collected for more than 80% of merchants with government procurement card transactions. Again, we caveat this recommendation acknowledging that the additional recommended steps come at an additional cost that is not currently accounted for in the Federal SmartPay Program.

Thank you for this opportunity to provide our comments. We offer our continued assistance wherever and whenever it can be useful.

Sincerely,



Philip A. Berkebile, Jr.
President and CEO
Austin-Tetra, Inc.

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