

GAO

Briefing Report to the Chairman,
Subcommittee on Treasury, Postal
Service, and General Government,
House Committee on Appropriations

September 1990

CASH MANAGEMENT

Benefits and Limitations of the Small Purchases Credit Card Program





United States
General Accounting Office
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Accounting and Financial
Management Division

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The Honorable Edward R. Roybal
Chairman, Subcommittee on Treasury,
Postal Service, and General
Government
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

In response to your request in House Report 101-170, dated July 25, 1989, that we study the difficulties surrounding the government's use of credit cards, we are providing the results of our review of the small purchases credit card program. This report covers the information we presented to your office in our May 10, 1990, briefing and, along with our earlier report entitled, Cash Management: Diners Club Business Travel Management Program Needs Improvement (GAO/AFMD-90-66, April 30, 1990), completes our work in response to your request.

RESULTS IN BRIEF

The small purchases credit card program can help agencies improve the efficiency of their purchasing and payment processes. However, the amount of any administrative savings that have resulted from the credit card program is not known because most agencies have not conducted an analysis comparing the cost of using the credit card to the cost of other purchasing and payment methods.

Although the small purchases credit card program includes internal controls that should prevent the credit card from being misused, four of the seven agencies in our review had some problems with the implementation of these controls. These agencies, however, are currently taking or planning corrective action to resolve the problems.

BACKGROUND

The Department of Commerce started using the small purchases credit card under a pilot project in 1986. Under the pilot project, the Colorado National Bank, through its subsidiary, the Rocky Mountain BankCard System (Rocky Mountain), provided MasterCard credit cards to federal agencies to make small purchases. Organizational entities within 24 federal agencies participated in the pilot project. In March 1989, the General Services Administration (GSA), the central agency responsible for managing governmentwide contracts, awarded a contract to Rocky Mountain for a governmentwide program using VISA credit cards for small purchases. For the most part, agencies that participated in the Commerce pilot project did not start using the GSA contract until after September 29, 1989, when the Commerce pilot project expired. From October 1989 through March 1990, agencies spent \$21 million under the GSA contract.

The small purchases credit card, also known as the International Merchant Purchase Authorization Card, has a government seal and is embossed with the words, "US GOVT TAX EXEMPT." Participating agencies assign the credit card to selected personnel to make purchases such as office and computer supplies and equipment for work at remote locations. The credit card can be used for purchases up to \$25,000, but the average purchase with the credit card during the first year of the GSA contract was \$199.

The government does not pay vendors directly for purchases made with the credit card. Instead, vendors get paid through the credit card network generally within 48 hours of a purchase, and agencies receive a consolidated bill each month from Rocky Mountain. As of February 1990, 30 federal departments and agencies were participating in the program under the GSA contract. Additional background information on the small purchases credit card program is contained in appendix I.

OBJECTIVES, SCOPE, AND METHODOLOGY

We undertook this review in January 1989 to examine a new cash management tool for purchasing and paying for small items--the small purchases credit card. The objectives of our review were to determine (1) the benefits, limitations, and costs of the small purchases credit card program and

(2) whether agencies are implementing the internal controls established for the program.

We selected seven agencies for our review to represent a range of sizes of small purchases credit card programs. These agencies were the Environmental Protection Agency; the Department of Housing and Urban Development; the Department of the Treasury's Bureau of Alcohol, Tobacco, and Firearms and Internal Revenue Service; the Department of Health and Human Service's Social Security Administration; the Department of Transportation's Coast Guard Ninth District; and the 89th Military Airlift Wing of the United States Air Force.

We interviewed officials about their views of the program and reviewed agency internal guidance for the program, other relevant documents, and a sample of monthly cardholder statements. We conducted our work from January 1989 to July 1990. Our work was performed in accordance with generally accepted government auditing standards. The views of responsible agency officials were sought during the course of our work and are incorporated where appropriate. Additional details on our objectives, scope, and methodology are contained in appendix II.

PROGRAM BENEFITS, LIMITATIONS, AND INTERNAL CONTROLS

The agencies in our review were generally satisfied with the small purchases credit card program because it has enabled them to reduce the paperwork needed to make purchases and expedite the procurement process. The program also reduces the number of invoices agencies receive and must process for payment. However, some of these efficiency improvements can be offset by the time required by finance offices to obtain individual cardholder statements to use in verifying the agencies' consolidated credit card invoice.

Agency officials we interviewed were generally dissatisfied with the administrative fee agencies must pay for using the small purchases credit card. This fee, however, will decline substantially as more agencies participate in the program and total government purchases with the card exceed \$50 million. More details on the benefits and limitations of the program are included in appendix III.

The Department of the Treasury instructs agencies to report the administrative savings that result from using cash

management initiatives, including the small purchases credit card program. However, it has not instructed agencies to conduct the type of analyses that would enable them to develop reliable estimates of the savings from using the credit card. As a result, agencies have reported savings figures to Treasury that may be inaccurate. The data on savings under the program are further discussed in appendix IV.

Four of the seven agencies in our review had various weaknesses in their implementation of the internal controls over the small purchases credit card program. For example, our review showed that, as of December 1989, the Internal Revenue Service (IRS) headquarters did not have adequate internal controls over \$392,000 (94 percent) of the \$418,000 in credit card purchases made during fiscal years 1988 and 1989. At IRS, we found that (1) cardholders did not routinely verify their monthly credit card statements and document their purchases with receipts and (2) approving officials did not routinely review the cardholders' statements. When these internal control procedures are not followed, an agency has no assurance that its cardholders' purchases were for authorized purposes or that it received the items on its credit card invoice. Internal control problems at the other three agencies included missing documentation of purchases by cardholders and lack of approving official review of statements. These agencies are currently taking or planning corrective actions to resolve the problems. Appendix V contains additional details on the internal control problems we identified.

RECOMMENDATION

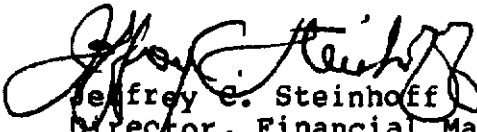
In order to accurately assess the savings associated with using the small purchases credit card program, we recommend that the Secretary of the Treasury revise the instructions to agencies for reporting savings from the small purchases credit card program. These instructions should require that agencies calculate their savings estimates based on their costs for using the small purchases credit card versus other procurement and payment methods, covering the entire procurement and payment process.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of

this report until 10 days from the date of this letter. At that time we will send copies to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Administrator of the General Services Administration, and the heads of the agencies where we conducted our work. We will also make copies available to others upon request. Please contact me at (202) 275-9454 if you or your staff have any questions. Major contributors to this briefing report are listed in appendix VI.

Sincerely yours,


Jeffrey E. Steinhoff
Director, Financial Management
Systems and Audit Oversight

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ABBREVIATIONS

ATF	Bureau of Alcohol, Tobacco, and Firearms
EPA	Environmental Protection Agency
GAO	General Accounting Office
GSA	General Services Administration
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
SSA	Social Security Administration

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BACKGROUND

**PROGRAM STARTED AS COMMERCE PILOT PROJECT AND IS NOW UNDER GSA
GOVERNMENTWIDE CONTRACT**

**PROGRAM USES INTERNATIONALLY RECOGNIZED CREDIT CARD FOR PURCHASES
UP TO \$25,000 INSTEAD OF TRADITIONAL GOVERNMENT PURCHASING METHODS**

GOVERNMENT REIMBURSES CONTRACTOR BANK FOR CREDIT CARD PURCHASES

**CONTRACTOR BANK CHARGES GOVERNMENT AN ADMINISTRATIVE FEE FOR
CREDIT CARD SERVICES**

BACKGROUND

In 1986, the Department of Commerce started a pilot project using an internationally recognized credit card to make small purchases. It contracted with the Colorado National Bank for credit card services provided through the bank's subsidiary, the Rocky Mountain BankCard System (Rocky Mountain). Organizational entities within 24 federal agencies participated in the Commerce pilot project, which expired in September 1989.

The current small purchases credit card program is administered by the General Services Administration (GSA), the central agency responsible for managing governmentwide contracts. The GSA contract with Rocky Mountain for the governmentwide program took effect on March 4, 1989. GSA issued a Federal Supply Schedule on the Governmentwide Commercial Credit Card Service, which includes the requirements for using the GSA contract and provides agencies guidance on implementing the program. The GSA small purchases credit card program is similar to the Commerce pilot project, except GSA uses a VISA credit card, and Commerce used a MasterCard. In addition, the GSA program uses a different method to pay Rocky Mountain and charges agencies a different type of fee than was used under the Commerce pilot project.

PURCHASING UNDER THE PROGRAM

Agencies provide the small purchases credit card to employees who need a simplified method of making small purchases. For example, the Bureau of Alcohol, Tobacco, and Firearms gives cards to agents conducting surveillance to pay for car repairs and photographic supplies; the Coast Guard gives cards to its personnel to purchase tools and parts for their boats; and HUD gives cards to employees to purchase office supplies. Each credit card is assigned to a cardholder, who is the only person authorized to use the card. The credit card replaces traditional purchasing and payment methods, such as cash from an imprest fund,¹ the standard form 44,² and the purchase order.

¹An imprest fund is a cash fund with an authorized cashier responsible for receiving monies and making small cash disbursements.

²The standard form 44 is a multiple carbon copy form used for over-the-counter purchases made while away from the purchasing office or at isolated activities. To receive payment, the vendor can send one of the standard form 44 carbons, as an invoice, to the federal agency.

Agencies can use the small purchases credit card for purchases of \$25,000 or less, which is the amount defined as a small purchase in the Federal Acquisition Regulation (48 C.F.R. 13.101 (1989)). However, agencies routinely use the card for purchases well below \$25,000. The average purchase with the credit card during the first year of the GSA contract was \$199. From October 1989, after the Commerce pilot project expired, through March 1990, agencies spent about \$21 million with the credit card.

Cardholders have limits on the amount they can spend with the credit card and the types of vendors they can use. The agencies covered by our review, except the Air Force's 89th Military Airlift Wing, generally limit the amount cardholders can spend on any single purchase to \$1,000 or less, unless the cardholder works in a procurement office. In addition, agencies limit the amount all cardholders in an office can spend during a month. They also determine the types of vendors cardholders can use, such as hardware stores and business services. Cardholders are generally prohibited from using the small purchases credit card at airlines, restaurants, and hotels because the small purchases credit card program is not intended to compete with the Diners Club credit card program for employee travel.

For purchases over specified amounts, which vary by vendor, the vendor is required to obtain authorization from the credit card network, which electronically connects vendors, banks, and the VISA credit card organization. To obtain authorization for the purchase, the vendor either calls the network or passes the card through a device that is electronically connected to the network. If the purchase is above the cardholder's limits or the vendor is not one of the types authorized for use by the cardholder, the vendor will not receive authorization for the sale.

PAYMENTS UNDER THE PROGRAM

Vendors who accept the credit card as a source of payment do not have to send invoices to the federal agency making the purchase. Instead, according to a Rocky Mountain official, they can generally get cash reimbursement for the sale from their banks within 48 hours. The vendors' banks are reimbursed by the credit card company, which, in turn, is reimbursed by Rocky Mountain. Rocky Mountain must then get reimbursed by the government.

Under the Commerce pilot project, Treasury reimbursed Rocky Mountain through a letter of credit, which enabled Rocky Mountain to get payments on a daily basis for the government's credit card charges. However, under the letter of credit, Rocky Mountain was paid before agencies received and verified the accuracy of their credit card invoices. In order for agencies to verify the accuracy of their credit card invoices before making payment, the GSA contract did not use a letter of credit to pay Rocky Mountain. Instead, under the GSA contract, Rocky Mountain sends an invoice to each agency at the end of a billing period, and the agency must make payment in accordance with the Prompt Payment Act of 1982, as amended (31 U.S.C. Chapter 39). The act generally requires that agencies pay an interest penalty if they do not make payment within 30 days after receiving an invoice. The GSA contract estimates that it will take approximately 55.5 days from the time Rocky Mountain makes payments for credit card purchases to the time federal agencies receive and pay their invoices.

FEE FOR USING THE CREDIT CARD

Commerce charged agencies an annual fee for each credit card³ under the pilot project. This fee, which was initially \$50 and later reduced to \$25, primarily covered Commerce's costs for administering the program. Under the GSA contract, agencies no longer pay annual credit card fees. Instead, they pay a fee--called the administrative fee--which is a percentage of all purchases made with the credit card.

The administrative fee for the first year of the GSA contract (March 4, 1989, through March 3, 1990) was 2.356 percent. Of this fee, 61.5 percent covered Rocky Mountain's cost of funds³ for the estimated 55.5 days it finances credit card purchases. In addition, the administrative fee provides a profit margin for Rocky Mountain and covers its administrative expenses, such as those for preparing management information reports to agencies. The administrative fee declined to 1.876 percent in March 1990, the beginning of the second contract year. It will decline further when the government's total purchases with the card exceed certain dollar levels. For the first 2 contract years, total government purchases will be calculated by adding together the purchases made during both years. However, for the remaining 3 years of the contract, only total purchases within each contract year will be

³The cost of funds is the interest paid to borrow the funds or the income that could have been earned by using the funds for an alternative investment.

used to determine the administrative fee. The fee that is reached by the end of a contract year carries over to the next contract year and remains in effect until the next level is reached. (See table I.1.)

Table I.1: Administrative Fees Under the GSA Contract as of March 4, 1990

<u>Total government purchases</u>	<u>Administrative fees^{a,b}</u>
(Dollars in millions)	(Percent)
\$ 50	1.143
75	1.036
100	.887
150	.779
200	.676
250	.629
500	.528
1,000	.512

^aThe administrative fees are adjusted at the beginning and middle of the contract year according to a formula in the contract. The formula is based on changes in the federal funds rate (which is the GSA contract's basis for calculating Rocky Mountain's cost of funds) and the income Rocky Mountain receives from fees that vendors pay under the program.

^bAgencies that receive their monthly reports and invoices electronically, instead of through the mail, are charged an administrative fee .094 less than those listed above. For example, instead of paying 1.143 percent, those agencies would pay 1.049 percent.

After a new level with a lower administrative fee is reached, Rocky Mountain will refund the agencies involved in the program the difference between what they paid under the previous fee and what they would have paid if the new fee had been in place during the year. This refund will cover purchases made from the beginning of the contract year to the point the new fee is reached. The refund will be calculated and paid at the end of the contract year.

APPENDIX I

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OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES OF OUR REVIEW WERE TO

- DETERMINE THE BENEFITS, LIMITATIONS, AND COSTS OF THE SMALL PURCHASES CREDIT CARD PROGRAM
- ASSESS AGENCIES' IMPLEMENTATION OF THE INTERNAL CONTROLS ESTABLISHED FOR THE PROGRAM

SELECTED 7 AGENCIES TO REPRESENT A RANGE OF SIZES OF CREDIT CARD PROGRAMS

INTERVIEWED OFFICIALS TO GET THEIR VIEWS ON PROGRAM BENEFITS AND LIMITATIONS

OBTAINED AVAILABLE DATA ON THE COST OF USING THE CREDIT CARD VERSUS OTHER PROCUREMENT AND PAYMENT METHODS

REVIEWED A SAMPLE OF MONTHLY CARDHOLDER STATEMENTS UNDER COMMERCE PILOT PROGRAM AND GSA CONTRACT

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were (1) to determine the benefits, limitations, and costs of the small purchases credit card program and (2) to assess agencies' implementation of the internal controls established for the program.

To determine the requirements for the program and how the program is intended to operate, we reviewed federal requirements for small purchases, agency internal guidance and other documents on the small purchases credit card program, and the Federal Supply Schedule on the Governmentwide Commercial Credit Card Service. To obtain background information on the Commerce pilot project, the GSA program, and the contracts with Rocky Mountain, we reviewed the contracts and Commerce reports on the results of the pilot project and interviewed officials at Commerce, GSA, the Office of Management and Budget, Treasury, and Rocky Mountain. To learn about requirements to make credit card purchases from small businesses, we reviewed the laws and regulations establishing the requirements and interviewed officials at the Small Business Administration.

We selected agencies for our review to represent a range of sizes of small purchases credit card programs under the Commerce pilot project. Three of the agencies we selected for review--the Department of the Treasury's Bureau of Alcohol, Tobacco, and Firearms (ATF); the Department of Transportation's Coast Guard Ninth District; and the Department of Health and Human Services' Social Security Administration (SSA)--had over 350 cardholders each and were among the agencies with the most cardholders. Three other agencies--the Environmental Protection Agency (EPA), the Department of Housing and Urban Development's (HUD) headquarters, and the Air Force 89th Military Airlift Wing--had between 50 and 350 cardholders, while the Department of the Treasury's Internal Revenue Service's headquarters had less than 50 cardholders.

At these agencies, we interviewed officials involved in managing and implementing the program, such as procurement, finance, and approving officials, and cardholders to obtain their views on the benefits and limitations of the small purchases credit card program.

In our analysis of whether agencies were following the internal controls established for the program, we reviewed a sample of cardholder statements to determine if (1) cardholders were adequately documenting their purchases and (2) the purchases were properly reviewed by an approving official. Most of our review was conducted while agencies were participating in the Commerce pilot

project, and, for all agencies, we reviewed the most recent month of activity at the time of our review. Also, for some agencies, we reviewed additional months of activity. To determine if switching to the GSA contract affected agencies' internal controls over the program, we reviewed some agencies' first month of activity under the GSA contract. We were unable to review a sample of cardholder statements at IRS headquarters because, at the time of our work, few cardholders had reviewed and submitted their statements as required by IRS guidelines. In addition to reviewing 2 months of cardholder statements at SSA headquarters, we reviewed the documentation of statements for SSA cardholders in one regional area for fiscal year 1989. We did this because SSA does not require cardholders to send their documentation of purchases to headquarters. Table II.1 shows the number of months for which we reviewed statements at each agency, the number of statements in the sample, and the total charges on the statements we reviewed.

Table II.1: Monthly Cardholder Statements Reviewed

	<u>Number of months reviewed</u>		<u>Number of statements</u>	<u>Dollar value</u>
	<u>Under Commerce</u>	<u>Under GSA</u>		
Environmental Protection Agency	4	1	214	\$132,118
Department of Housing and Urban Development headquarters	4	1	213	251,941
Coast Guard, Ninth District	4	0a	164	38,109
Bureau of Alcohol, Tobacco, and Firearms	1	1	63	12,969
Social Security Administration	1	1	50	5,684
Air Force 89th Military Airlift Wing	1	0b	27	88,146

aThe Coast Guard Ninth District was making organizational changes in the program that would have affected the results of our work covering the first month under the GSA contract; therefore, we excluded it from our sample.

bThe Air Force 89th Military Airlift Wing planned to start using a credit card designed for aviation and did not participate in the small purchases credit card program under the GSA contract.

To supplement our detailed analysis of the agencies in our review, we also obtained the views of officials at the Departments of the Navy and Interior and the Department of Agriculture, because these agencies account for 44 percent of the dollars spent under the GSA contract from April 1989 through March 1990.

To determine the savings that result from using the credit card, we obtained Treasury documents on savings reported by agencies participating in the program. Also, from Commerce and

entities within the Navy and Interior, we obtained analyses of the cost of using other procurement and payment methods versus the cost of using the small purchases credit card; however, we did not assess the accuracy and validity of the cost analyses performed by agencies. In addition, we assessed whether the arrangement under the GSA contract of including the cost of funds in the administrative fee is cost-effective from a governmentwide perspective. To do this, we compared the cost of different levels of administrative fees to the government's cost of funds for making immediate payment to Rocky Mountain.

The views of responsible agency officials were sought during the course of our work and are incorporated where appropriate.

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PROGRAM BENEFITS AND LIMITATIONS

CREDIT CARD BENEFITS INCLUDE

- PAPERWORK REDUCTION
- PROMPT RECEIPT OF ITEMS
- REDUCED NUMBER OF INVOICES
- REDUCED VENDOR INQUIRIES ABOUT PAYMENTS

CREDIT CARD LIMITATIONS INCLUDE

- TIME REQUIRED BY FINANCE OFFICE TO VERIFY AGENCY INVOICE
- ADMINISTRATIVE FEE
- DIFFICULTIES IDENTIFYING SMALL BUSINESSES

PROGRAM BENEFITS AND LIMITATIONS

The small purchases credit card program offers several benefits to agencies, such as reducing the paperwork needed to make a purchase and reducing the number of invoices agencies receive. However, the overall benefits from the program are limited by factors such as the time-consuming nature of verifying the agency's credit card invoice and the requirement to pay an administrative fee for using the credit card.

PROGRAM BENEFITS

The small purchases credit card program can help improve purchasing and payment efficiency and reduce the cash requirements of imprest funds.

Credit Card Improves Purchasing Efficiency

Cardholders and officials who manage the small purchases card programs at EPA, HUD, the Coast Guard, ATF, and SSA told us that the credit card requires less paperwork than other purchasing methods. For example, with the small purchases credit card, a cardholder does not have to complete a requisition form requesting that the procurement office purchase office supplies. Instead, the cardholder can buy supplies directly from an office supply store. Also, the cardholder does not need to go to an imprest fund cashier, which eliminates the need to complete a form requesting imprest fund monies.

Officials at EPA, HUD, the Coast Guard, and ATF stated that the card reduces the amount of time required to obtain an item because cardholders can make purchases themselves, instead of waiting for the procurement office to make the purchase or for procurement forms to be approved. Also, officials at EPA and HUD told us that by letting program officials make their own small purchases, the procurement office can concentrate its efforts on complex, higher priced purchases.

In addition, officials at EPA, ATF, HUD, IRS, and the Coast Guard informed us that using the small purchases credit card makes it easier to find vendors who will do business with the federal government. For example, officials said that, in the past, some vendors would not accept purchase orders or standard form 44s because the government took too long to make payment. However, they said that the vendors like the small purchases credit card, which, according to a Rocky Mountain official, generally enables

the vendors to receive payment from their banks within 48 hours of the purchase.

Credit Card Can Improve Payment Process

The small purchases credit card enables agencies to reduce the number of invoices their finance offices receive from vendors and must process for payment. This occurs because under the small purchases credit card program, the agencies do not make individual payments to vendors. Instead, vendors are paid through the credit card network, and agencies pay Rocky Mountain based on a consolidated monthly invoice of all credit card purchases. Reducing the number of invoices agencies must pay saves Treasury the \$.30 in processing and mailing costs for the check issued to pay each invoice.

Making fewer individual payments to vendors can also help agencies avoid problems that result from receiving many invoices, such as late payments and inquiries from vendors. For example, a finance office official at the Coast Guard Ninth District attributed the District's use of the small purchases credit card with reducing the number of late payments it made from 200 in fiscal year 1987 to 10 in fiscal year 1989. Also, officials at ATF, the Coast Guard Ninth District, and EPA said that using the card had greatly reduced the number of inquiries vendors make to agency finance offices about invoice payment. Officials said that responding to these inquiries can be extremely time-consuming; therefore, reducing the number of these inquiries can improve the finance offices' overall efficiency.

Credit Card Reduces Imprest Funds

The small purchases credit card enables agencies to reduce the use of imprest funds for small purchases, thereby reducing the amount of cash that needs to be held in these funds. Reducing the size of imprest funds improves Treasury's cash flow and gives it a higher cash reserve on which to earn interest. Specifically, Treasury is able to invest the unneeded cash in special bank accounts that earn interest and to delay borrowing funds from the public, thus reducing interest on borrowed funds.

According to a December 1989 Department of Commerce report on its experiences under the pilot project, Commerce's imprest funds decreased 40 percent in fiscal year 1988, when it began using the small purchases credit card extensively. Based on this decrease, Commerce estimated the government saved \$91,000 in interest during fiscal year 1988. In addition, an analysis done by the Navy's Naval Weapons Center at China Lake found that the Center's imprest

fund used \$20,000 less in the month of September 1989 than it used in September 1988, when its small purchases credit card program was just beginning.

PROGRAM LIMITATIONS

The limitations of the small purchases credit card include the amount of time that agencies spend verifying their credit card invoices and the cost of the administrative fee for using the credit card. In addition, not all vendors accept the credit card, and, as with other small purchase methods, those making purchases with the credit card may have difficulty complying with the requirement to make purchases from small businesses.

Verifying Agency Invoices Is Time-Consuming

Efficiency improvements that result from receiving fewer invoices can be offset by the amount of time the finance office spends verifying monthly credit card invoices. To verify its agency's consolidated monthly invoice, a finance office must receive statements from each cardholder that have been reviewed by the cardholder and approving official. The finance offices at EPA and ATF had difficulties getting statements from all their cardholders and had to spend time contacting the cardholders to obtain the statements. Officials at the EPA and ATF finance offices stated that the significant amount of time their offices spend contacting cardholders is a disadvantage of the credit card program.

Agencies Dissatisfied With the Administrative Fee

Our review found that agency officials were generally dissatisfied with the administrative fee agencies must pay to use the credit card. Agency officials stated that the federal government should not have to pay an administrative fee because Rocky Mountain already earns income from fees vendors pay on purchases made with a VISA card. However, Rocky Mountain and GSA officials stated that Rocky Mountain's income from vendors' fees--called the interchange fee--currently does not cover Rocky Mountain's costs for the program. The interchange fee is shared among the vendor's bank, the VISA network, and Rocky Mountain. In 1989, Rocky Mountain's interchange fee income from the small purchases credit card was 1.37 percent of all government purchases with the card.

In addition, Rocky Mountain and GSA officials told us that the administrative fee is necessary because Rocky Mountain cannot

charge the federal government the amount of interest on late payments that it charges private sector cardholders. For example, Rocky Mountain currently charges private sector cardholders an 18.6 percent annual interest rate; federal agencies pay a significantly lower interest rate, which is calculated by Treasury pursuant to the Prompt Payment Act. For the last 6 months of 1989, this rate was 9.125 percent annually.

As discussed in appendix I, a portion of the administrative fee covers Rocky Mountain's cost of funds for making payments for credit card purchases approximately 55.5 days before it receives reimbursement. This cost of funds was not included in the annual credit card fees agencies paid under the Commerce pilot project; however, by paying Rocky Mountain daily for credit card purchases, the government lost the interest it could have earned if it had delayed payment. According to a GSA official, now that the cost of funds is covered through the administrative fee, some agencies perceive the fee as being too high.

To determine whether the current arrangement of including the cost of funds in the administrative fee is cost-effective from a governmentwide perspective, we compared the current administrative fee to the amount of interest the government would lose by making daily payments to Rocky Mountain. Our analysis showed that, because the administrative fee will decline when total government purchases reach certain dollar levels (as shown in table I.1), paying the administrative fee will eventually be more cost-effective than making daily payments to Rocky Mountain. Specifically, we converted the interest rate applicable to the government's investments to a rate comparable to the credit card's administrative fee.⁴ We concluded that the interest the government would lose by making daily payments to Rocky Mountain is equivalent to a 1.229 percent administrative fee. This is greater than the 1.143 percent administrative fee agencies will pay when total government purchases with the credit card exceed \$50 million.

⁴For this conversion, we (1) used the federal funds rate (which is the basis for calculating the cost of funds portion of the GSA contract's administrative fee) minus .25 percent to approximate the interest rate for the government's investments and (2) converted it from an annual rate to a rate applicable to a 55.5 day period, which is the period of time credit card purchases are financed as estimated by the GSA contract.

Some Vendors Do Not Accept Credit Cards

Although the credit card generally makes it easier to find retail vendors from which to make purchases, officials at HUD, IRS, the Coast Guard, and SSA mentioned that some vendors, such as some wholesalers and office equipment repair shops, do not accept credit cards. Also, agencies such as IRS and SSA which frequently purchase information from banks to determine an individual's financial status are unable to use the small purchases credit card to purchase the information because the banks do not accept credit cards for payment.

Rocky Mountain officials stated that they are making efforts to get more vendors to accept the credit card. They stated that they ask federal agencies to give them the names of vendors that do not accept the credit card, so that they can contact the vendors and arrange for them to accept the credit card.

Cardholders May Have Difficulties Identifying Small Businesses

The Small Business Investment Act of 1958, as amended, generally requires that agencies make small purchases from small businesses, when available (15 U.S.C. 644(j) (1988)). However, due to the complexity of the definition of a small business, cardholders may have difficulty identifying small businesses from which to make purchases. According to a Small Business Administration official, the definition, contained in a 15-page table in the Code of Federal Regulations (13 C.F.R. 121.601 (1990)), probably is not understood by cardholders. Agency officials told us that their primary guidance on how to identify small businesses for those who make small purchases, including credit cardholders, is to ask someone at the business whether it is small or large. Small Business Administration officials told us that salespeople should not be expected to know whether the business they work for qualifies as a small business under federal regulations. Therefore, those who use the small purchases credit card, as well as those who use other procurement methods, may have difficulty identifying small businesses and complying with the requirement to purchase from those businesses.

RELIABLE ANALYSES OF PROGRAM SAVINGS UNAVAILABLE

LIMITED ANALYSES BY 3 AGENCIES INDICATE THE CREDIT CARD CAN SAVE MONEY

TREASURY ESTIMATES OF SAVINGS FROM THE CREDIT CARD MAY BE INACCURATE

AGENCIES SHOULD ANALYZE HOW CREDIT CARD COSTS COMPARE WITH COSTS OF OTHER PURCHASING AND PAYMENT METHODS

RELIABLE ANALYSES OF PROGRAM SAVINGS UNAVAILABLE

Although the agencies included in our review believe that using the small purchases credit card improves efficiency, most had not analyzed how the cost of using the credit card compares with the cost of using other purchasing and payment methods. However, three organizations, including the Department of Commerce, have conducted such analyses. The Department of the Treasury, in its efforts to monitor agencies' progress in using cash management initiatives, has been collecting data from agencies on operational savings that result from using the credit card. However, the data may be inaccurate because agencies have not conducted the type of analyses needed to make reliable estimates of savings.

LIMITED AGENCY ANALYSES
INDICATE THE CREDIT CARD
CAN SAVE MONEY

The Department of Commerce and components in the Navy and Interior have analyzed the cost of using the small purchases credit card compared to other procurement and payment methods. As mentioned in appendix 1, we did not verify the accuracy and validity of these analyses. The analyses resulted in varying cost figures, but all showed that allowing program officials to make their own purchases with the credit card was less expensive than other methods.

The Department of Commerce's analysis found that the small purchases credit card is more cost-effective to use than three traditional methods of making purchases and payments--the purchase order, the standard form 44, and cash from an imprest fund. The analysis was based on procurement and finance office officials' judgment of the amount of staff time spent requesting a procurement, completing required forms, receiving deliveries or picking up purchases, and certifying the bill for payment. The analysis was also based on the assumption that the credit cards were being used by program officials who did not have to complete a requisition form for a credit card purchase. The Commerce analysis results were that a purchase with the credit card costs \$16 to process, while a purchase order costs \$44 to process, and imprest fund and standard form 44 purchases cost \$26 and \$22, respectively. Department of Commerce officials said this analysis only applies to Commerce and does not necessarily apply to other agencies, because it is based on Commerce's procedures, which probably differ from those used by other agencies. The primary reason that less staff time is needed to make and pay for a purchase with the card than for other methods is that forms, such as requisition forms,

standard form 44s, or imprest fund vouchers, do not have to be completed before making a card purchase.

The Department of the Interior's Geological Survey did an analysis that covered the same type of expenses as Commerce's analysis and found that it spends from \$166 to \$245 to process a purchase order and \$18 to process a credit card purchase. The Naval Weapons Center at China Lake also did an analysis that compared the average cost of processing a purchase made by the procurement office using methods other than the credit card with the cost of having officials make their own purchases with the credit card. This analysis showed that a purchase with the credit card costs \$98 compared to \$154 for a purchase by the procurement office.

TREASURY ESTIMATES ON SAVINGS FROM
THE CREDIT CARD MAY BE INACCURATE

Agencies using the small purchases credit card are instructed to report savings that result from the program to Treasury. For fiscal year 1989, 13 agencies reported savings of \$1,659,616 from using the small purchases credit card. However, we believe this figure may be inaccurate because, according to a Treasury official, agencies generally based their savings figures on the results of Commerce's analysis, which do not necessarily apply to agencies other than Commerce. In addition, not all agencies using the credit card have yet reported savings to Treasury.

Treasury's instructions to agencies for reporting savings from the credit card program did not require them to conduct their own analyses of the cost of using the credit card compared to other procurement and payment methods. Instead, Treasury provided the results of Commerce's analysis as a guideline, and, according to a Treasury official, agencies generally used these results as the basis for calculating their savings under the program. These data may not be reliable because Commerce's analysis is based on the cost of Commerce's own internal operations, which could differ from the costs associated with the same operations of other agencies. As we discussed above, Interior's Geological Survey and the China Lake Naval Supply Center, which performed their own analyses, had results that differed significantly from those of Commerce.

We believe that to obtain reliable estimates of cost savings from this program, agencies must conduct their own analyses comparing the cost of using the small purchases credit card with other procurement and payment methods. Without these comparative analyses, Treasury will not have meaningful statistics with which to assess the costs and benefits of the small purchases credit

card program versus other procurement and payment methods. Such analyses can also be useful to the Office of Management and Budget and GSA in determining the effectiveness of the credit card program.

RECOMMENDATION

We recommend that the Secretary of the Treasury revise the instructions to agencies for reporting savings from the small purchases credit card program. These instructions should require that agencies calculate their savings estimates based on their costs for using the small purchases credit card versus other procurement and payment methods, covering the entire procurement and payment process.

INTERNAL CONTROL PROBLEMS

4 OF 7 AGENCIES REVIEWED HAD SOME INTERNAL CONTROL PROBLEMS

- PURCHASES AT IRS HEADQUARTERS WERE NOT ROUTINELY DOCUMENTED OR REVIEWED**
- PURCHASES AT EPA AND HUD WERE MISSING DOCUMENTATION**
- STATEMENTS NOT REVIEWED BY DESIGNATED APPROVING OFFICIALS AT EPA, ATP, AND HUD**
- CARDS USED BY NONCARDHOLDERS AT HUD**

INTERNAL CONTROL PROBLEMS

Policies and procedures have been issued prescribing internal controls for the small purchases credit card program that should prevent cardholders from using the card for unauthorized purposes. However, we found weaknesses in the implementation of these controls at four of the seven agencies in our review--IRS, HUD, EPA, and ATF. Specifically, we found instances of inadequate documentation of purchases by cardholders, lack of approving official review of cardholder statements, and noncardholder use of the card. We generally did not find any significant problems in these areas at the Social Security Administration, the Coast Guard Ninth District, or the 89th Military Airlift Wing.

The agencies in our review are making or planning corrective action to ensure that their internal control procedures are followed. Therefore, we are not making specific recommendations to these agencies. We advised internal audit staff at these agencies of the problems we identified. IRS internal audit staff have been conducting a review of the small purchases credit card program, and we suggested that other agencies' internal audit staffs monitor their agencies' efforts to correct the problems we identified.

INTERNAL CONTROLS OVER CARD PURCHASES

The small purchases credit card program has two primary internal controls to ensure that the credit card is only used for authorized purposes and that agencies only pay for items they have received. These controls are (1) cardholders are to review monthly statements of their charges and attach receipts showing what was purchased and (2) approving officials are to review the cardholders' statements and receipts to ensure that the purchases were for authorized purposes. After the approving officials review the statements, they send them to the finance office to use in verifying the agency's credit card invoice.

These internal controls over the small purchases credit card program were developed under the Commerce pilot project and were included in agencies' internal guidance on the program. The Federal Supply Schedule on the Governmentwide Commercial Credit Card Service under the GSA contract also provides guidance to agencies on the controls over the program.

PURCHASES NOT DOCUMENTED OR
REVIEWED AT IRS HEADQUARTERS

Our review at IRS headquarters disclosed that IRS cardholders, who were purchasing agents in the procurement office, were not implementing the internal controls over the small purchases credit card program. Specifically, as of December 1989, cardholders had not submitted statements to the IRS finance office for approximately \$392,000, or 94 percent, of the \$418,000 in purchases they made with the card during fiscal years 1988 and 1989. Because the finance office did not receive these statements, IRS had no assurance that the purchases were received by the agency or were for authorized purposes. An official from IRS' office of internal audit told us that that office conducted a review of the small purchases credit card program at IRS and also identified this problem.

According to an IRS official, the problem occurred because purchasing agents in the procurement office ordinarily are not required to verify receipt of the items they purchase and, therefore, did not follow this requirement for purchases made with the small purchases credit card. IRS has made an effort to resolve this problem by appointing an official to monitor the program, ensure that cardholders submit their old statements and documentation for the purchases, and provide clear instructions to cardholders on procedures for the program.

MISSING DOCUMENTATION OF
PURCHASES AT HUD AND EPA

At HUD and EPA, about a quarter of the statements we reviewed from the Commerce pilot project were submitted to the agencies' finance offices without receipts for the purchases. The receipts or other documentation, such as packing slips from items received through the mail, are needed to document that the items purchased were received and were for authorized purposes. At HUD, 27 percent of the 173 monthly cardholder statements we reviewed from the Commerce pilot project were missing sales receipts for purchases totaling approximately \$27,500. In addition, 29 percent of the 174 statements we reviewed at EPA from the Commerce pilot project did not have receipts for purchases of at least \$29,600. A HUD official stated that the receipts may be missing because (1) the cardholders are not attaching them to the statements, (2) approving officials are not ensuring that cardholders attach them, and (3) some vendors do not provide receipts. EPA officials stated that some cardholders may not attach receipts because they do not

understand the requirement to do so and that for some purchases, especially those made over the telephone, vendors may not provide receipts.

At EPA, the documentation of purchases improved under the GSA contract. Of the 40 statements we reviewed at EPA for the first month under the GSA contract, 15 percent were missing receipts for purchases. An EPA official who oversees the small purchases credit card program attributed the improvement to EPA's monitoring of card purchases and sending memorandums to cardholders reminding them of the program's requirements.

Although the documentation of purchases at HUD did not improve under the GSA contract, HUD officials stated that they will be issuing additional guidance to cardholders and holding training sessions to help ensure that cardholders follow the credit card program's procedures.

STATEMENTS NOT REVIEWED BY
DESIGNATED APPROVING OFFICIALS

The review of monthly cardholder statements by the approving official is an essential control to ensure that credit card purchases are for official purposes. The approving official needs to be aware of the requirements for credit card use and for documenting purchases and should be able to detect misuse of the card. However, we found the following:

- At EPA, 7 percent of the 174 statements we reviewed from the Commerce pilot project were accepted by the finance office with no approving official signature. According to an EPA official involved in the small purchases credit card program, EPA managers travel frequently, and, therefore, the approving officials may not have been available to sign the statements. In its operations under the GSA contract, EPA's finance office returns all monthly statements to the cardholder if the approving official's signature is missing.
- Twenty-seven percent of the 63 statements we examined at ATF's finance office and 15 percent of the 213 statements at HUD's finance office were approved by someone other than the designated approving official. Officials at ATF said the approving officials may have been too busy or not available to review the statements. Consequently, someone else was designated to perform the review, but the agency did not have a system for verifying that these people were authorized to perform the approving officials' review. An

ATF official stated that, in the future, ATF will require a written explanation whenever someone other than the designated approving official approves a cardholder statement. Also, HUD officials said that during the period covered by our review, HUD was undergoing a change in administration and many of the managers were on an acting basis; therefore, the credit card files had not been changed to show the individuals currently authorized to serve as approving officials. According to a HUD official, to address this problem, the HUD finance office will keep a file of officials who are authorized to review cardholder statements for the approving official.

CARDS USED BY NONCARDHOLDERS AT HUD

The cardholder's knowledge of credit card purchases and verification of the monthly statement is a key element in the internal controls over the card. The federal government is only liable for purchases made by authorized cardholders. However, the practice of loaning cards could result in instances of fraud.

Out of the 213 statements we reviewed at HUD, we found 8 instances of noncardholders using the small purchases credit card to make purchases which appeared to be for authorized purposes. In these instances, noncardholders had signed the credit card receipts attached to the monthly statements. However, because 27 percent of the statements we reviewed at HUD were missing receipts, we were unable to determine the extent to which noncardholders used the credit card. A HUD official involved in the program stated that cardholders should not allow others to use their cards but that some cardholders view the card as an office card and not an individual card. Also, a HUD cardholder told us that he allows a co-worker to use his card if he does not have the time to make the purchase himself. A HUD official stated that HUD will provide additional guidance to cardholders and hold a training class that emphasizes that cardholders should not allow others to use their cards.

APPENDIX V

APPENDIX V

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