

**NAVAL POSTGRADUATE SCHOOL  
Monterey, California**



**THESIS**

**IMPLEMENTING A STANDARDIZED PURCHASE CARD  
PROGRAM AT NAVAL FACILITIES ENGINEERING  
COMMAND SOUTHWEST DIVISION**

by

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December 2001

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## Report Documentation Page

<b>Report Date</b> 19 Dec 2001	<b>Report Type</b> N/A	<b>Dates Covered (from... to)</b> -
<b>Title and Subtitle</b> Implementing a Standardized Purchase Card Program at Naval Facilities Engineering Command Southwest Division	<b>Contract Number</b>	
	<b>Grant Number</b>	
	<b>Program Element Number</b>	
<b>Author(s)</b> Aprell Bradford	<b>Project Number</b>	
	<b>Task Number</b>	
	<b>Work Unit Number</b>	
<b>Performing Organization Name(s) and Address(es)</b> Naval Postgraduate School Monterey, California	<b>Performing Organization Report Number</b>	
<b>Sponsoring/Monitoring Agency Name(s) and Address(es)</b>	<b>Sponsor/Monitor's Acronym(s)</b>	
	<b>Sponsor/Monitor's Report Number(s)</b>	
<b>Distribution/Availability Statement</b> Approved for public release, distribution unlimited		
<b>Supplementary Notes</b>		
<b>Abstract</b>		
<b>Subject Terms</b>		
<b>Report Classification</b> unclassified	<b>Classification of this page</b> unclassified	
<b>Classification of Abstract</b> unclassified	<b>Limitation of Abstract</b> UU	
<b>Number of Pages</b> 117		

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# REPORT DOCUMENTATION PAGE

Form Approved OMB No.  
0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.

<b>1. AGENCY USE ONLY (Leave blank)</b>	<b>2. REPORT DATE</b> December 2001	<b>3. REPORT TYPE AND DATES COVERED</b> Master's Thesis	
<b>4. TITLE AND SUBTITLE</b> Implementing a Standardized Purchase Card Program at Naval Facilities Engineering Command Southwest Division			<b>5. FUNDING NUMBERS</b>
<b>6. AUTHOR (S)</b> Aprell Z. Bradford			
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b> Naval Postgraduate School Monterey, CA 93943-5000			<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>
<b>9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b>			<b>10. SPONSORING/MONITORING AGENCY REPORT NUMBER</b>
<b>11. SUPPLEMENTARY NOTES</b> The views expressed in this thesis are those of the author and do not reflect the official policy or position of the U.S. Department of Defense or the U.S. Government.			
<b>12a. DISTRIBUTION / AVAILABILITY STATEMENT</b> Approved for public release; distribution is unlimited			<b>12b. DISTRIBUTION CODE</b>
<b>13. ABSTRACT (maximum 200 words)</b> This thesis examines the elements and actions necessary to develop and implement a standardized purchase card program for Naval Facilities Engineering Command, Southwest Division. The thesis will review regulations, policy, and procedures governing the use of the Government purchase card for acquiring micro-purchases. A variety of Government agencies' purchase card programs are analyzed and best practices extracted. Moreover, barriers and roadblocks to implementing and expanding the use of the purchase card will be discussed. Lastly, recommendations that are germane to the effective implementation of the purchase card for micro-purchases will be proposed.			
<b>14. SUBJECT TERMS</b> Government-wide Purchase Card Program, Micro-Purchase, Federal Acquisition Streamlining Act			<b>15. NUMBER OF PAGES</b> 117
			<b>16. PRICE CODE</b>
<b>17. SECURITY CLASSIFICATION OF REPORT</b> Unclassified	<b>18. SECURITY CLASSIFICATION OF THIS PAGE</b> Unclassified	<b>19. SECURITY CLASSIFICATION OF ABSTRACT</b> Unclassified	<b>20. LIMITATION OF ABSTRACT</b> UL

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)  
Prescribed by ANSI Std. Z39-18

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IMPLEMENTING A  
STANDARDIZED PURCHASE CARD PROGRAM AT  
NAVAL FACILITIES ENGINEERING COMMAND  
SOUTHWEST DIVISION

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Submitted in partial fulfillment of the  
requirements for the degree of

MASTER OF SCIENCE IN CONTRACT MANAGEMENT

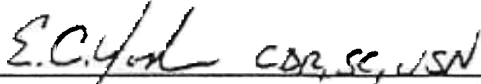
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December 2001

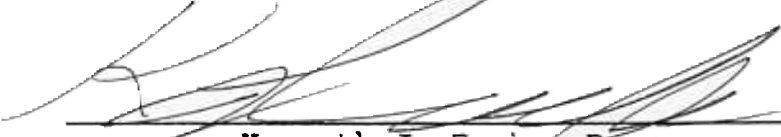
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## **ABSTRACT**

This thesis examines the elements and actions necessary to develop and implement a standardized purchase card program for Naval Facilities Engineering Command, Southwest Division. The thesis will review regulations, policy, and procedures governing the use of the Government purchase card for acquiring micro-purchases. A variety of Government agencies' purchase card programs are analyzed and best practices extracted. Moreover, barriers and roadblocks to implementing and expanding the use of the purchase card will be discussed. Lastly, recommendations that are germane to the effective implementation of the purchase card for micro-purchases will be proposed.

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## I. INTRODUCTION

### A. GENERAL

Implementation of acquisition reform initiatives directly impacts the workforce. Acquisition reform opens the door to new ways of doing business. It mandates migration of the workforce from one that approached acquisition from a stovepipe paradigm, risk avoidance process to one of innovation, flexibility and risk management. Reform initiatives requires that those in the acquisition process change the fundamental way they do business, incorporating the business practices of the commercial sector.

Over the past several years, Department of Defense (DoD) has developed statutory and regulatory policies that bring common sense back into the procurement process and thereby, moves the process closer to commercial practices.

One of those policies was the implementation of the Government purchase card program. Usage of the purchase card makes it possible for program officials to make purchases under or at \$2500 and allows contract experts to focus on larger acquisition programs.

Southwest Division (SWDIV), Naval Facilities Engineering Command (NAVFAC) is in the process of expanding its local policy for implementing the purchase card to acquire goods and services at or below the micro-purchase threshold. SWDIV wants to encourage customers to use their own Government purchase cards to acquire micro-purchase items. SWDIV modified existing service contracts to incorporate the purchase card requirements. This allows

customers to take advantage of negotiated prices on existing service contracts and represents a cost saving to the Government by eliminating administrative cost associated with procurements at or below the micro-purchase threshold.

## **B. OBJECTIVE**

The objective of this thesis is to research the implementation of a standardized purchase card program within NAVFAC, SWDIV consistent with DoD's policies.

Specifically, this research will attempt to determine the elements and actions that are required to standardize the purchase card program throughout SWDIV, in an effort to improve customer relationships and implement procurement streamlining initiatives.

## **C. RESEARCH QUESTIONS**

The following primary question and subsidiary questions will be answered by the thesis.

### **1. Primary Research Question**

- What are the elements and actions necessary to develop and implement a standardized purchase card program for Southwest Division?

### **2. Subsidiary Research Questions**

- What are the policies and procedures governing purchase card usage?
- What is the current structure for purchase card usage?
- What methods are used by the private sector?
- What are the potential barriers and roadblocks?

## **D. SCOPE**

The scope of this thesis includes a review of the Department of Defense and local policies, a review of other Government agencies' procedures and an analysis of

commercial practices. It encompasses barriers and roadblocks.

This thesis concludes with suggested recommendations for improving the micro-purchase policy. The proposed recommendations can be used in the framework for the continuous improvement of the local purchase card program and internal guidelines relating to micro-purchases.

This thesis offers the benefits of identifying areas of success, areas of concern, roadblocks, and areas for improvements to ensure maximum benefits are achieved through properly usage of the Government purchase card for acquiring micro-purchase items.

#### **E. LIMITATIONS**

While the researcher acknowledges that the Government Purchase Card Program encompasses using the purchase card for a variety of tasks, this thesis does not analyze, in great details, the following:

- Using the purchase card as a method of payment for actions above the micro-purchase threshold, non-simplified acquisition methods, certification of training & reimbursement, and printing requisition;
- Purchases made to support Foreign Military Sales;
- Accommodation checks; and
- Using the purchase card for Contingency, Humanitarian, or Peacekeeping Operations.

#### **F. ASSUMPTIONS**

The reader is assumed to have a basic understanding of the acquisition process in the Federal Government. The reader should understand the regulations and policies governing acquisition procedures. Appendix A provides a glossary with pertinent acronyms and definitions as used

throughout this thesis. To clarify their meaning within this thesis, definitions will be elaborated where appropriate.

#### **G. METHODOLOGY**

This research will begin with a review of literature accumulated from the Internet, books, magazine articles, Government reports, private vendors, and other library information resources. A review of DoD's guidance and policies, as well as local procedures, will be also conducted.

Interviews and questionnaires will be completed to establish a common base of standards and to ensure collection of the most recent data.

The information gathered will identify barriers and roadblocks to implementing the purchase card program. It will be used to recommend innovative and viable solutions for process improvements.

#### **H. ORGANIZATION OF STUDY**

This thesis is presented in six chapters.

Chapter I (Introduction) will define the objective, structure, and research questions being addressed.

Chapter II (Background) summarizes background information concerning the Government purchase card program and acquisition policies relating to the purchase card program.

Chapter III (Policies and Procedures) summarizes the existing procedures and tools available while providing an overview of local policies and procedures. This chapter also addresses the purchase card structure, audit findings

conducted by the General Accounting Office, and barriers encountered to implementing the program.

Chapter IV (Review of Other Agencies' Programs) summarizes and analyzes procedures and best practices employed by other Government agencies.

Chapter V (Review of Commercial Practices) analyzes data collected from private vendors of their practices.

Chapter VI (Conclusions and Recommendations) provides conclusions and recommendations resulting from the research.

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## II. BACKGROUND

### A. GENERAL

Placing orders at or below the micro-purchase threshold has been traditionally paperwork intensive, burdensome, and time consuming. Micro-purchase acquisitions generally require the same level of effort as regular, high dollar value procurement.

With the Department of Defense's (DoD) continuous downsizing efforts and amid the rapid changes of electronic procurement, the use of the purchase card for transactions has permeated many agencies. Purchase cards have become the mechanism of choice for efficiency, flexibility, and fast solutions.

In 1993, the National Performance Review (NPR) recommended that agencies increase their use of the Government purchase card. The card's usage would cut red tape normally associated with Federal procurements. [Ref. 10:p. 3]

Since the recommendation by NPR, legislation has eliminated some requirements for purchases made at or below the micro-purchase threshold - currently \$2500 or less. Agencies have found that they can continue to carry out their mission at lower cost, with a reduced workforce, and provide continuous customer support for micro-purchases.

Studies have shown that agencies using the purchase card significantly reduced labor and payment processing cost, often by as much as 50%. [Ref. 10:pp. 3-4]

## **B. OVERVIEW OF DOD POLICIES**

In an effort for the Government to cut the cost of buying goods and services, they implemented the use of the purchase card. President Regan issued an Executive Order in March 1982 that directed all executive agencies to reduce administrative procurement costs. In 1986, in accordance with the Executive Order, several agencies pilot tested the use of the purchase card and found it successful in reducing procurement costs. The agencies participating in the pilot testing found that using the purchase card offered a less costly method and more efficient way to procure goods and services. [Ref. 10:p. 2]

The purchase card was available Government-wide in 1989 through a competitively awarded contract administered by General Services Administration (GSA). The purchase card contract was awarded to Rocky Mountain Bankcard System (RMBCS). [Ref. 10:p. 3] The controls that an agency must adhere to before issuing a card to their staff are specified in the contract.

NPR identified the expanded use of the purchase card as an acquisition reform in 1993. They concluded that the Government could save approximately \$180 Million annually if one-half of all Federal small dollar items were made using the purchase card. NPR recommended the purchase card use by all Federal agencies for small dollar purchases and when ordering from existing contracts. [Ref. 10:p. 3]

Federal Acquisition Streamlining Act (FASA) in 1994, Executive Order 12931, and the Office of Management and Budget memorandum further facilitated and encouraged the

use of the purchase card. [Ref. 27:p. 2] An interim FAR rule was issued in December 1994 making the card the preferred method for making micro-purchases. [Ref. 10:p. 3]

**C. EXECUTIVE ORDER 12931**

Section 1, Executive Order 12931 issued October 13, 1994 by President William J. Clinton, ordered a myriad of reform fundamentals in an effort to streamline procurement and to ensure public funds are efficiently & effectively spent, consistent with NPR's recommendations.

...heads of executive agencies engaged in the procurement of supplies and services shall: [Ref. 30]

- (a) Review agency procurement rules, reporting requirements, contractual requirements, certification procedures, and other administrative procedures over and above those required by statute, and, where practicable, replace them with guiding principles that encourage and reward innovation;
- (b) Review existing and planned agency programs to assure that such programs meet agency mission needs;
- (c) Ensure that procurement organizations focus on measurable results and on increased attention to understanding and meeting customer needs;
- (d) Increase the use of commercially available items where practicable, place more emphasis on past contractor performance, and promote best value rather than simply low cost in selecting sources for supplies and services;
- (e) Ensure that simplified acquisition procedures are used, to the maximum extent practicable, for procurements under the simplified acquisition threshold in order to reduce administrative burdens and more

effectively support the accomplishment of agency missions;

- (f) Expand the use of the Government purchase card by the agency and take maximum advantage of the micro-purchase authority provided in the Federal Acquisition Streamlining Act of 1994 by delegating the authority, to the maximum extent practicable, to the offices that will be using the supplies or services to be purchased;
- (g) Establish clear lines of contracting authority and accountability;
- (h) Establish career education programs for procurement professionals, including requirements for successful completion of educational requirements or mandatory training for entry level positions and for promotion to higher level positions, in order to ensure a highly qualified procurement work force;
- (i) Designate a Procurement Executive with agency-wide responsibility to oversee development of procurement goals, guidelines, and innovation, measure and evaluate procurement office performance against stated goals, enhance career development of the procurement work force, and advise the agency heads whether goals are being achieved; and
- (j) Review existing and planned information technology acquisitions and contracts to ensure that the agency receives the best value with regard to price and technology, and consider alternatives in cases where best value is not being obtained.

**D. DEFENSE MEMORANDUM**

Reiterating and supporting a memorandum issued by the Secretary of Defense, the Under Secretary of Defense issued

a policy memorandum, dated October 2, 1998, and titled, "Streamlined Payment Practices for Awards/Orders Valued at or below the Micro-Purchase Threshold." The memorandum supercedes the Under Secretary of Defense previous purchase card policy memoranda of 1997. [Ref. 22]

A written determination by a member of the Senior Executive Service (SES), Flag Officer or General Officer is required for any type of award/order valued at or below \$2,500 that does not use the purchase card on a stand-alone basis or as the method of payment. This policy includes both *commercial and non-commercial items*. It includes contracts, purchase orders (including SF-44s), orders under task and delivery order contracts, orders under basic ordering agreements, and calls against blanket purchase agreements. The written determination must state that the source or sources available for the supply or service do not accept the purchase card and that the contracting activity is seeking a source that accepts the purchase card. To prevent mission delays, if an activity does not have a resident SES member, Flag Officer, or General Officer, the authority to make this determination may be delegated to the level of the senior local commander or director.

The memorandum goes further to list the exceptions to the written determination requirement: [Ref. 22]

1. If an exception for an electronic commerce/electronic data interchange (EC/EDI) system or operational requirement is approved by the Deputy Secretary of Defense in accordance with the procedures in Purchase Card Program Reengineering Implementation Memorandum #6;
2. If the place of performance is entirely outside of any State, territory, or possession of the United States, the District of Columbia, and the Commonwealth of Puerto Rico;

In the case of SF-44s, for aviation fuel or oil purchases; overseas transactions by contracting officers in support of a contingency operation as defined in 10 U.S.C. 101(a)(13) or a humanitarian or peacekeeping operation as defined in 10 U.S.C.2302(7); transactions in support of intelligence and other specialized activities addressed by part 2.7 of Executive Order 12333; or training exercises in preparation for overseas contingency, humanitarian, or peacekeeping operations;

3. If accommodation checks are used for payment; and
4. For transportation bills.

As of 1 November 2001, a final rule was published permitting the use of the Government purchase card by Contracting Officers supporting contingency, humanitarian, or peacekeeping operations on a stand-alone basis for acquisitions valued at or below the simplified acquisition threshold for contingency operations. Currently that threshold is \$200,000. [Ref. 36]

**E. FEDERAL ACQUISITION REGULATION/DEFENSE FEDERAL ACQUISITION REGULATION SUPPLEMENT**

**1. Federal Acquisition Regulation (FAR)**

The FAR offers broad guidelines to follow in reference to obtaining supplies and services at or below the micro-purchase threshold, using the Government purchase card. Subpart 13.2 -- Actions at or Below the Micro-Purchase Threshold: [Ref. 8]

**13.201 -- General.**

- (a) Agency heads are encouraged to delegate micro-purchase authority (see 1.603-3).
- (b) The Governmentwide commercial purchase card

shall be the preferred method to purchase and to pay for micro-purchases (see 2.101).

(c) Purchases at or below the micro-purchase threshold may be conducted using any of the methods described in subpart 13.3, provided the purchaser is authorized and trained, pursuant to agency procedures, to use those methods.

(d) Micro-purchases do not require provisions or clauses, except as provided at 32.1110. This paragraph takes precedence over any other FAR requirement to the contrary, but does not prohibit the use of any clause.

(e) The requirements in part 8 apply to purchases at or below the micro-purchase threshold.

(f) The procurement requirements in the *Resource Conservation and Recovery Act* (42 U.S.C.6962) and Executive Order 13101 of September 14, 1998, *Greening the Government through Waste Prevention, Recycling, and Federal Acquisition*, apply to purchases at or below the micro-purchase threshold (see Subpart 23.4).

### **13.202 -- Purchase Guidelines.**

(a) *Solicitation, evaluation of quotations, and award.*

(1) To the extent practicable, micro-purchases shall be distributed equitably among qualified suppliers.

(2) Micro-purchases may be awarded without soliciting competitive quotations if the contracting officer or individual appointed in accordance with 1.603-3(b) considers the price to be reasonable.

(3) The administrative cost of verifying the reasonableness of the price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore, action to verify price reasonableness need only be taken if--

(i) The contracting officer or individual appointed in accordance with 1.603-3(b) suspects or has information to indicate that the price may not be reasonable (e.g., comparison to the previous price paid or personal knowledge of the supply or service); or

(ii) Purchasing a supply or service for which no comparable pricing information is readily available (e.g., a supply or service that is not the same as, or is not limited to identification of the solicited concerns and an explanation for the award decision.

### **13.301 -- Governmentwide Commercial Purchase Card.**

(a) The Governmentwide commercial purchase card is authorized for use in making and/or paying for purchases of supplies, services, or construction. Contracting officers and other individuals designated in accordance with 1.603-3 may use the Governmentwide commercial purchase card. The card may be used only for purchases that are otherwise authorized by law or regulation.

(b) Agencies using the Government-wide commercial purchase card shall establish procedures for use and control of the card that comply with the Treasury Financial Manual for Guidance of Departments and Agencies (TFM 4-4500) and that are consistent with the terms and conditions of the GSA Federal Supply Service Contract Guide for Governmentwide Commercial Purchase Card Service. Agency procedures should not limit the use of the Governmentwide commercial purchase card to micro-purchases. Agency procedures should encourage use of the card in greater dollar amounts by contracting officers to place orders and to pay for purchases against contracts established under part 8 procedures, when authorized; and to place orders

and/or make payment under other contractual instruments, when agreed to by the contractor. See 32.1110(d) for instructions for use of the appropriate clause when payment under a written contract will be made through use of the card.

(c) The Governmentwide commercial purchase card may be used to:

(1) Make micro-purchases;

(2) Place a task or delivery order (if authorized in the basic contract, basic ordering agreement, or blanket purchase agreement); or

(3) Make payments, when the contractor agrees to accept payment by the card.

**2. Defense Federal Acquisition Regulation Supplement (DFARS)**

The DFARS guidelines generally are stricter than those of the FAR. It is not intended to relax any guidance provided for in the FAR, only to supplement and provide stricter constraints. DFARS Subpart 213.2—Actions at or Below the Micro-Purchase Threshold: [Ref. 3]

**213-270—Use of the Governmentwide Commercial Purchase Card.**

Use of the Governmentwide commercial purchase card as the method of purchase and/or method of payment for purchases valued at or below the micro-purchase threshold. This policy applies to all types of contract actions authorized by the FAR unless:

(a) The Deputy Secretary of Defense has approved an exception for an electronic commerce/electronic data interchange system or operational requirement that results in a more cost-effective payment process;

(b) (1) A general or flag officer or a member of the Senior Executive Service (SES) makes a written determination that--

(i) The source or sources available for the supply or service do not accept the purchase card; and

(ii) The contracting office is seeking a source that accepts the purchase card.

(2) To prevent mission delays, if an activity does not have a resident general or flag officer of[sic] SES member, delegation of this authority to the level of the senior local commander or director is permitted; or

(c) The purchase or payment meets one or more of the following criteria:

(1) The place of performance is entirely outside of any State, territory, or possession of the United States, the District of Columbia, and the Commonwealth of Puerto Rico.

(2) The purchase is a Standard Form 44 purchase for aviation fuel or oil.

(3) The purchase is an overseas transaction by a contracting office in support of a contingency operation as defined in 10 U.S.C.101(a)(13) or a humanitarian or peacekeeping operation as defined in 10 U.S.C.2302(8).

(4) The purchase is a transaction in support of intelligence or other specialized activities addressed by Part 2.7 of Executive Order 12333.

(5) The purchase is for training exercises in preparation for overseas contingency, humanitarian, or peacekeeping operations.

(6) The payment is made with an accommodation check.

(7) The payment is for a transportation bill.

(8) The purchase is under a Federal Supply Schedule contract that does not permit use of the Governmentwide commercial purchase card.

(9) The purchase is for medical services and -

(i) It involves a controlled substance or narcotic;

(ii) It requires the submission of a Health Care Summary Record to document the nature of the care purchased;

(iii) The ultimate price of the medical care is subject to an independent determination that changes the price paid based on application of a mandatory CHAMPUS Maximum Allowable Charge determination that reduces the Government liability below billed charges;

(iv) The Government already has entered into a contract to pay for the services without the use of a purchase card;

(v) The purchaser is a beneficiary seeking medical care; and

(vi) The senior local commander or director of a hospital or laboratory determines that use of the purchase card is not appropriate or cost effective. The Medical Prime Vendor Program and the DoD Medical Electronic Catalog Program are two examples where use of the purchase card may not be cost-effective.

#### **F. SUMMARY**

Chapter II provided background and summarized legislation, which pertain to utilizing the Government purchase card for micro-purchases within the acquisition workplace. The chronological overview of efforts to define and implement purchase card usage reveals a Government that

is ready to take the next step in providing better, faster, inexpensive, and safer products and services to our customers.

Evidence of the Government taking the next step to expand the use of the purchase card is the 1 November 2001 final rule allowing Contracting Officers supporting contingency, humanitarian, or peacekeeping operations to use the purchase card for acquisitions at or below the simplified acquisition threshold for contingency operations - currently \$200,000.

NPR identified achieving a Government that works better and costs less as a procurement reform. Through their efforts and those of procurement executives, policies have been executed to streamline smaller dollar procurements, and cut cost while continuing to provide quality service to our customers.

Chapter III provides an overview of the structure of the purchase card, a review of the General Accounting Office audit conducted on two San Diego agencies' purchase card programs, and a review of Southwest Division's purchase card program. This chapter also identifies roadblocks and barriers encountered by Government cardholders.

### III. POLICIES AND PROCEDURES

#### A. GENERAL

Since the inception of the purchase card in 1982, reform initiatives for expanded use as recommended by National Performance Review (NPR) and increased by the Federal Acquisition Streamlining Act of 1994 (FASA), more than 225 statutory rules have been revised to reform purchasing and contracting procedures in the Federal Government. [Ref. 16]

When the program was first initiated, it was estimated that by using the purchase card more than 5 million paper purchase order could be eliminated Government-wide. [Ref. 16]

The Government purchase card places purchasing power directly in the hands of the end-user and shifts it away from the understaffed and overworked purchasing office. With such a shift, come obvious concerns as to whether the end-user is properly trained and willing to use the purchase card in keeping with the intent of FASA.

This chapter will review the structure & functionality of the General Services Administration (GSA) contract that provides guidelines on the purchase card, and the control mechanism in place to govern its use. This chapter will also review audits conducted by the General Accounting Office (GAO) of two local San Diego offices in reference to their use or perceived misuse of the Government purchase card. A review of Naval Facilities Engineering Command (NAVFAC), Southwest Division local purchase card program will be examined, as well as potential roadblocks and

barriers identified that can potentially impact the efficiency and benefits of the purchase card.

#### **B. GSA CONTRACT STRUCTURE**

GSA administers the Government purchase card program. Prior to 1998, it was administered as the VISA International Merchant Purchase Authorization Card (IMPAC) under an umbrella contract with a single provider.

Currently, SmartPay is the GSA purchase card program, which has multiple contracts for providing the cards to Government agencies. Selecting a contract that best fits the agency's requirements is at the discretion of the particular agency.

The Government purchase card is a major credit card that can be either Visa or MasterCard issued by US Bank, Citibank, Bank One, Mellonbank, or Bank of America. The period of performance on the contracts is from November 30, 1998 through November 29, 2003 with five 1-year options. [Ref. 16]

The researcher observes that one of the main intent of the card is to increase efficiency and accountability while using an approach that provides the greatest value and result in agencies fulfilling their mission. The purchase card was adapted as an efficiency measure to avoid the time-consuming and costly procurement process for relatively small routine Government purchases.

The use of the purchase card along with other innovative actions has moved the Government toward more streamlined, mission-oriented and cost-effective procurement management. A shift of the card authorization to the lowest levels of an organization can cut

administrative costs on smaller purchases and streamline the procurement process.

Although streamlined, purchases made with the card must abide by the same procurement policies and regulations that govern all purchases. For example, prior to utilizing the purchase card for goods and services, required sources indicated in Federal Acquisition Regulation (FAR) Part 8 must be screened. FAR Part 8 lists the priorities for purchases/procurements that agencies must follow. [Ref. 7] Agencies must first obtain supplies and services from existing inventories, prison, National Institute for the Severely Handicapped (NISH), and others before going to the open market.

Each agency is responsible for officially authorizing a cardholder through a delegation of authorization. The delegation of authorization specifies the cardholder spending and usage limitations. [Ref. 16]

Each agency has the flexibility to structure their program to ensure appropriate oversight and key checkpoints are in the internal control process. The GSA contract is structured to allow agencies to set parameters for monitoring and controlling the types of procurements and locations from which a cardholder can make purchases.

A vendor can identify the validity of the Government purchase card by checking the card for the identifying phrases "U.S. Government," and "For Official Use Only." The validity of the transaction is verified once the merchant scans the card using the point of sale device. The point of sales device performs up to 50 authorization checks verifying account information, expiration date, and

ensure the type of transaction being made with the card is allowed. [Ref. 16]

A review of monthly statements offers another checkpoint for agencies. After making a purchase, each cardholder receives a monthly statement that must be certified by the Approving Official. The Approving Official is generally the cardholder's immediate supervisor but the structure of oversight is at the agency's discretion. [Ref. 16]

Each cardholder must complete agency training requirements prior to using the card. The training should establish procedures, set restrictions, and outline the requirements of the purchase card program.

GSA coordinated with other Federal agencies to develop standardized micro-purchase training that's available on CD-ROM. It offers an interactive format where the cardholder can ask the instructor for assistance while completing the training. The CD-ROM provide guidance to the cardholder through reference documentation, outlines the applicable rules and regulations on the purchases that are allowable and non-allowable, provides a listing of required sources, and GSA schedules for the cardholders use. [Ref. 33]

The purchase card offers a dramatic change in an agency's procurement practice by eliminating long procurement lead-time, reducing the workload of procurement personnel and offering major transaction costs savings.

## **C. GAO'S REVIEW OF LOCAL AGENCIES**

### **1. GAO's Authority**

The General Accounting Office (GAO) is the investigative arm of the Congress and is headed by the Comptroller General of the United States - currently David M. Walker. [Ref. 9]

GAO supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the Federal Government for the American people. GAO evaluates the use of public funds, evaluates Federal programs and activities, and provides analyses, options, recommendations, and other assistance to aid Congress with its oversight, policy, and funding decisions. [Ref. 9]

GAO, generally, has broad authority to evaluate agency programs and investigate matters related to the receipt, disbursement, and use of public money. To ensure audit responsibilities, GAO has a statutory right of access to agency records. All Federal agencies are required to provide information about their duties, powers, activities, organization, and financial transactions to GAO. [Ref. 9]

GAO's access rights include the authority to file a civil action to compel production of records with the following exceptions: [Ref. 9]

- The records relate to activities designated as foreign intelligence or counterintelligence by the President,
- The records are specifically exempt from disclosure by statute, or
- The records would be exempt from release under Freedom of Information Act and the President or Director of OFMB certifies that disclosure of

such records could impair substantially the operations of the Government.

Amid the rapid changes across the landscape of Government procurement, the use of the purchase cards for transactions has quietly permeated many agencies. Purchase cards have become a mechanism for efficiency, flexibility, and fast solutions. Many agencies are taking full advantage of the cards usage.

## **2. Audit of San Diego Sites**

At the request of Senator Charles Grassley, R-Iowa who was concerned with weak internal controls contributing to potential abusive use of the card, GAO recently visited two San Diego sites to review their purchase card usage. The Naval & Space Warfare Systems Center (SPAWAR) and the Navy Public Works Center, San Diego (PWCS) were the two activities selected for review and are representative of the Navy. SPAWAR manages billions of dollars in high-tech research and acquisition programs. PWCS is responsible for the maintenance and upkeep of buildings, grounds, roads, and utilities for the Navy. [Ref. 15] Both SPAWAR and PWC are customers of SWDIV.

GAO's visit uncovered a large number of questionable uses of the card by Government personnel. Although both activities had policies and procedures designed to prevent improper use of the card, GAO was not able to verify their effectiveness or the extent of fraudulent, improper, or abusive transactions. Since GAO's work was not designed to identify the extent of fraud, illegal or abusive transactions, specific incidents were referred to GAO's Office of Special Investigations for further review. [Ref. 15]

**3. Potential Fraudulent, Improper, and Abusive Transactions**

Given the breakdown of internal controls, GAO identified three types of transactions that the agencies would have difficulty detecting and preventing. [Ref. 15]

**a. Potentially Fraudulent Purchases**

Potentially fraudulent purchases are described as those, which were unauthorized and intended for personal use. [Ref. 15:p. 25]

Type of items purchased	Unit	Vendors	Total Amount
Cosmetics	SPAWAR	Mary Kay	\$500
Gift Certificates	Public Works Center	Nordstrom	\$1,500
Clothing, electronics, and other personal items	Public Works Center	Mervyn's, Macys, Circuit City, others	\$10,000
Gas	Public Works Center	Citgo 7 Eleven, Exxon, Shell	\$360
CD recordings	Both	Sam Goody	\$700

Table 1. Examples of Potentially Fraudulent Purchase Card Transactions.  
From [Ref. 15:p. 26]

**b. Improper Transactions**

Improper transactions are described as those purchases intended for Government use, but are not for a purpose that is permitted by law or regulation. [Ref. 15]

GAO identified several incidents of improper transactions: A purchase of flowers costing \$97 purchased for Secretary's Day, several transactions for food purchases of \$75 for employee-related activities, and a

purchase of a file cabinet costing \$1,462 from Macys. [Ref. 15]

**c. Abusive Transactions**

Abusive transactions are described as those that were authorized, but the items purchased were at an excessive cost or for a questionable Government need, or both. [Ref. 15:p. 27]

Type of items purchased	Unit	Vendors	Cost per item
Flat panel monitors	SPAWAR	Byte and Floppy Computers, Dell	\$800-\$2,500
Personal digital assistants (e.g. Palm Pilots)	SPAWAR and the Public Works Center	CompUSA, Staples	\$250 - \$900
Designer briefcases	SPAWAR	The Coach Store, Nordstrom	\$400
Designer Palm Pilot holders	SPAWAR	Dooney and Bourke	\$100

Table 2. Examples of Potentially Abusive Purchase Card Acquisitions  
From [Ref. 15:p. 28]

Questions that the above example pose is not one of potential abuse as indicated by GAO but whether the purchases were appropriate or not and if it's possible for the same thing to happen if a regular purchase order was used to acquire the goods. The answer may be an astounding yes. This example focuses on normal procurement issues facing the Government verses issues concerning the use of the purchase card. [Ref. 37]

**4. Break-Down of Internal Controls**

The audit identified a breakdown of internal controls and findings of four key weaknesses. [Ref. 26]

**a. Proliferation of Purchase Cards Resulting in Unmanageable Span of Control**

GAO's audit found that SPAWAR had one Approving Official responsible for certifying over 700 monthly summary billing statements for 1526 cardholders, thus creating an impossible situation to manage. The span of control exceeded all reasonable limits. PWCSO had six Approving Officials responsible for certifying over 55 monthly statements for 254 cardholders, a situation that's not as serious. [Ref. 15] Current policy has an Approving Officials responsible for a span of control of 5-7 cardholders. Ms. Deidre Lee, Director of Defense Procurement issued a memorandum that indicates the Department of Defense has an average of 4 cardholders per Approving Official. [Ref. 35]

SPAWAR and PWCSO have taken actions to mitigate control weaknesses. Both have reduced the number of cardholders and revised its purchase card policies and procedures. However, SPAWAR continues to have only one approving official for approximately 1070 cardholders. SPAWAR plans to implement an Enterprise Resources Planning system to help improve overall controls for the purchase card program. [Ref. 15]

The real issue of proliferation of card is, "who really needs a purchase card?" Proliferation implies that cards are not being provided based on need. A review is ongoing into policy covering this issue.

Related to the span of control is the concept of separation of functions. Separation of function is essential to the overall integrity of the program that

provides the checks and balances. GAO audit found that in many cases, the cardholder was purchasing and receiving the supply and services, which is a violation of the separation of function. [Ref. 15]

***b. Deficient Policies for Rebate Management***

The audit found that SPAWAR and PWCSO were not fully utilizing the rebate programs that the bank pays for prompt payments. Based on sales volume and timely payments, the Navy earns rebates of up to 0.8 percent. SPAWAR rebates for FY 2000 were understated by \$136,760 and PWCSO rebates for FY 2000 were overstated by \$12,039 due to miscalculations. [Ref. 15]

The Navy, as well as SPAWAR and PWCSO were not able to sufficiently manage or measure the rebates. The Navy requested that Citibank defer payments of all the purchase card rebates earned since November 1998. The Navy had not established policies and procedures for managing rebates, or determined how to record and allocate the rebates to Navy programs. It is estimated that Citibank will pay the Navy a total of \$8.8 million in rebates - \$8.3 million in cumulative rebates and \$530,000 in accrued interest on the rebates. [Ref. 15:p. 9]

***c. Employees Did Not Have Documented Evidence of Timely Training***

GAO did not state that employees were not trained just that sufficient evidence did not exist to verify and properly support that cardholders completed adequate training.

**d. Management did not Effectively Use Internal Reviews and Audits**

Evidence exists that management was aware of existing issues and discrepancies with the use of the purchase card and had not provided a prompt and adequate remedy in accordance with internal policies.

Referring to a pentagon misuse of the card, Senator Grassley stated, "There are no controls, no responsibilities, and no accountability." [Ref. 24] The statement holds true for the San Diego audit results.

GAO's audit of San Diego local agencies prompted SWDIV as well as other defense agencies to review and scrutinize their purchase card program.

**D. SWDIV PURCHASE CARD PROGRAM**

SWDIV was in the process of reviewing and updating its purchase card program well before the audits of GAO became the headlines. The process was accelerated and concluded with a mandatory training stand-down day for all purchase cardholders and their approving officials. The overall purpose of the training stand-down was to review the findings as a result of GAO audits; review the existing and new policies and procedures governing the card usage; raise the cardholders awareness to misuse, abuse, and fraudulent use; review the Department of the Navy purchase card support tools; and review local internal operating procedures. [Ref. 26]

**1. GAO Findings**

As listed in Section C above, GAO findings identified four key weaknesses in the implementation of the purchase card program, which contributed to the breakdown of internal controls.

Mr. Bruce Sullivan, Director of Department of Defense Purchase Card Joint Program Office, identifies the potential abusive use of the purchase indicated by GAO as normal procurement issues that the Government is facing. The potential abusive issues identified by GAO are not just specific to the purchase card. [Ref. 37]

The researcher did not notice the Department of Defense's (DoD) successful usage of the purchase card listed in the audit. The purchase card program is one of two DoD programs that are leading the initiative towards the Government becoming paperless. [Ref. 37]

## **2. Existing and New Policies**

The existing policies and procedures that govern the purchase card program are contained in NAVSUPINST 4200.94 and the Department of Navy (DON) Policy Letters. Based on the results of the audits, NAVSUPINST 4200.94 now contains the policies and procedures that govern the implementation of the purchase card program. It is organized into four chapters with additional enclosures and attachments. The chapters offer streamlined policy and procedures for overall management of the purchase card program, letters of agreement, accommodation checks, and the use of the card as a method of payment against an existing contract. Government personnel can gain instant access and obtain updates of the instructions, policies and procedures over the Internet at the Naval Logistics Library. [Ref. 21]

Emphasis is placed on the Separation of Functions. Basically the regulations state that an individual other than the cardholder must accomplish receipt and acceptance. Limits are not placed on who can accept and receive goods

and service. The roles and responsibilities of the Agency Program Coordinator (APC), Cardholder, and Approving Official (AO) are outlined. [Ref. 26]

NAVSUPINST 4200.94 provides the overarching guidance for Department of the Navy activities, ashore and afloat, on establishing and managing their Government purchase card programs.

### **3. Misuse, Abuse, and Fraudulent Use**

NAVSUPINST 9400.94 provides an enclosure that lists the types of actions considered questionable, are prohibited or require special approval. [Ref. 21] Not all actions found on the list are prohibited or require special approval. The cardholder can accomplish actions through another method of procurement. Each cardholder must review the list prior to using the card to ensure against misuse, abuse, or potential fraudulent transactions. [Ref. 21]

#### **a. Misuse**

Misuse is defined as: Procuring items not required to meet minimum mission requirements, procurement of prohibited items, and purchases that exceed purchaser authority.

#### **b. Abuse**

Abuse is almost like misuse, but more blatant in nature and generally includes: procurement of items that may be appropriate except for underlying details such as price reasonableness, repeated and knowing misuse, split purchases.

#### **c. Potential Fraud**

Potential fraudulent use generally must meet three criteria: a willful act, intended to deceive or cheat, and bringing financial gain to oneself.

The consequences and penalties for misuse, abuse, and fraudulent use of the purchase card can be quite severe.

For civilians employees, they can include revocation of the card, reprimand, suspension, termination and criminal prosecution under 18 USC 287 which could result in a \$10,000 fine, 5 years in prison or both, depending on the circumstances.

Military personnel can also have their purchase card revoked, and could be subject to administrative and disciplinary actions, including prosecution under the Uniform Code of Military Justice. [Ref. 26:p. 31]

Potential purchase card misuse, abuse, and fraud indicators are an increased spending outside of the norm, multiple purchase to the same vendor totaling more than \$2500, unusual vendors listed, and a large percentage of spending is with a small number of vendors.

#### **4. DON Purchase Card Support Tools**

The Department of the Navy (DON) offers several sources to assist the participants of the purchase card program. Purchase card periodic notices are available to facilitate better communication. They are located on NAVSUP homepage under Purchase Card. NAVSUP has created a help desk to address specific issues and concerns. Employees are encouraged to utilize the email system for corresponding. [Ref. 26:p. 33] DON has initiated efforts to redesign the purchase card website to ensure that it's more user friendly, easier to navigate, more comprehensive, and proactive. [Ref. 5]

Delinquency metrics are a management tool for measuring success of the purchase card program. The vast

majority of Naval agencies are doing a good job with controlling delinquencies. DON's delinquency standard for July 01 billing cycle was 1.12 percent. DoD policy allows for no more than .75 percent delinquencies over 60 days of gross receivables. Cardholders exceeding 60 days delinquency will have their cards revoked until such delinquency is cleared. Accounts exceeding 180 days will result in the agency account being revoked until such delinquencies are cleared. [Ref. 37] Delinquency metrics are accessible on DoD's purchase card website. [Ref. 5]

Training is arguably the most important tool to ensure success of a program. DON training program embraces the "train-the-trainer" philosophy. NAVSUP, in compliance with DON, requires refresher training every 2 years and the documentation of successful completion. Personnel must complete at least one of the following training requirements: [Ref. 26:p. 40]

- Online at [www.nll.navsup.navy.mil](http://www.nll.navsup.navy.mil)
- NAVSUP Commercial Purchase Card Course for Micro-purchasers
- Cognizant HCA approved purchase card course
- NAVSUP Simplified Acquisition Course, CON 101-Contracting Fundamentals or CON 202-Intermediate Contracting

Employees always have the option of going directly to the Department of Defense Purchase Card Program Office website that contains a wealth of valuable information. [Ref. 37]

#### **5. Local Internal Operating Procedures**

SWDIV's revised internal operating procedures (SOUTHWESTNAVFACENGCOMINST 4200.1) were signed by the Vice

Commanding Officer on 26 Jul 2001, canceling Southwest Division Policy Memorandum 4200.1A of 31 Oct 97. It indicates that SWDIV uses the GSA contract awarded to CITIBANK to provide Government purchase card services. It outlines the roles and responsibilities of the Agency Program Coordinator, the Approving Official, and the Cardholder as follows [Ref. 32]:

**a. Agency Program Coordinator**

APC bears the overall responsibility for all elements of the success of the program. The APC must:

- Establish/review/revise internal operating procedures in accordance with current regulations.
- Appoint Approving Officials and Cardholders - appointments will be in writing.
- Establish cardholder purchase limitations (single purchase and monthly billing cycle limits).
- Maintain account listings of Approving Officials and Cardholders.
- Perform semi-annual review of accounts-report results to the appropriate chain of command.
- Conduct initial training and refresher training every 2 years or more if necessary.
- Monitor account activity for misuse and delinquency and take appropriate action when necessary.

**b. Approving Official**

The AO is ultimately responsible for verifying & reviewing the cardholder's monthly purchase statements to ensure compliance with the provisions of the internal procedures as outlined in the local policy:

- Enforce the provisions of these internal procedures and initiate disciplinary procedures for misuse of the card

- Ensure all transactions meet requirements and that adequate documentation is available for audit purposes
- Ensure proper implementation of dispute procedures when a transaction is questioned
- Reconcile, certify, and forward monthly billing statements to the Accounting Section, Code 01RA, for payment

**c. Cardholder**

The cardholder is ultimately responsible for all transactions completed using the purchase card.

- Ensure that purchases do not exceed pre-approved spending limits
- Ensure that items purchased are not for personal use or for the personal use of the receiving individual
- Ensure that items purchased are not specifically prohibited by the command or by statute (e.g., real estate, transportation, and travel)
- Ensure that purchases are not part of a system or larger purchase exceeding \$100,000 in value
- Ensure that purchases are not split into smaller segments to stay under the micro-purchase limit (\$2,500)

All parties involved in the purchase card program are required to complete the mandatory purchase card training. It is everyone's responsibility to ensure compliance with the policy and procedures and to ensure that the purchase card is used as intended for official Government business. Anyone abusing the intent of the card can be held personally liable to the Government for the amount of the unofficial transaction. [Ref. 32]

SWDIV purchase card policy also identifies the transaction dispute office in cases of billing errors,

training requirements for participants, and purchase limits. [Ref. 26]

A single purchase limit is \$2,500 for purchase of supplies/services and printing, \$2,000 for construction, \$25,000 for training, and \$100,000 for Federal supply contracts. However, cardholders are limited to the amounts stated in the Letter of Appointment.

In a memorandum provided to the Director of Defense Agencies, Deidre A. Lee, Director of Defense Procurement issued guidance that provides that the maximum transaction or monthly limit need not be provided to every cardholder. Reasonable limits are to be set by Supervisors based on agencies' requirements and cardholder's procurement requirements. [Ref. 35]

The local policy covers a variety of additional guidance ranging from restrictions and purchase procedures to reconciliation of accounts and billing procedures. With the local policy, accountability and compliance are paramount. It provides guidance to ensure that each individual involved in the purchase card program is accountable and adhere to the governing policies. It covers a review of the existing and reduced span of control. Continuous and documented training is conducted as well as semi-annual reviews and the requirement for maintaining proper documentation. [Ref. 26] A full version of SWDIV's purchase card policy is located as Exhibit B.

## **6. Navy Best Practices**

The Department of the Navy has implemented a World Wide Web-based electronic catalog with on-line ordering capabilities for Navy and DoD personnel using their

Government purchase card to order information technology products and services. The products and services offered in the on-line catalog are at better than market prices and the items are from a Blanket Purchase Agreement, awarded by the Navy, under a GSA Federal Supply Schedules. [Ref. 5]

Other initiatives by the Navy include improvements in rebates and delinquencies, new help desk process and website, and improved communications. [Ref. 5]

#### **E. BARRIERS AND ROADBLOCKS**

The Government purchase card has been around since 1982. Its usage gained momentum with the inception of FASA initiatives. A 1996 audit of agencies usage of the card finds that agencies can support their mission at reduced costs by having program staff use the purchase card for simple purchases. Further GAO studies have shown that effective use of the card reduces labor and payment processing costs by eliminating nonvalue-added steps from the procurement process. [Ref. 11:p. 47] It helps absorb the impact of staff reductions. Purchase cardholders can buy required goods and services more quickly, thus improving their efficiency and ability to support their mission.

Even with the mandates to use the card for items at or below the micro-purchase threshold and to the maximum extent possible, activities show resistance to its use.

An interview with randomly selected cardholders revealed the following.

##### **1. Cultural Mindset**

SWDIV modified its indefinite quantity indefinite delivery contracts to include a properly executed clause

that allows the customers to order one-time services & supplies at the negotiated rate of the contract using the Government purchase card. An example is with the Refuse contract. A customer preparing for a flag officers visit can call the contractor directly to make a one-time pick up of refuse and receive the negotiated rate in the contract.

Yet, customers are hesitant or reluctant to take advantage of the opportunity to expeditiously acquire goods and services using their Government purchase card. The cultural mindset is focused on status quo procedures. Some customers rationalize that the designated procurement office is responsible for acquiring goods and services for the customer. Concurrently, based on the purchase card audit by GAO and the removal of purchase cards from potential users, resistance is magnified.

## **2. Micro-Purchase Threshold**

It is no secret that August and September are hectic months in the procurement world, completing year-end actions to ensure that customers do not lose their funding. Year-end 2001, Resident Officer in Charge of Contracts (ROICC) Point Loma executed 103 simplified actions totaling over \$4.4 Million. Of the 103 actions, 25% were valued at \$5000 or less but over \$2500, requiring the contract specialist to follow traditional procurement procedures. The traditional process is often time consuming and can take 14-30 days to complete the procurement and receive the goods or services. A customer using the purchase card can expedite the procurement process and actually receive the goods or services within in a couple of days of placing the order.

Purchase Card Integrated Product Teams of the Office of the Under Secretary of Defense (Acquisition and Technology) and Office of the Under Secretary of Defense (Comptroller), conducting a comprehensive review to develop recommendations for promoting the use of the purchase card, determined that if the micro-purchase threshold was raised to \$25,000, 96% of all DoD contract actions could potentially be purchased with the card. [Ref. 31]

### **3. Local Policies**

Due to the recent audits conducted by GAO on SPAWAR and PWCS, agencies are updating their purchase card programs and conducting training with their personnel. But specific policy for micro-purchase actions remains vague.

### **4. Inherent Risk**

Customers are concerned with the risks associated with their lack of familiarity with acquisition procedures. Their concerns stem around being held personally accountable for purchases made using the Government purchase card.

An issue facing the Purchase Card Program Office is whether to conduct credit checks on potential cardholders prior to issuing the card. [Ref. 5] The researcher did not find information indicating that the credit check issue has been resolved.

While it is the responsibility of all individuals to ensure that purchase card transactions are necessary, proper, and reasonable in terms of price, appropriate actions can be considered against personnel misusing the purchase card. [Ref. 26]

## **F. CONCLUSION**

This chapter presents an overview of the structure of the GSA contract that provides guidelines on the purchase card, and the checkpoints and control mechanisms in place to safeguard against improper use. This chapter identified GAO's authority as the investigative arm of Congress and their audit findings of control weaknesses and vulnerability of two local San Diego Navy agencies that's essential to the overall integrity of the program. A review of SWDIV's local purchase card program was examined, identifying purchase card procedures and policies redefined based on the audit findings conducted by GAO. It also identifies best practices of the Navy, proposed initiatives, and potential roadblocks and barriers that can potentially impact using the purchase card to the maximum extent possible as mandated.

Chapter IV will provide an overview and analysis of how other Government agencies are implementing the purchase card program specifically to cover micro-purchase transactions for potential lessons learned or best practices.

## **IV. OTHER GOVERNMENT AGENCIES' PROGRAMS**

### **A. GENERAL**

After years of playing a minor role in Federal procurement, the Government purchase card has become a popular tool for agencies looking to streamline the procurement process. With the Government purchase card, Federal employees can purchase required goods and services similar to credit cards used by the general public and the commercial sector.

This chapter will review and analyze the micro-purchase programs of other Government agencies - the U.S. Army Space & Missile Defense Command, Marshall Space Flight Center, and the Secretary of Air Force. The agencies reviewed were selected randomly as representative of other Government agencies offering variety and diversity.

### **B. U.S. ARMY SPACE & MISSILE DEFENSE COMMAND**

The U.S. Army Space & Missile Defense Command (USASMDC) is a Major Army Command (MACOM) with a mission to:

Serve as the Army's proponent for Space and National Missile Defense, and as the Army integrator for Theater Missile Defense. The command ensures that Army war fighters have access to space assets and products to win decisively with minimum casualties - and effective missile defense to protect our nation as well as our deployed forces and those of our friends and allies. [Ref. 28:p. 1]

USASMDC's Commercial Credit Card program, USASMDC Pamphlet 715-8, establishes and prescribes procedures for using the Government card to purchase commercial supplies

and services. It defines key terms and outlines roles and responsibilities. [Ref. 28]

### **1. Key Responsibilities**

- The responsibility of the cardholder clearly states, "Authority shall not be redelegated." [Ref. 28] The cardholder is instructed to follow all micro-purchase and simplified acquisition procedures prohibitions and controls that are in place for the Government.
- The single purchase limit cannot be either broken down or split into separate purchases to circumvent the limit of \$2500 and below. While no maximum monthly limitation is annotated, the cardholder is authorized to use the card for purchases over \$2500 up to the Simplified Acquisition Threshold using procedures of Federal Acquisition Regulation (FAR), Part 13.
- The cardholder is required to be familiar with guidelines of the FAR Parts 13, 8, and other supplemental. A hyperlink to the FAR is provided for quick reference.
- The cardholder is not permitted to purchase an item that is not in stock as back ordering is prohibited.
- The cardholder is reminded to inform the vendor that the Government purchase card is being used for the transaction and exempt from state and local taxes.
- Standard procedures for the cardholder to follow when procuring actions under \$2500 is outlined, including instructions to the vendor, proper documentation, reconciliation, and payment procedures. A cardholder using the card for other than official Government business is considered attempting to commit fraud and subject to the fines and penalties under 18 U.S.C. Section 641, "a fine of not more than \$10,000, or imprisonment of not more than 10 years, or both." [Ref. 28]
- A cardholder that leaves the command will have their card destroyed and a destruction notice

sent to the bankcard contractor. Cards are not transferable from employees.

- All cardholders must receive credit card training prior to receiving the purchase card.

## **2. Restricted Vendors**

The cardholder is restricted from doing business with the following types of vendors when using the Government purchase card [Ref. 28]:

- Airlines/Airports
- Restaurants/Bars
- Hotels/Motels
- Travel Agencies
- Daycare

The cardholder is encouraged to use local businesses, to rotate vendors to avoid the appearance of showing favoritism, and to procure from small businesses.

## **3. Unauthorized Purchases**

- Cash Advances
- Weapon systems and related items
- Handguns, firearms and other sensitive items
- Hazardous materials such as chemicals, ammunition & explosives
- Rental or lease of motor vehicles, land or buildings
- Airline tickets, meals, lodging or other travel costs
- Drugs and controlled substances
- Gas, oil, tires, or batteries, or repair of GSA vehicles
- Personal comfort items that are not mission essential

- Personal items such as business cards, stationary, holiday decorations, home-type furnishings, coffee fund items, refreshments
- Janitorial, yard or maintenance service
- Membership in Professional Organizations
- Office Decorations
- Christmas Ornaments, lights, trees, or other Christmas decorations
- Roll-Top Desks

The purchase card is a procurement tool. All Cardholders are considered procurement officials and are subject to existing Federal, Departmental, and Agency procurement regulations. The purchase card was designed to reduce administrative costs; avoid unnecessary burdens for agencies & contractors; and promote procurement efficiency.

#### **4. Army Best Practices**

The Department of the Army incorporated micro-purchase reengineering initiatives for using the Government purchase card. The Army uses the purchase card for over 90 percent of its commercial purchases for goods and services valued at or below the micro-purchase threshold, thus replacing the traditional method of using purchase orders and simplified acquisition procedures for small dollar valued items. Through this reengineering effort, the Army is estimated to save an average of \$92.60 per transaction when using the Government purchase card. Once the Army streamlined their business practices, another \$9.00 per transaction savings was realized. [Ref. 5]

In accordance with Mr. Bruce Sullivan, Director of the Department of Defense Purchase Card Joint Program Office, a hurdle that procurement personnel had to overcome was their

reluctance to giving up control of the procurement process. By empowering a cardholder to utilize the purchase card to acquire requirements, procurement personnel relinquish traditional controls that are exercised during traditional procurements procedures. It was practically everyone's opinion that they added value to the procurement process by using traditional procurement methods versus the purchase card, while in essence they were creating a hurdle. [Ref. 37]

Today, the Army, Navy, and Air Force have the capability to certify purchase card statements on-line, contributing to DoD's paperless initiative and overcoming potential hurdles. The traditional paper method would require up to 3 weeks to complete a transaction. Using the on-line capability a micro-purchase transaction can be approved, certified, and paid within one week. [Ref. 37]

#### **C. GEORGE C. MARSHALL SPACE FLIGHT CENTER**

The George C. Marshall Space Flight Center is a proponent of National Aeronautics and Space Act (NASA). Their mission is:

To advance and communicate scientific knowledge and understanding of the Earth, the solar system, and the universe and use the environment of space for research; To advance human exploration, use, and development of space; To research, develop, verify, and transfer advanced aeronautics, space, and related. [Ref. 17]

##### **1. Requirements that are Specific to the Space Flight Center Purchase Card Program**

- Individual purchases may not exceed \$2500 with a monthly purchase limit not to exceed \$10,000. A written justification is required for an increase.

- Each cardholder is required to complete a minimum of 4 hours of procurement training prior to receiving a card.
- Each cardholder is authorized to purchase computer hardware, software and parts, which are not available on an existing contracting vehicle.
- Each cardholder is authorized to purchase hazardous materials after coordinating with Environmental Health. The cardholder must maintain a copy of the Material Data Safety Sheets in the files.
- To protect the Government and cardholder, the credit card program has internal controls. The merchant uses an electronic or telecommunication method to obtain authorization on each purchase to ensure that the cardholder is within the limits of their authority. It also verifies the type of purchase being made is authorized.

**2. Authorized Use of the Card**

- Items available on the open market and off the shelf
- Off-the-shelf computer hardware, software, parts, & printers
- Quality sensitive items if coordinated with Quality Assurance
- Hazardous materials with Environmental coordination

**3. Unauthorized Use of the Card**

- Cash Advances
- Rental or Lease of Motor Vehicles
- Rental or Lease of Land or Buildings (Including Conference Facilities)
- Purchase of Airline, Bus, Train or Other Travel Related Activities
- Purchase of Meals and Drinks
- Travel-Related Purchase of Meals, Drinks, Lodging, or Other Travel or Subsistence Cost

- Purchase of Gasoline or Oil
- Repair of Interagency Fleet Management Automotive Vehicles
- Purchase or Rental of Telecommunications and Telephone Equipment
- Janitorial, Yard and Maintenance Services Other than Repair Services
- Construction Services over \$2,000 (except up to \$5,000 under a BPA)
- Personal Clothing, Footwear or Eye Glasses, except for Safety
- Printing or Copying Services
- Telephone Calls
- Office Furniture
- Computer software and hardware
- Training, Tuition, and Registration/Conference Fees
- Water
- Explosives, propellants, and pyrotechnics
- Flight hardware, flight software, or associated Ground Support Equipment

General information to the cardholder regarding key definitions, requirements for issuance of the card, roles & responsibilities, purchase procedures, and payment are consistent with the guidelines of DOD Purchase Card Program.

#### **4. NASA Best Practices**

NASA procured a commercial off-the-shelf tool-based system for managing the acquisition process inclusive of digital signature and authentication. Businesses wanting access to NASA acquisitions can do so through NASA's electronic commerce, embracing the paperless initiative and

removing traditional entry barriers for vendors wanting to do business with the Government. [Ref. 5]

NASA also has an electronic remittance process that provides the vendor with information regarding payment and thereby, reduces telephone inquiries. [Ref. 5]

**D. DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE**

The Deputy Assistant Secretary (DAS) of the Air Force (Contracting/Acquisition) (SAF/AQC):

Plans, develops, and implements Air Force-wide contracting policies and procedures. Serves as Senior contracting advisor to the Assistant Secretary of the Air Force for Acquisition. Manages approximately 8,500 Air Force military and civilian contracting personnel worldwide. Performs surveillance of Major Commands (MAJCOM) contracting field activities worldwide. Serves as the Competition Advocate General for the Air Force.

Provides contracting and acquisition technical support to all Air Force MAJCOMs, Program Executive Officers, Designated Acquisition Commanders, Direct Reporting Units, and Field Operating Offices in the execution of their acquisition programs, privatization, competitive sourcing, and service and support efforts. [Ref. 1]

Air Force Instructions 64-117, dated 6 Dec 2000, provides the overarching guidance for the Air Force Government purchase card program. Encompasses in four chapters contains the purchase card program overview, authorized and unauthorized usage, how to establish an account, and the responsibilities & procedures for using the Government card. Six attachments offer a glossary of terms, sample delegation letter, sample training record,

surveillance guide, certifying and accountable officer requirements, and fund cites authorization form. [Ref. 1]

**1. Authorized Use**

- Without exception, the impact shall only be used to pay for authorized U.S. Government purchases
- ...may be used to purchase supplies, equipment, and non-personal services up to the micro purchase level which is currently \$2500
- It may be used to purchase authorized items from Defense Commissary Agency & Military Clothing Sales store
- If authorized to make purchases above the micro-purchase threshold of \$2500, cardholder not in the contracting organization will use the Government purchase card only to obtain items from pre-priced contracts and agreements.
- Medial item purchases will be Air Force Capital Working Fund

**2. Unauthorized Use**

- Cash advances
- Travel related purchases including ...(purchase of airline, bus, train tickets)
- Rental or lease of land or buildings exceeding 30 days
- Purchase of aviation, diesel, or gasoline fuel or oil
- Repair of leased vehicle when the lease provides for services/maintenance
- Purchase of telecommunication services
- Purchase of hazardous/dangerous items such as explosives, munitions, toxins, firearms
- Purchase of janitorial, yard, and maintenance service or other repair services covered by contracts already written for these services...unless in an emergency

- Purchase of printing or copying provided by commercial sources
- Purchase of personal services
- Purchase of classified items and sensitive items
- Purchase of construction exceeding \$2000
- Purchase of MWR peculiar items such as athletic shoes, clothing, supplies, equipment, etc.
- Purchases of individual equipment and organizational clothing items

The Air Force Purchase Card program ensures that the Government purchase card is used whenever feasible as the payment vehicle for all goods and services valued at the micro-purchase threshold.

### **3. Air Force Best Practices**

The Air Force encourages cardholders to utilize electronic methods to expeditiously acquire goods and services valued at or below the micro-purchase threshold. A direct link to GSA on-line catalog is available to ensure accessibility by the cardholder.

In an effort to use the Government purchase card to the maximum extent possible, the Air Force continues to review their purchase card program for improvements. The Air Force identified the following initiatives for improving their electronic purchase card program: [Ref. 5]

- Significant product, manpower, and procurement cost savings
- Less frustration for requestors, cardholders, and billing officers
- Compliances and enforcements
- Credit for small business dollars
- Greater visibility for Air Force leadership

- Create leveraged buying power with national vendor agreements
- Imbed Government purchase card business rules within system
- Streamline and automate shopping, approval, status, receipt and acceptance via single portal
- Provide for business trend analysis

**E. PURCHASE CARD PROGRAM STATUS**

Since the National Performance Review identified the purchase card as a major acquisition reform and recommended that all Federal agencies increase their use of the card, emphasis on using the purchase card has grown over the last decade. [Ref. 11]

The Defense Reform Initiative goal of using the card for at least 90 percent of micro-purchase transactions by Fiscal Year (FY) 2000 was exceeded. Statistics show that the total of micro-purchase transactions, using the purchase card, by the end of Fiscal Year 1999, represented over 91 percent.

	Number of cardholders	Number of transactions	Sales	Percentage of micro-purchases
DOD-wide	242,551	8,932,080	\$4,596,122,124	91.6
<i>Air Force</i>	<i>74,820</i>	<i>2,480,193</i>	<i>\$1,086,317,345</i>	<i>98.2</i>
Army	108,425	3,637,817	\$1,756,841,043	97.6
Navy	49,068	2,356,379	\$1,405,865,002	96.7
Defense Agencies	<i>10,238</i>	<i>457,691</i>	<i>\$347,098,734</i>	<i>42.7</i>

Table 3. Purchase Card Transactions by DOD Components (Fiscal Year 1999 Totals).  
From Ref. 11.

The Federal Acquisition Streamlining Act of 1994 established \$2500 as the micro-purchase threshold. In FY94, less than 1 million transactions were made using the purchase card, representing approximately 15 percent of DoD's micro-purchases. In FY98, the transaction volume grew to approximately 7.5 million, then to over 9 million in FY99. The purchase card program has exceeded DoD's reform goals and DoD continues to seek ways to improve the card and to expand its use. [Ref. 11:p. 5]

**1. Emphasis on Improving the Card**

Several improvements have been postulated for expanding use of the purchase card, including the following:

- Using the card as a payment vehicle for larger procurements placed on existing contracts. [Ref 11]
- Increasing the purchasing limitations of forces deployed overseas. [Ref. 11] As of 1 November 2001, a final rule was issued allowing Contracting Officers to use the purchase card for contingency operations up to the contingency simplified acquisition threshold, which is currently \$200,000. [Ref. 36]
- Providing the card to staff members outside of the procurement offices [Ref. 10:p. 10]
- Establishing electronic malls. Electronic malls are electronic versions of supplier's catalogs that are available through the Internet. [Ref. 13:p. 26]
- Establishing electronic means for agencies to share best practices and lessons learned. [Ref. 10:p. 12]

The metrics provided below offer current data, as of Fiscal Year 01, pertaining to the purchase card usage by DoD agencies.

<b>FY 01 DoD Purchase Card Usage, US Bank and Citibank</b>				
	<b>Total Accounts</b>		<b>Fiscal Year Thru Sep 01</b>	
<b>Agency</b>	<b>B/O</b>	<b>Cardholders</b>	<b>Sales</b>	<b>Transactions</b>
Navy	-	--	1,848,498,147	<b>2,783,640</b>
<b>Army</b>	<b>26,018</b>	<b>109,446</b>	<b>2,389,429,830</b>	4,427,475
Air Force	19,738	79,928	1,388,996,126	2,847,258
Defense Agencies	4,177	13,346	\$479,104,749	610,065
<b>TOTALS</b>	49,933	202,720	<b>\$6,106,028,852</b>	<b>10,668,438</b>

Table 4. Metrics for FY 2001.  
From Ref. 5.

DoD's goal was to use the purchase card for 90 percent of the micro-purchases by FY00. In accordance with statistics provided, DoD achieved this goal a year early. Use of the purchase card in FY99 accounted for 91.6 percent of micro-purchases, resulting in significant savings for the Government. [Ref. 5]

DoD doesn't have a goal of adjusting the percentage from 90 percent. The focus is on improving the purchase card in other areas such as reducing delinquencies, measuring the number of agency accounts that are certified on-line, and measuring the days required to pay for micro-purchases. All are input for rebate measurements. [Ref. 37]

The smaller the amount of days required for payment of micro-purchases, the larger the rebate for the agency. With the exception of the Navy, rebates go back to the agency billing office to use, thereby offering incentive to generate rebates. The Navy rebates are centrally collected. [Ref. 5]

## **F. ANALYSIS**

The Government purchase card program was designed to expedite the acquisition of essential supplies and services, streamline payment procedures, and reduce administrative costs associated with traditional paper-based payment methods.

The agencies reviewed incorporated procedures and guidelines of micro-purchase requirements into their overall purchase card program. Incorporating the micro-purchase guidelines into the overall purchase card program ensures that the cardholder is familiar with all aspects of the card's usage. A certified cardholder is not limited to using the card strictly for purchases at or below \$2500, which complies with reform initiatives to expand use of the card.

Analyzing the three Government agencies, the researcher notes that while their local policies and procedures are in compliance with DoD's overarching guidance, each program is tailored to the business-line of the particular agency to ensure that their specific requirements are met.

In analyzing the purchase card programs of the agencies, a comparison is conducted with the four key weaknesses leading to the breakdown of internal control as identified by GAO in Chapter III. The specific findings are unmanageable span of control, deficient policies for rebate management, lack of sufficient training, and ineffective use of internal reviews & audits.

### **1. Unmanageable Span of Control**

Each agency reviewed enforces controls and checkpoints. All include a variation of the statement that purchases using the Government purchase card are for official purposes only. Strict guidelines are detailed on the ramifications of misusing the card. Defining roles and responsibilities proved checks and balances to ensure separation of functions. Agencies are in compliance with reducing the span of control.

### **2. Deficient Policies for Rebate Management**

Agencies reviewed include instructions in their overall purchase card program to address taking full advantage of rebates offered by merchants. The cardholder is given explicit guidance on payment procedures to ensure that prompt payments are processed by the Government and received by the merchant which aides in the Government receiving potential rebates. Logs are maintained documenting the purchases and capturing historical information such as vendors, prices, rebates, etc. This information is valuable when making similar purchases.

Continuous efforts are underway by the Director of the Department of Defense Purchase Card Joint Program Office to measure rebates obtained by a specific agency.

### **3. Lack of Sufficient Training**

One of four approved courses, which normally take four to six hours to complete, is mandated and completed prior to issuing a purchase card to the cardholder. Specific interactive training relating to contracting is provided with refresher training required every two years from the date of original training. Occupying a contracting

position is not a prerequisite to qualifying to become a cardholder.

The necessity for documented training is at the forefront of the purchase card programs reviewed. It's also evident by the DoD purchase card stand-down training day in which every participant of the purchase card program was required to complete.

#### **4. Inefficient Use of Internal Reviews & Audits**

Each agency shares commonality & uniqueness with regards to procedures that can greatly assist with improving the micro-purchase policy. The FAR allows purchases less than \$2500 to be made without obtaining competitive quotations if a determination of fair and reasonableness price can be achieved. The purchase card becomes an important acquisition tool as it provides a quick and responsible vehicle to satisfy small dollar requirements. Not only does the card streamline existing processes and payment procedures while reducing administrative costs, it also improves cash management practices, reduces acquisition lead-time, and permits resource flexibility while establishing an audit trail for review or improvements.

Each agency has an Agency Program Coordinator (APC) who appoints the individual cardholder as an ordering officer in writing. The APC is responsible for developing a department-wide implementation plan that incorporates DoD's overarching guidance for using the Government purchase card. Prior to their appointment, the prospective cardholder must successfully complete a minimum number of hours on specific purchase card training.

Each agency has in place standard operating procedures for the Government purchase card that provides useful information concerning authorized and unauthorized use of the card, individual responsibilities, purchase limitations, procedures for placing orders, competition, price reasonableness, bill processing, and records management.

Sample formats are provided to the cardholder to assist with the overall success of the program and to establish methods of controls and checkpoints.

#### **G. CONCLUSION**

The Government purchase card was designed to expedite the acquisition of essential supplies and services, streamline payment procedures, and reduce administrative cost associated with traditional paper-based payment methods. Utilizing the Government purchase card, through the GSA SmartPay, Federal agencies have implemented local purchase card programs that eliminate the regulatory, statutory, and process impediments that have hindered Government acquisition.

With each purchase card policy offering oversight, guidance, internal controls, initiatives for expanding use of the card, and best practices, agencies ensure that their programs accomplish the goals set by DoD, and offer a more efficient and less costly way for end users to receive goods and services.

The status of the purchase card program demonstrates that DoD has exceeded the reform initiative of utilizing the purchase card for 90 percent of micro-purchase acquisitions. Many of the policies reviewed have included

information to ensure that the agency is prepared to implement an increase in the usage of the purchase card.

In the next chapter, a review and analysis of three commercial firms is conducted. The firms frequently do business with the Government and can offer insight into obstacles they face when conducting business with the Government.

## **V. COMMERCIAL PRACTICES**

### **A. GENERAL**

Using purchase cards, Federal employees are able to take advantage of the latest prices and buy supplies & services faster. The purchase card program reduces paperwork, gets payments to vendors faster, and greatly reduces the acquisition administrative time. The General Services Administration (GSA) SmartPay gives the Government a virtually bureaucracy-free way of doing business. The Government is able to get the same technological advantages that are available in the commercial sector. [Ref. 5]

This chapter documents the interviews with commercial businesses that routinely conduct business with the Government. It reviews their processes, policies, and potential barriers encountered with the Government purchase card.

Contractors can't use the Government purchase card to acquire goods and services, as this constitutes obligating the Government, which is an inherent Governmental function. Using cost reimbursable contracts, a contractor can set up his own account with the General Services Administration (GSA) to acquire necessary items to complete the Government contract. [Ref. 37]

### **B. OBJECTIVE OF INTERVIEWS**

The objective of the following interviews is to obtain information from the contractors on their experiences with accepting the Government purchase card, procedures they use to acquire small dollar-valued items, and potential lessons

learned that can be of value for improving the Government's purchase card procedures.

**C. METHOD OF INTERVIEWS**

Senior personnel from each company were interviewed. The interviewees were: Harvey Dixon, President of the Dixon Company; John Bryan, Procurement Branch Manager of San Diego Gas & Electric; and Jeff Wiggins, Senior Procurement Manager of Phillips National, Inc.

The interviewees were asked seven, open-ended questions and allowed to elaborate in other areas. The questions asked of the interviewees are listed at Appendix C.

**D. PERSONAL INTERVIEWS**

**1. Harvey Dixon                      President                      The Dixon Co.**

Harvey Dixon is the President of the Dixon Company located in Santa Ana, California. The Dixon Company, a leading construction firm, is classified by the Small Business Administration (SBA) as an 8(a) HubZone contractor. SBA classifies an 8(a) and HubZone, in accordance with the guidelines of the Federal Acquisition Regulation (FAR), Part 19 as defined: [Ref 33]

8(a): Section 8(a) of the Small Business Act (15 U.S.C. 637(a)) established a program that authorizes the Small Business Administration (SBA) to enter into all types of contracts with other agencies and let subcontracts for performing those contracts to firms eligible for program participation. The SBA's subcontractors are referred to as "8(a) contractors."

HubZone (Historically Underutilized Business Zone): Status as a qualified HubZone small business concern is determined by the Small Business Administration (SBA) in accordance with 13 CFR part 126.

If the SBA determines that a concern is a qualified HubZone small business concern, it will issue a certification to that effect and will add the concern to the List of Qualified HubZone to provide Federal contracting assistance. This is part of SBA's efforts to increase employment opportunities, investment, and economic development in those areas.

The Dixon Company is a small business with approximately 22 people. The business income is approximately \$5M annually. [Ref. 6]

When posed with the questions, Mr. Dixon had the following responses: [Ref. 6]

- **Are you Familiar with and do you Accept the Government Purchase Card?**

Yes, we are familiar with the Government credit card program and gladly accept purchase card actions valued at \$2500 or less. We continue to improve our electronic capabilities to keep pace with the Government.

- **Does your Company have a Similar Program or Policy?**

We do not currently have a purchase card program or a credit card program, but we do anticipate starting one once our company grows.

The process we use when we need repairs or services is to call a reliable contractor to complete the work. The contractor bills us once the work is complete and we instantly write a check for the services. Work of this type generally takes three to four days to complete so the contractor is paid immediately. We do not currently have a formal process.

- **Are Potential Successes & Roadblocks Encountered with Accepting the Government Purchase Card?**

We haven't had any bad experiences with the

Government per say. The only challenge that we have faced is the payment process for larger dollar value contracts. Sometimes, it takes a while to get notification from Defense Finance and Accounting Service (DFAS) when an invoice is incorrect and payments are not processed as timely as needed.

Other than that, we are happy to do business with the Government, particularly the field teams such as Resident Officer In-Charge of Contracts (ROICC), Point Loma, San Diego, California.

- **Have you Experienced Expedited Payments and Reduced Paperwork with Items Procured Using the Purchase Card?**

Yes, I must agree that the paperwork is reduced when actions are placed using the purchase card. That was a good move by the Government.

- **Is your Business Relationship with the Government Enhanced when Using the Purchase Card?**

Our relationship with the Government is enhanced whenever they initiate process improvements.

- **Do you have Recommendations for Improving the Use of the Purchase Card for Transactions?**

I believe an initiative is already under way to expand the use of the purchase card.

- **Is there Anything Else that you Want to Add?**

Using the purchase card is convenient for the Government and ensures that the Government receives items faster.

**2. John Bryan Procurement Manager SDG&E**

Mr. Bryan is the Procurement Branch Manager of San Diego Gas & Electric (SDG&E), located in San Diego, CA. SDG&E is a subsidiary of Sempra Energy. SDG&E is a large, utilities company that provides electric service to 3 million clients in San Diego and southern Orange Counties and natural gas to San Diego counties. [Ref. 19]

Through their Federal branch of the company, SDG&E has partnered with the Federal Government to provide design and construction services. SDG&E offers the Government financial incentives and other benefits through participating in demand reduction type programs. Basically, the program ensures design and construction projects are developed to support energy conservation efforts and reduce energy consumption. The Government receives benefits from constructing projects that support the conservation efforts. [Ref. 19]

When posed with the questions, Mr. Bryan had the following responses: [Ref. 19]

- **Are you Familiar with and do you Accept the Government Purchase Card?**

Although we are equipped to handle credit card transactions, we generally complete projects for the Government valued at over the micro-purchase threshold of \$2500. In today's competitive marketplace, providing customers with convenient payment options is almost as important as selling a quality product or service.

- **Does your Company have a Similar Program or Policy?**

Although we do have a commercial credit card, for repairs and services we contact the appropriate personnel in our facilities department. The Foreman will contact one of our in-house personnel to complete the work or contact one of our subcontractors. Basically, we do business with our subcontractors that we employ for larger Government projects. We know their work and trust their estimates.

- **Are Potential Successes & Roadblocks Encountered with Accepting the Government Purchase Card?**

We have partnered with many agencies of the Government and offer them a variety of demand

reduction programs in which to participate. We have had many successes with the Government and provide quality design and construction services.

Roadblocks that we face are payments and possibly getting us involved early in the procurement process. Often times we are brought in after someone else has completed the design or the construction projects, only to find that our company could have offered the Government value-engineering savings.

- **Have you Experienced Expedited Payments and Reduced Paperwork with Items Procured Using the Purchase Card?**

We routinely use electronic methods for payment processing so I'm not aware of expedited payments from the Government.

- **Is your Business Relationship with the Government Enhanced when Using the Purchase Card?**

Our business relationship with the Government is enhanced not only because of the purchase card use, but also because of our partnering efforts. We are continuously improving our services to the Government.

- **Do you have Recommendations for Improving the Use of the Purchase Card for Transactions?**

The smallest project that I can remember our company having completed for the Government was to relocate a utility pole, valued at \$6500. That was completed a couple of years ago and would have been a good candidate to place on the Government purchase card had the limit been increased. I would also recommend placing smaller valued change orders on the card to speed up payments and eliminate the paperwork associated with change orders. This is usually time consuming and delays negotiations and payments.

- **Is there Anything Else that you Want to Add?**

No.

**3. Jeff Wiggins Sr. Manager Phillips National**

Mr. Jeff Wiggins is the Senior Manager of the Procurement Department for Phillips National Inc. located in Solana Beach, CA. Phillips National is a general contracting firm that was awarded SWDIV's multi-trade, Indefinite Quantity contract. Phillips specializes in management, housing maintenance, and construction. Phillips has a broad range of experienced personnel trades including plumbing, electrical, heating, air conditioning, carpentry, painting, and management. They have over 18 years of experience with the Federal Government. [Ref. 18]

When posed with the questions, Mr. Wiggins had the following responses: [Ref. 18]

- **Are you Familiar with and do you Accept the Government Purchase Card?**

We are quite familiar with the Government purchase card program and ready to accept those types of actions. Our current multi-trade contract has a minimum of \$2000 for construction actions but we can accept smaller projects to satisfy our customers. We understand the importance of putting the customer's needs first. We remain confident that we can meet and exceed the customer's expectations.

- **Does your Company have a Similar Program or Policy?**

We have policies and procedures that we use but not just for purchases. We have the expertise in-house to complete minor repairs and services that we may need. We have also established accounts with local supply companies to meet those types of needs. We also use commercial credit cards for small purchases.

- **Are Potential Successes & Roadblocks Encountered with Accepting the Government Purchase Card?**

The notion that the Government has more red tape than the private sector is a myth. Or I haven't experienced any more red tape with the Government as I have with private businesses. With the Government, although it takes a while, you know you are going to get paid. With private businesses, it takes just as long to get paid. Then you have to worry about the business going out of business and not receiving payment at all. Our overall experience with the Government has been good, mainly due to our partnering philosophy.

- **Have you Experienced Expedited Payments and Reduced Paperwork with Items Procured Using the Purchase Card?**

I'm not aware of expedited payments but there is reduced paperwork when items are placed using the purchase card.

- **Is your Business Relationship with the Government Enhanced when Using the Purchase Card?**

Phillips is a strong advocate of partnering for our maintenance and construction projects. We partner with our contractors and customers to help develop and achieve common goals through cooperation and open communication. This leads directly to win-win relationships. We have a strong local presence with well-established ties to local vendors and subcontractors. We have created many positive relationships with owners, vendors, and subcontractors so that prices are fair and reasonable.

- **Do you Have Recommendations for Improving the Use of the Purchase Card for Transactions?**

Continue to use electronic means for allowing contractors access to the Government requirements.

- **Is there Anything Else that you Want to Add?**

Not really. Our relationship with the Government is very good and beneficial for us both.

## **E. ANALYSIS**

The three firms interviewed demonstrate that they are willing and able to adjust to the changing needs of the Government. Although not all of the firms interviewed maintain a purchase card process similar to the Government's purchase card program for handling smaller dollar value purchases, they all recognize the need to expedite the process for smaller dollar valued items either through in-house support, or by placing the orders with companies whom they are accustomed to doing business.

A commonality shared with the Government is the need to obtain small dollar valued items expeditiously, better, safer, and inexpensive for the customer.

Basically, commercial firms are not mandated to maintain formal policies and procedures for procuring small dollar valued items. Commercial firms are not motivated by the same requirements as the Government, such as the FAR, DFARS, and other regulations & policies. The commercial firms are not charged with managing the funds of the taxpayer, as is the Federal acquisition workforce.

Better, faster, safer, and inexpensive has become common practice for the Government and the commercial sector. Both needing to ensure that those elements are a part of their procurement structure and the way they conduct business or face the dire consequences of not receiving repeat business.

Red tape and roadblocks exist for the commercial firms as they do for the Government. The key to a successful business strategy is cutting through the red tape and overcoming the roadblocks while continuing to meet the

requirements of the customers. Creative partnering has been successful in overcoming the roadblocks and successfully facilitating a positive relationship.

The Government and the contractors have the same underlying goal of meeting and exceeding customer's expectations. The rules may be different but the goals are the same. Both realize that to keep pace with the rest of the world, we have to streamline our processes, use the most efficient and effective methods available to overcome roadblocks and obstacles or get left behind as road kill.

#### **F. CONCLUSION**

This chapter presents personal interviews conducted with contractors who routinely conduct business with the Government. The interviews allowed the researcher to present and analyze data from the private sector's perspective. The data is also used in the formulation of the conclusion and recommendations as presented in the following chapter.

Chapter VI is the final chapter of this research. It will form conclusions to the thesis questions posed at the beginning of this thesis, provide recommendations, and suggest topics for further study.

## VI. CONCLUSION AND RECOMMENDATIONS

### A. GENERAL

This thesis analyzed successful micro-purchase practices of Government agencies and the procedures of commercial firms. Particular emphasis is placed on the Southwest Division policies and procedures as it ensures compliance with Naval Supply (NAVSUP) Purchase Card Program, General Accounting Office's (GAO) audit findings, Department of Defense's (DoD) regulations, guidance of the Federal Acquisition Regulation (FAR) & Defense Federal Acquisition Regulation Supplement (DFARS), and ultimately streamlining initiatives as recommended by National Performance Review (NPR).

Interviews were conducted and valuable concepts were obtained from commercial firms that routinely conduct business with Southwest Division (SWDIV) and provide smaller dollar valued goods and services to the command.

This thesis identifies issues and barriers facing cardholders who are using the Government purchase card to procure small dollar valued goods and services. In accordance with FAR Part 1.6, the cardholder is not required to be a member of the acquisition workforce. A cardholder can basically be unfamiliar with the intricate details of the regulations and policies governing acquisition. In some instances, a cardholders only exposure to acquisition is from completing the required purchase card training or physically using the card.

## B. ANSWER TO RESEARCH QUESTIONS

### 1. Primary Research Question

- **What are the elements and actions necessary to develop and implement a standardized purchase card program for Southwest Division?**

The elements necessary to develop and implement a standardized purchase card program for Southwest Division (SWDIV) include SWDIV purchase card guidelines (SWNAVFACINST 4200.1), outlining the roles and responsibilities of those involved in the purchase card process, obtaining buy-in from the stakeholders, continuous training, and feedback mechanism for increasing the use of the purchase card. Utilizing a standardized framework, addressing the weaknesses identified by GAO's audit, and incorporating recommendations of this thesis research will help ensure that the elements and actions necessary to implement the purchase card procedures are achieved.

This research reveals that a standardized framework that allows for flexibility is necessary. Each agency reviewed has tailored their purchase card policy to their individual requirements and demonstrated compliance with the overarching purchase card regulations.

Agencies incorporated internal controls to combat weaknesses identified by GAO during an audit of SPAWAR System Center and Navy Public Works Center, San Diego:

#### ***a. Proliferation of Purchase Cards Resulting in Unmanageable Span of Control***

Purchase card procedures define roles and responsibilities that provide checks and balances to ensure separation of functions. Strict guidelines are provided on the ramifications of misusing the card.

***b. Deficient Policies for Rebate Management***

Purchase card programs provide explicit guidance on payment procedures and encourage cardholders to take full advantage of rebates. Historical logs are maintained with valuable data relating to the purchase that can be used to measure rebates, and provide input for other measurements composed by the Department of Defense Purchase Card Joint Program Office.

***c. Lack of Sufficient Training***

The purchase card programs researched for this thesis mandates the completion of approved training prior to receiving the card. Refresher training is required every two years. The training requirement can be accomplished by a variety of methods: by completing a resident course, on-line interactive using the web, or CD-ROM.

In September 2001, the Department of Defense conducted a purchase card training stand-down day. Each agency was responsible for ensuring that key players attended the training.

***d. Inefficient Use of Internal Reviews and Audits***

Within the structure of the GSA purchase card contract, in reference to the overall control mechanism, each agency has the flexibility to structure their program to ensure appropriate oversight and key checkpoints are in the internal control process.

Southwest Division internal policy contains the internal operating procedures, SWNAVFACINST 4200.1, that are applicable to all tenant activities within the command. The instruction clearly identifies the roles and

responsibilities of the Agency Program Coordinator, Approving Official, and Cardholder. Dollar thresholds and payment procedures are also outlined. The key elements and actions necessary to standardize the purchase card program for Southwest Division are contained within SWNAVFACINST 4200.1 as outlined by the guidance of NAVSUP Instructions 4200.94.

Conducting the mandatory purchase card training stand-down day in September 2001, with key stakeholder in the purchase card process, assisted with enforcing the policies and is a necessary action required to standardize the program.

## **2. Subsidiary Research Questions**

- **What are the policies and procedures governing the purchase card usage for micro-purchases?**

Chapter II outlines the policies and procedures governing the use of the purchase card for South West Division. SWINST 4200.1 incorporates Navy Instructions 4200.94 that contains the policies and procedures governing the Navy's implementation and overall management of the purchase card program. As with most programs, specific guidance pertaining to micro-purchases are embedded within the overall guidelines of the purchase card program.

The policies reviewed, as well as that of SWDIV, incorporate streamlining initiatives of the Federal Acquisition Streamlining Act of 1994 as recommended by the National Performance Review and endorsed by the President with executive Order 12931. NPR recommended that agencies increase their use of the Government purchase card and take maximum advantage of the micro-purchase authority to the maximum extent practicable.

The policy was further endorsed by the Under Secretary of Defense in a policy letter mandating that orders for goods and services valued at or below the micro-purchase threshold are placed on the Government purchase card. To waive this requirement, a written determination is required by a Senior Executive Service, Flag Officer, or a General Officer.

SWDIV's policy also incorporates the guidelines of FAR and DFARS as outlined in Chapter II of this thesis. FAR Part 13 names the purchase card as the preferred method for acquiring micro-purchase items. Clauses and provisions that are generally required in standard contract are not required for micro-purchase acquisitions. Competitive quotes are not required if prices are considered fair and reasonable. Goods and services that are generally provided by mandatory sources apply to micro-purchases actions as well as to procurements above the micro-purchase threshold.

The FAR and DFARS also provide broad purchase guidelines that are more defined within SWDIV's policy on the purchase card usage.

- **What is the current structure for the purchase card usage when making purchases at the micro-purchase threshold?**

Chapter III reviewed the GSA contract structure that governs the purchase card program. Each agency has the flexibility to structure their program in a method that's beneficial to that particular agency. The intent is to maximize the use of the purchase card.

Agency Program Coordinator (APC) bears the overall responsibility for the success of the purchase card program. The APC conducts a semi-annual review of the

Government Purchase Card Program and initiates actions for improvements or corrective actions, if necessary.

The Approving Officer (AO) reviews and approves account-billing statements and ensures the appropriate documents are sufficiently maintained and payments accurately processed. The APC and AO can be the same person. If this is the case, an alternate AO should be appointed to ensure the necessary checks and balances are in place.

The Cardholder must receive appropriate training before a purchase card is issued. The cardholder is tasked with the ensuring that all prerequisites are completed prior to making a transaction.

The Cardholder is responsible to ensure that the end-user or receiving personnel signs the receipt when items are shipped and received.

The Cardholder is responsible for reconciliation of accounts. All must enforce prohibitions and special attention items. Cardholders, AOs, APCs, and other purchase card program participants are responsible to ensure that the purchase card is used appropriately. Misuse, abuse, and other inappropriate use of the purchase card can have serious disciplinary consequences. Individuals failing to comply with the purchase card policy and procedures may have instance included in their performance evaluation.

The single purchase limit for micro-purchases is \$2,500 for the procurement of goods and service and \$2,000 for the procurement of construction. Individual

cardholders are limited to the amounts indicated in their appointment letters. Purchases may not be split to make several purchase card transactions.

Government personnel are required to complete approved training prior to participating in the purchase card program. Every two years, those involved in the purchase card process require refresher training.

- **What methods are private industries using?**

Although not all of the firms interviewed maintain a purchase card process similar to the Government's purchase card program for handling smaller dollar value purchases, they all recognize the need to expedite the process for smaller dollar valued items either through in-house support, or by placing the orders with companies whom they are accustomed to doing business.

A commonality shared with the Government is the need to obtain small dollar valued items expeditiously, better, safer, and inexpensive for the customer. Both needing to ensure that those elements are a part of their procurement structure and the way they conduct business or face the dire consequences of not receiving repeat business.

Red tape and roadblocks exist for the commercial firms as they do for the Government. The key to a successful business strategy is cutting through the red tape and overcoming the roadblocks while continuing to meet the requirements of the customers. Creative partnering has been successful in overcoming the roadblocks and successfully facilitating a positive relationship.

The Government and the contractors have the same underlying goal of meeting and exceeding customer's

expectations. The rules may be different but the goals are the same. Both realize that to keep pace with the rest of the world, we have to streamline our processes, use the most efficient and effective methods available to overcome roadblocks and obstacles or get left behind as road kill.

- **What are the potential barriers and roadblocks?**

Chapter III identified barriers and roadblocks experienced by the Government Cardholders. Chapter V identified roadblocks experienced by commercial firms who accept the Government purchase card.

- **Micro-purchase threshold.** The micro-purchase threshold limit of \$2500 is too low. Chapter III presented an example where the Government could have potentially benefited had the micro-purchase threshold increased to potentially \$5000. ROICC Point Loma executed 103 year-end actions, using conventional methods, of which 25 percent of those actions were valued at or below \$5000.

In accordance with an Integrated Product Team from the Office of the Under Secretary of Defense, research demonstrates that 96 percent of the Department of Defense contract actions can potentially be purchased with the purchase card if the threshold was increased to \$25,000.

- **Cultural Mindset.** Customers pay up-front cost for micro-purchase services. South West Division has successfully negotiated with current contractors to incorporate the use of the Government purchase card for goods and services valued at or below the micro-purchase threshold. Customers are allowed to place one-time orders, valued at or below the micro-purchase threshold, directly with the contractor using their purchase card. Yet, customers are hesitant or reluctant to take advantage of the opportunity to expeditiously acquire goods and services using their Government purchase

card. The cultural mindset is focused on status quo procedures.

Acquisition planning and using historical data plays a significant role in this situation. If services become predictable and frequent, they should be included into the basic contract. Customers benefit when they are allowed to use the purchase card similar to using a regular credit card. The customer has total control over the item procured and gets around the challenges of obtaining goods and services using traditional methods.

- **Local policies.** Local policies are considered vague. As outlined in Chapter II under FAR Part 1.6, the cardholder does not have to be a member of the acquisition workforce. Cardholders who are not members of the acquisition workforce may not be familiar with the acquisition policies and procedures. Conducting purchase card training as did DOD in September 2001, with a mandatory DOD-wide purchase card stand-down day, offers a venue for cardholders to receive feedback to purchase card issues that may exist.

NAVSUP has a website located at [www.navsup.navy.mil](http://www.navsup.navy.mil) that is an important tool for electronic access to current purchase card topics. NAVSUP also offers interactive CD-ROM training that provides an introduction to the purchase card and provides valuable information on using the card.

- **Inherent Risk.** There is inherent risk associated with ensuring compliance with the purchase card. Customers are not familiar with acquisition requirements. Customers are concerned with being held personally accountable for acquisition requirements when using the purchase card. As demonstrated in Chapter III, customers not familiar with the purchase card procedures will normally continue to do business as

usual. Placing an order with the purchase card, it is the responsibility of the end-user or receiver of the goods and services to inspect the items for compliance. Although an individual credit check is not prerequisite to obtaining a purchase card, individuals may be held accountable for misuse and abuse of the purchase card policy and procedures.

- **Payment issues.** In Chapter V, the contractors interviewed indicated payment issues mainly with large dollar value items. Payments issues are not new to the Government. Contractors continue to complain about untimely payments from the Government. The purchase card procedures outline the cardholder and approving officials roles and responsibilities for ensuring timely payments.

### **C. AGENCIES' BEST PRACTICES**

Using the Government purchase card for micro-purchase actions is beneficial for all stakeholders. The Cardholder has purchasing convenience, is empowered to make purchases without an invoice or having to issue checks, and receives expedited goods and services. An agency using the purchase card ensures efficient purchasing and payment process, effective Internet management capabilities, eliminates unnecessary and redundant work, enhances accountability and provides valuable information to management. The Vendor receives expedited payments, reduced paperwork to complete, and the purchase card promotes positive business relationships with the Government.

Today, we use the Government purchase card much the same as commercial firms and other Government agencies. Best practices as identified throughout this thesis are listed below:

- **Micro-purchase initiatives.** Incorporate micro-purchase reengineering initiatives for using the Government purchase card. The Army uses the purchase card for over 90 percent of its commercial purchases for goods and services valued at or below the micro-purchase threshold, thus replacing the traditional method of using purchase orders and simplified acquisition procedures for small dollar valued items. Through this reengineering effort, the Army is estimated to save an average of \$92.60 per transaction when using the Government purchase card. Once the Army streamlined their business practices, another \$9.00 per transactions savings were realized. [Ref. 5]
- **Streamline approval process.** Streamline the approval process to eliminate hurdles encountered by cardholders and other participants of the purchase card program. [Ref. 37]
- **Capabilities of purchase card.** Utilize existing capabilities of the purchase card. Agencies have the capability to certify purchase card statements on-line, contributing to DoD's paperless initiative and overcoming potential hurdles. The traditional paper method requires up to 3 weeks to complete a transaction. Using the on-line capability a micro-purchase transaction can be approved, certified, and paid within one week. [Ref. 37]
- **Electronic signatures.** Procure a commercial off-the-shelf tool-based system for managing the acquisition process inclusive of digital signature and authentication. Businesses wanting access to Government acquisitions can do so more easily using electronic commerce, embracing the paperless initiative and removing traditional entry barriers for vendors wanting to do business with the Government. [Ref. 5]
- **Electronic payment.** Improve the electronic payment process and adopt a system that provides the vendor with information regarding payment and therefore, reduces telephone inquires. [Ref. 5]

- **Electronic catalog.** Implement a World Wide Web-based electronic catalog with on-line ordering capabilities for Government personnel using their Government purchase card to order a variety of products and services. [Ref. 5]
- **Other initiatives.** Other initiatives include improvements in rebates and delinquencies, new help desk process and website, and improved communications. [Ref. 5]

#### **D. CONCLUSION**

The purchase card program has undergone a tremendous amount of growth since its inception. Agencies are re-engineering their programs and streamlining their processes to become more efficient and effective. Yet, in accordance with the GAO audit, there appears to be room for improvements.

Management data are deficient. Agencies are severely affected by the lack of comprehensive and reliable data for measuring the purchase card program success. Although the GSA SmartPay contractor has the capability to track valuable data relating to purchases, evidence doesn't exist that the Agency Program Coordinator are requesting or utilizing the data.

Incentives for seeking and implementing change increases. In many cases agencies have re-engineered their purchase card programs to take full advantage of its use. The card offers managers incentive to improve their acquisition approach. The purchase process is faster to complete, places the card in the hands of the end user, reduces administrative lead-time and non-value added processes, and thereby reducing overall procurement cost while offering an agency the ability to continue to provide quality customer service to its customers.

Cultural barriers limit opportunities for change. Each agency has its own way of doing business, its own budget and authority, and its own interest in maintaining status quo. Implementing a reform initiative requires widespread support throughout the agency and DoD and requires up-front investment by management. Implementation plans are required and accountability has to be consistent with clear, results oriented and measurable goals. Offering interactive training is a positive move towards reducing the barriers.

#### **E. RECOMMENDATIONS**

Based on the results of this research, the following recommendations are germane to the effective implementation of the purchase card for micro-purchases at SWDIV.

- To control potential abuse of the Government Purchase Card as identified by GAO's audit, the researcher recommends that the Approving Official ensure the following: Identify by name those persons who are authorized to use the card, set individual spending limits for cardholders and offices, approve purchases and ensure funds are available before goods and services are bought, and reconcile and approve cardholder's statements.
- Expand use of the card to include on-line Internet purchases and other electronic mall type purchases. Develop automated tools for use.
- Provide continuous training to the cardholders. Annual group training session, such as the Purchase Card Stand-down training session, offers a good opportunity for individuals to share information. Individual training or smaller group training offers a better opportunity for interaction and feedback.
- Continue to streamline and eliminate excess paperwork associated with using the card in order to achieve full benefit of the card.

- Establish a local and global website for card users to share experiences and innovations. Websites offer a good opportunity for cardholders in the procurement field and those outside of the procurement field to ask questions, provide feedback, and share lessons learned.
- Increase the single purchase limit from \$2500 to a higher amount.
- Establish a method of accountability for agencies to demonstrate that they are taking full advantage of rebates offered by contractors.
- Encourage feedback on existing micro-purchase policy and procedures and revise annually, if necessary. Invite other agencies to share best practices encountered with their purchase card program.
- Develop a strategy to change the cultural mindset on using the Government purchase card.

Implementing these recommendations will advance improvements in the realized efficiency and effectiveness of the purchase card program.

#### **F. SUGGESTED TOPICS FOR FURTHER RESEARCH**

The DoD Purchase Card Program plans to further leverage the use of technology by providing many web-based services for the cardholders use when using the purchase card. Below are suggested topics for further research:

- Purchase Card Payment Methods: Using the purchase card as a method of payment for actions above the micro-purchase threshold.
- Internet Purchases-DoD Electronic Mall: An electronic process for acquiring goods and services by paying with either a Government Purchase card or the traditional Fund Cite.
- Taking advantage of cyberspace virtual contracting.
- The Government Smartcard: The Smartcard technology is designed to provide customers with

easy and safe access to a wide range of services, including public transport, bill paying over the Internet and parking, with a single card. It has a new microchip technology, which promises to deliver faster, cheaper and better.

- The Government Travel Card Program: To help manage the activities associated with official travel.
- Using the purchase card for contingency operations.

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## APPENDIX A. GLOSSARY

TERM	DEFINITION
APC	Agency Program Coordinator
AO	Approving Official
Billing Cycle office Limit	A dollar limit assigned to each cardholder under each AO as determined by the ordering DoD activity. Any office limit may be assigned in increments from \$100 to \$999,900.
Customer/Client	An individual or organization that requires goods and services.
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
FAR	Federal Acquisition Regulation
FASA	Federal Acquisition Streamlining Act of 1994
GSA	General Services Administration
Micro-purchase	A single acquisition of supplies or services from a vendor, the aggregate amount, which does not exceed \$2500 and \$2000 for construction.
NAVSUP	Naval Supply Command
OUSD (A&T)	Office of the Under Secretary of Defense (Acquisition and Technology)
OUSD (C)	Office of the Under Secretary of Defense (Comptroller)
Reconciliation	The process by which a cardholder verifies the cost, quantity, vendor, destination, accounting information, and other identifying criteria before paying an invoice.
Simplified Acquisitions	Purchases of supplies or services using procedures identified in FAR Part 13.
Single Purchase Limit	The dollar limitation assigned to each cardholder for a single purchase.
Splitting	An illegal tactic to circumvent the single or monthly purchase limits.
www	World Wide Web

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**APPENDIX B. SOUTHWEST DIVISION NAVAL FACILITIES  
ENGINEERING COMMAND INTERNAL OPERATING PROCEDURES  
FOR THE COMMERCIAL PURCHASE CARD PROGRAM**

The General Services Administration (GSA) has awarded a contract to CITIBANK Government Card Services to administer the Government-wide Commercial Purchase Card Program. This contract provides commercial purchase cards to civilian and military Government employees for official Government purchase.

**AGENCY PROGRAM CORDINATOR (APC)**

The APC, Code 01LS, serves as liaison between SWDIV, CITIBANK, and GSA. The APC oversees the overall Government Commercial Purchase Card Program and ensures that SWDIV guidelines are consistent with current regulations.

Responsibilities of the APC:

- Establish/review/revise internal operating procedures in accordance with current regulations.
- Appoint Approving Officials and Cardholders - appointments will be in writing.
- Establish cardholder purchase limitations (single purchase and monthly billing cycle limits).
- Maintain account listings of Approving Officials and Cardholders.
- Perform semi-annual review of accounts-reports results to the appropriate chain of command.
- Conduct initial training and refresher training every 2 years or more if necessary.
- Monitor account activity for misuse and delinquency and take appropriate action when necessary.

### **APPROVING OFFICIAL (AO)**

The AO is the individual responsible for reviewing and verifying the monthly purchase cardholder statements. The AO must have completed the required training and comply with the Letter of Appointment issued by the APC.

Responsibilities of the AO:

- Enforce the provisions of these internal procedures and initiate disciplinary procedures for misuse of the card.
- Ensure all transactions meet requirements and that adequate documentation is available for audit purposes.
- Ensure proper implementation of dispute procedures when a transaction is questioned.
- Reconcile, certify, and forward monthly billing statements to the Accounting Section, Code 01RA, for payment.

### **CARDHOLDER**

The Cardholder is the individual to whom a purchase card is issued. The Cardholder is responsible for the purchase of goods and services in accordance with applicable regulations. The Cardholder must have completed the required training and comply with the Letter of Appointment issued by the APC.

Responsibilities of the Cardholder:

- Ensure that purchases do not exceed pre-approved spending limits.
- Ensure that items purchased are not for personal use or for the personal use of the receiving individual.
- Ensure that items purchased are not specifically prohibited by the command or by statute (e.g., real estate, transportation, and travel).

- Ensure that purchases are not part of a system or larger purchase exceeding \$100,000 in value.
- Ensure that purchases are not split into smaller segments to stay under the micro-purchase limit (\$2500).

#### **DESIGNATED BILLING OFFICE**

The Accounting Section, Code 01RA is the Designated Billing Office. This office will ensure billing statements are reviewed for correct funding, required signatures, and documentation. Additionally, they will forward statements to Defense Finance and Accounting Services (DFAS) for payment.

#### **TRANSACTION DISPUTE OFFICE**

The Transaction Dispute Office, Code 01LS, shall coordinate, process, and monitor all disputed purchase, credit, or billing errors.

#### **TRAINING REQUIREMENTS**

All Cardholders and AOs must receive training before a purchase card can be issued. The APC or alternate will provide this training in accordance with NAVSUP regulations. Refresher training is required at least every two years for Cardholders, AOs, others involved in the purchase process. Refresher training will provide a review of existing operating procedures and updates to changes in directives and/or procedures.

#### **PURCHASE LIMITS**

**Single Purchase Limit.** The single purchase limit is the maximum dollar amount allowed for each transaction. The single purchase limit is \$2,500 for purchase of supplies/services and printing, \$2,000 for construction, \$25,000 for training, and \$100,000 for Federal supply contracts. However, cardholders are limited to amounts stated in the Letter of Appointment.

**Billing Cycle Limit.** The billing cycle limit is the maximum dollar amount that can be purchased within a

monthly billing cycle. This limit may be assigned in increments up to \$100,000.

#### **CARD SECURITY AND UNAUTHORIZED USE OF THE PURCHASE CARD**

It is the Cardholder's responsibility to safeguard the purchase card and its account number at all times. The Cardholder must not allow anyone to use his/her card or account number. Cardholders can be liable for any unauthorized purchases made through misuse and/or negligence and will be subject to appropriate disciplinary action.

#### **PURCHASE CARD USE RESTRICTIONS**

Below is a partial list of prohibited and special attention items related to purchase card buys. Refer to NAVSUPINST 4200.94 for a complete list of prohibited and special attention items.

- Advertising
- Coffee pots, coffee, refreshments, refrigerator, microwaves
- Federal Information Processing Resources
- Fuel, Oil, Services, Maintenance, Repairs (GSA Vehicles only)
- Membership dues
- Plaques, ashtrays, paperweights, and other mementos as give-away items
- Printing and duplication
- Travel or travel related expenses
- Uniform items

## **ACCOMMODATION CHECKS**

Accommodation checks are used if the vendor does not accept purchase cards. However, each check is assessed a 1.25% service charge on the total purchase amount.

- The APC, Code 01LS is the assigned Accommodation Check Custodian. He/she is authorized to sign and issue accommodation checks on behalf of the command.
- Accommodation checks must only be used after the command has made every attempt to use the purchase card.
- The maximum amount is \$2,500 (\$10,000 overseas in support of contingencies declared by the Secretary of Defense).
- Only one Accommodation Check Custodian can be appointed
- The Accommodation Check Custodian will be provided a safe or locking cabinet for storage of checks.
- Activities shall establish internal controls to include approval at least one level above the cashier.
- The account will be subject to audit quarterly on an announced basis by the Command Evaluation Officer.

## **PURCHASE PROCEDURES**

The Cardholder will:

- Receive SWDIV Purchase Request Form or e-mail, etc. containing list of items to be purchased from the requestor.
- Ensure sufficient funds have been approved and committed by the Comptroller, Code 01BR, prior to purchase.
- Screen for mandatory sources and obtain appropriate waivers if mandatory sources are not used.

- Review the purchase card use restrictions.
- Determine if prices are "fair and reasonable."
- Ensure purchases are rotated among vendors, whenever possible.
- Notify the Property Manager, Code 01RA, when accountable/pilferable property is purchased for inclusion in the command's property inventory system.
- Instruct vendors not to charge sales tax unless the State does not have tax-exempt status under its state and local laws (i.e., Arizona, Hawaii).
- Inquire about Government rates/discounts (Note: vendors are not required to offer discounts).
- Record all purchases in the SWDIV Purchase Card Log.

#### **SHIPPING AND RECEIVING**

A two-way separation of functions is required in order to protect the integrity of the receipt process. If the Cardholder is picking up the material at the vendor's location, the end user or receiving personnel must sign for final receipt. When the Cardholder is the end user, another individual must sign for final receipt. The receipt document may be a charge slip, cash register receipt, packing list, etc. The Cardholder for reconciliation and audit purposes will retain the receipt document at the end of the billing cycle.

If ordering an item for delivery, the following information is required on the shipping document or packing list.

- Name and address of vendor
- Cardholder-name, code, telephone number
- Order, delivery, and shipment dates
- Itemized list and quantity of supplies delivered/shipped.

#### **PAYMENT METHOD FOR TRAINING**

The purchase card is the authorized method of payment for all commercial training requests valued at or below \$25,000 using the DD Form 1556. This form is authorized for costs associated with individual and group attendance at the training when training is an off-the-shelf event, conference, or instructional service available to the general public and priced the same for everyone (i.e., price per student, course, program, service, or training space). The Cardholder may also use the purchase card to purchase or pay for training developed for and attended by only Navy personnel (military and/or civilian).

#### **PAYMENT METHOD FOR PRINTING**

All printing or duplication procurement in the U.S. is strictly controlled and must be forwarded to the Defense Automated Printing Service (DAPS). The purchase card shall be the method of payment for all government printing orders up to \$100,000. All questions concerning the definitions of printing, duplicating, printing services, etc. should be referred to DAPS.

#### **RECONCILIATION OF ACCOUNTS**

**Cardholder Statement of Account:** The cardholder's statement of account contains all purchases, credits, and other transactions that the Cardholder has made within the monthly billing cycle.

Upon receipt of the statement of account, the Cardholder will:

- Review all information on the monthly statement against the purchase card log.
- Verify the accuracy of transaction, credits, and returns. Retain the transaction documentation if a credit does not appear on the current statement, and ensure that it shows up on the next statement. If the Cardholder discovers any errors or unauthorized charge(s), he/she must notify the AO and immediately contact the Transaction Dispute Office, Code 01LS to initiate billing error and dispute procedures.

- If items purchased are found to be defective, the Cardholder shall process the charge as normal subject to contacting the vendor to arrange for replacement, exchange, or return for credit. If the vendor refuses to take appropriate action or fails to replace, exchange, or issue a credit within 45 days of the billing; the charge must be disputed.
- Annotate the Misc. Document (MD) and Acryn to which each line item will be charged.
- Sign the statement of account. By signing this statement the Cardholder is certifying that all charges are proper and comply with regulations.
- Attach all documentation required and forward immediately to the AO within two days of receipt.

**Approving Official Account Billing Statement:** The billing statement is a summary sheet for all cardholders listed under an AO.

Upon receipt of the billing statement, the AO will:

- Date stamp the statement
- Ensure that the Cardholder's monthly statement of account is received from each cardholder

Review the billing statement to ensure:

- Goods and services were not for personal use and were made in accordance with NAVSUP regulations.
- Orders were not split (purchases broken down or split into separate purchases to circumvent the dollar limitation).
- Resolve all questionable purchases with the Cardholder. If unauthorized use is detected, he/she will notify the APC to begin investigation of the alleged unauthorized purchase.

- Sign the billing statement (by signing this statement the AO is certifying that all charges are proper and comply with regulations), attach copies of each cardholder's statement, and forward to the Accounting Section, Code 01RA, for payment processing within 3 days of receipt.
- If the Cardholder is absent, proceed with the certification of the billing statement and reconcile with Cardholder upon his/her return.
- Establish an alternate AO for back up purposes.
- Retain copies of purchase log, documentation, and copies of billing statements for six years and 3 months for audit purposes.

#### **BILLING OFFICE PROCEDURES**

Code 01RA (DBO) shall:

- Ensure billing statements are received from the AOs before due date.
- Review MD and ACRYN for accuracy and availability of funds.
- Post accrual amount of billing statement per line accounting to FIS.
- Certify and send the billing statement to DFAS San Diego for payment processing.

#### **REVIEW OF LOCAL PROGRAM**

A semi-annual review of the Government Commercial Purchase Card Program will be conducted by the APC. The APC will immediately initiate actions to improve the program and initiate corrective actions on problem areas discovered.

The following areas will be reviewed:

- Local internal operating procedures are in compliance with current directives

- Proper delegation of Authority.
- Purchase request process.
- Funding procedures.
- Micro-purchase procedures.
- Receipt, inspection, and acceptance procedures.
- Prompt payment issues/delinquencies.

## APPENDIX C. INTERVIEW QUESTIONS

1. Are you familiar with and do you accept the Government purchase card?
2. Does your company have a similar program or policy?
3. Are potential successes & roadblocks encountered with accepting the Government purchase card?
4. Have you experienced expedited payments and reduced paperwork with items procured using the purchase card?
5. Is your business relationship with the Government enhanced when using the purchase card?
6. Do you have recommendations for improving the use of the purchase card for transactions?
7. Is there anything else that you want to add?

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