



PURCHASE CARDS

Increased Management and Oversight Could Save Hundreds of Millions of Dollars

Highlights of GAO-04-717T, a testimony before the Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

From 1994 to 2003, the use of government purchase cards increased from \$1 billion to \$16 billion. During this time, agencies primarily focused on ways to increase the use of purchase cards. Beginning in 2001, GAO testified and reported that significant weaknesses in internal controls made agencies vulnerable to fraud, waste, and abuse, and inefficient purchasing actions. In response to increased use of purchase cards and serious control weaknesses in the purchase card program, GAO was asked to summarize the growth of the purchase card program, the control weaknesses that led to fraud and misuse of the cards, actions taken to tighten controls and discipline cardholders, and agency actions to leverage the government's buying power when using the purchase card.

In a companion report released today, GAO made recommendations to the Office of Management and Budget and General Services Administration, and the Departments of Agriculture, Defense, Interior, Justice, Transportation, and Veterans Affairs aimed at encouraging agencies to begin taking steps to achieve savings through better management of purchase card spending. In general, the agencies that responded agreed with GAO's findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-717T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9095 or kutzg@gao.gov.

What GAO Found

Governmentwide efforts to promote increased usage of purchase cards for small and routine purchases have dramatically increased the number of purchase card accounts and spending. The use of a well-controlled purchase card program is a useful tool in streamlining the government's acquisition processes and providing agencies flexibility to make small and routine purchases. However, improvements in program management and oversight could save hundreds of millions of dollars by (1) strengthening controls and monitoring transaction activity to minimize fraudulent, improper, and abusive purchase card transactions and (2) leveraging the government's buying power to achieve discounts with frequently used vendors.

GAO's audits of purchase card controls at DOD and four civilian agencies and federal agency Inspectors General audits identified ineffective management oversight and weak internal controls, leaving agencies vulnerable to fraudulent, improper, and abusive purchase card activity. GAO's data mining, forensic audit follow-up, and investigations identified numerous purchases of personal items such as jewelry, designer leather goods, clothing, stereo equipment, food, and entertainment. While agencies responded to these audit reports by issuing and updating purchase card policies and procedures, GAO's work at DOD demonstrated that little disciplinary or administrative action was taken against those who made improper or abusive charges.

GAO also found that agencies generally did not take advantage of opportunities to obtain more favorable prices on purchase card buys with frequently used vendors—vendors where an agency spends more than \$1 million annually. GAO's examination of six federal agencies that account for over 85 percent of federal government purchase card spending identified isolated examples of agencies negotiating discounts for items such as office supplies and technology purchases. However, a conservative approach indicated that if the six agencies obtained discounts of only 10 percent from vendors where they spent more than \$1 million a year, annual savings of up to \$300 million could be achieved without sacrificing the ability to acquire items quickly or compromising socioeconomic goals. As shown in the following table, during fiscal year 2002, these agencies spent nearly \$3 billion with frequently used vendors.

Amount Spent in Fiscal Year 2002 with Frequently Used Vendors (in Millions)

Defense	\$1,614
Veterans Affairs	822
Agriculture	72
Justice	154
Interior	85
Transportation	74
Total	\$2,821

Source: GAO analysis.