The Impact of Changing Patterns of Commercial Card Use by the US Government on Governmental Efficiency and Cost Savings

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Introduction

The US Government has used bank commercial card technology since the 1980s to simplify and reduce the cost of the process to acquire goods and services. The term "commercial cards" includes purchase, travel, and fleet cards. Generally, purchase cards are used to acquire non-travel-related goods and services of lower dollar value; travel cards are used to facilitate employee travel on government business and primarily used to purchase airline tickets, hotels, and auto rentals; and fleet cards support employee purchases of fuel and other automotive services for government vehicles.

The benefits derived from card use vary by type of card, manner of card use, and degree of integration with the acquisition process. Purchasing cards are a bank commercial card product designed to increase the efficiency of the procure-to-payment cycle by the delegation of certain types of purchase decisions to employee cardholders. The government agency is obligated to pay *one* bill that summarizes monthly purchases made by *all* cardholders. The agency supports this distributed purchasing activity by assigning each cardholder a (revolving) monthly credit line. This process reduces or eliminates many activities and paperwork previously required to process these purchases, including approvals, requisitions, purchase orders, invoices, and payment while increasing days that payables are outstanding by extending the time to payment (Federal Reserve Bank of Philadelphia 2011; McHugh 2011). Estimates of government agency cost savings by use of purchase cards have ranged from $ 54 to $ 92 per transaction (Cohen 1998; U.S. GAO 1996). The General Services

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Administration estimates that, on an average, government agencies save about $ 70 per transaction in administrative cost savings each time a purchase card is used (instead of a paper procedure; General Service Administration 2013a).

By contrast, travel and fleet cards do not produce the same types and levels of transactional cost savings but do provide convenience to the government agency, efficiency and transparency in travel spend reporting and management, and the elimination of cash travel advances. When employees charge travel and fleet expenses the government avoids the expense and reduce risk associated with controlling cash advances while enhance visibility of spending activity. Aggregation and enhanced visibility of travel spending activity can be very important to obtain discounts on airfare, hotels, or auto rentals. Modest transactional cost savings can be obtained with the use of travel cards when paired with expense management software, reducing the time it takes to complete requests for reimbursement from the government.

Given the benefits of commercial card use, spending on commercial cards increased steadily from the 1990s through 2008 where it peaked at $ 30.8 billion. Since 2008, commercial card spending (both in dollars and as a percentage of budgeted spending) has been lower than the 2008 level and dropped sharply in 2012 and 2013. In fiscal year (FY) 2013, the US Government spent $ 26 billion on commercial cards, accumulating approximately $ 1.7 billion in administrative cost savings and card issuer refunds from their use (General Services Administration 2013b).

Since the US Government clearly recognizes benefits from card use, the purpose of this chapter is to understand (a) the factors driving reductions in commercial card spending both in absolute terms and as a percentage of budgeted spending, and (b) the countermeasures available to the government to optimize the benefits derived from commercial card use. Specifically, the chapter is broken into four sections: The first section identifies the different types of commercial cards and pinpoints the card platform primarily responsible for changes in the benefits being obtained from commercial card use (purchasing cards). The second section looks more closely at purchasing card spending and activity data. The third section breaks out the purchasing card program performance of military and civilian agencies and provides a historical timeline of events and policy changes affecting purchasing card use. The final section examines the cost and benefits of current changes to the purchasing card program and how the government can optimize the benefits derived from the use of purchasing cards.

Historical Patterns of Commercial Card Use and Benefit

Figure 1 shows that the US Government commercial card spending increased steadily from $ 17.7 billion in 2000 to its zenith of $ 30.8 billion in 2008. In 2009, commercial card spending fell to $ 29.4 billion but bounced back to $ 30.8 billion in 2011. After 2011, commercial card spending dropped by $ 1.5 billion (to $ 29.3 billion) in 2012 and dropped another $ 3.3 billion in 2013 to $ 26.0 billion. Figure 1 also shows that the US Government commercial card transactions increased from

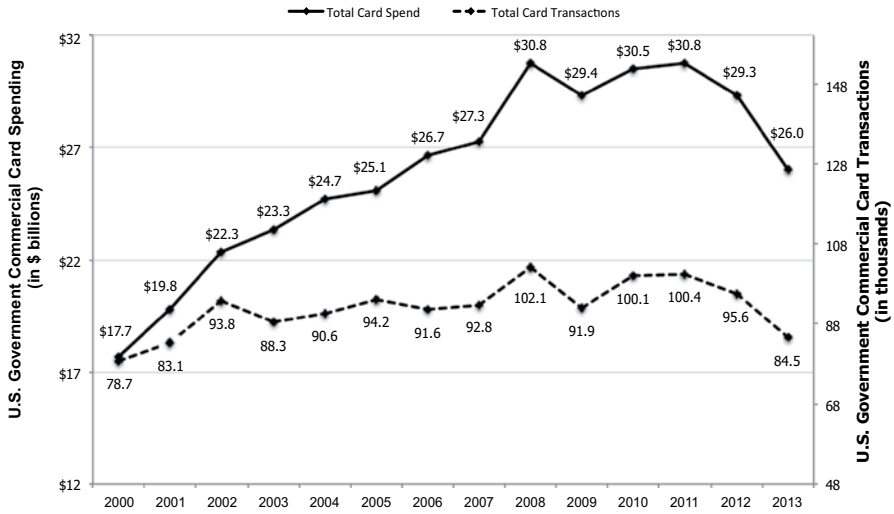**Fig. 1** Total US Government commercial card (purchasing, travel, and fleet) spending and transactions, 2000–2013

78.7 million in 2000 to the high point of 102.1 million transactions in 2008. In a pattern similar to spending, the number of commercial card transactions fell by 17.6 million transactions (to 84.5 million) by 2013.

To put commercial card spending in the larger context of the governmental operations, Fig. 2 displays commercial card spending as a percent of budgeted spend-
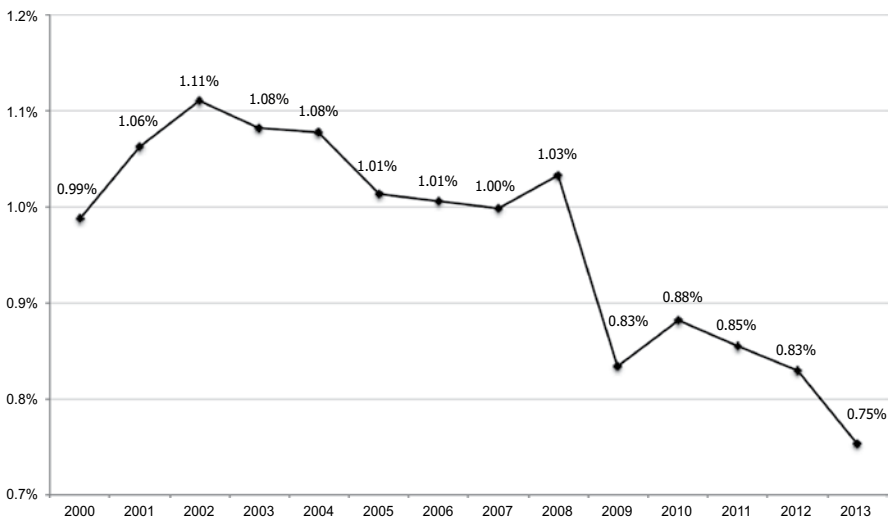

Fig. 2 Commercial card spending as a percentage of budgeted spending by the US Government, 2000–2013
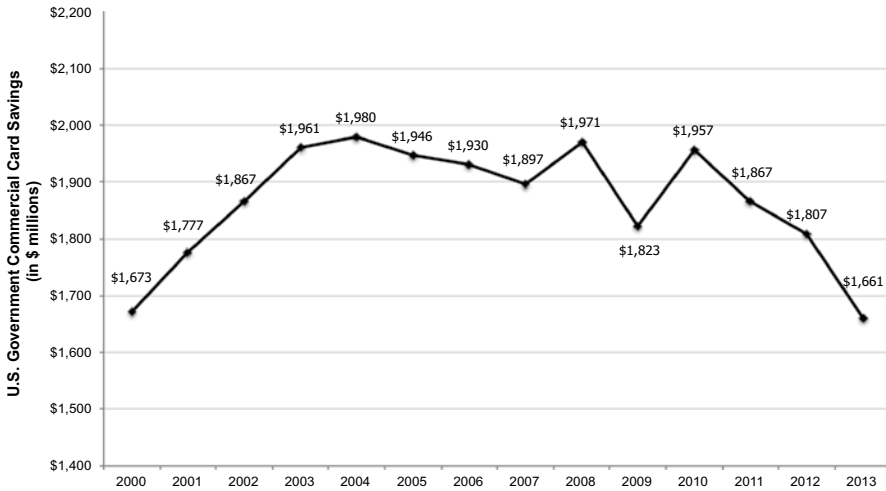
Fig. 3 Total cost savings from commercial card spending by the US Government, 2000–2013. Note: Administrative cost savings are calculated by multiplying $ 70 per purchasing card transaction (as per GSA estimate found at https://smartpay.gsa.gov/about-gsa-smartpay). Likewise, card issuer refund data ($ 272 million in FY 2013) may be found at https://smartpay.gsa.gov/program-refunds. *FY* fiscal year

ing by federal government agencies. Figure 2 shows that, excepting 2008 and 2010, the pattern of US Government commercial card spending as a percentage of the government budget has trended downward since the high water mark of 1.11 % in 2002, falling to 0.75 % in 2013.

Based on a combination of spending and transaction activity, Fig. 3 presents overall cost savings, including administrative cost savings and cash back incentives to the US Government generated from commercial card spending. As shown in Fig. 3, overall cost savings steadily increased from $ 1.7 billion in 2000 to $ 2.0 billion in 2004, remained relatively flat between 2004 and 2010, and has since fallen every year since to its current level of $ 1.7 billion.[1]

Benefits and Use of Different Card Platforms

As noted above, benefits derived by commercial card use vary by type of card used, manner of card use, and degree of integration with the procedural and technological fabric of the acquisition process. To understand the drop in overall commercial card spending more clearly, a breakdown of the spending by type of card is shown in Fig. 4, which indicates that:

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[1] Card issuers bid for the business of providing commercial cards to the US Government agencies. Part of the contractual arrangement with a bid winner is a pre-negotiated "rebate" (cash back incentive) which is primarily based on the amount of spending conducted on the cards.
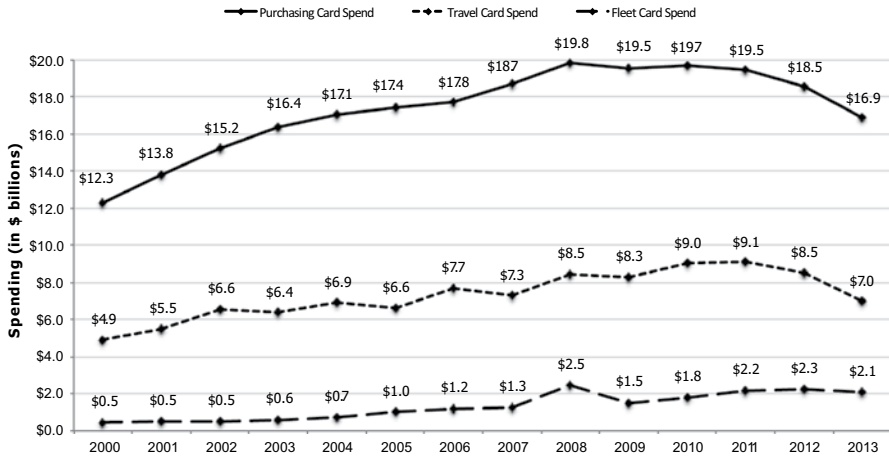
Fig. 4 The US Government spending on purchasing, travel, and fleet cards, 2000–2013. Note: Spending, transactions, and cardholders at the Department of Interior (a "one card" program where both travel and purchasing applications are paid with the same card) are prorated to match purchasing and travel card spending, transactions, and card distribution across the rest of the US Government

- Purchasing card spending rose steadily from $ 12.3 billion in 2000 to $ 19.8 billion in 2008, but has since fallen by $ 2.9 billion to its 2013 level of $ 16.9 billion.
- Travel card spending followed a generally upward trend, rising from $ 4.9 billion in 2000 to $ 9.1 in 2011, but has since fallen by $ 2.1 billion to $ 7.0 billion in FY 2013.
- Fleet card spending has risen from $ 500 million in 2002 to $ 2.3 billion in 2012. In FY 2013, fleet spending dropped modestly to $ 2.1 billion.
- While it has declined recently in its share of total spending, purchasing card spending continues to be the main component of total commercial card spending, accounting for 65 % of the $ 26 billion of commercial card spending in FY 2013.

Given the spending patterns in Fig. 4, it appears that the decline in purchasing card spending is the primary cause of the decline in overall commercial card spending by the US Government. Due to the higher percentage of total spending, changes in purchasing card spending have a greater effect on the benefits of card use that accrue to the US Government. Further, because of the impact on the administrative aspects of the purchasing process, purchasing cards drive all of the administrative cost savings reported by the government and (by virtue of the amount spent) the majority of cash back incentives. Therefore, the remainder of this chapter will focus on governmental use of purchasing cards.

A Closer Look at Purchasing Card Use

Figure 4 showed that purchasing card spending by the US Government steadily increased between FYs 2000 and 2008.[2] Purchasing card spending gyrated between $ 19.5 and 19.7 billion in the 2009–2011 timeframe, thereafter falling steadily to the FY 2013 level of $ 16.9 billion. Figure 5 shows that the number of transactions paid with the purchasing card actually began falling four years earlier. The highest number of annual purchasing card transactions was reported in 2004 (26.5 million). Since then annual purchasing card transactions have had headed in a generally downward direction to the FY 2013 level of 19.8 million, a 25 % decrease from the FY 2004 peak. Figure 5 also shows that total purchasing spending did not decline in the 2005–2008 timeframe because increases in the average transaction amount more than offset the reduction in the number of transactions. The average purchasing card transaction amount rose steadily from $ 446 in 1997 to $ 872 in 2009, but has since fallen to $ 851 in FY 2013.

Purchasing Card Distribution One potential contributor to the reduction in purchasing card spending and transactions by the US Government is change in employee access to purchasing cards. Figure 6 shows that the number of purchasing cards distributed to employees of the US Government peaked at 465,000 in 2001 and has since fallen to its current level of 301,926 (a 35 % drop). Though not shown in the figure, the percentage of the US Government employees has also slowly declined 12.2 % in FY 2001 to 7.6 % in FY 2013. The possible reasons for the drop
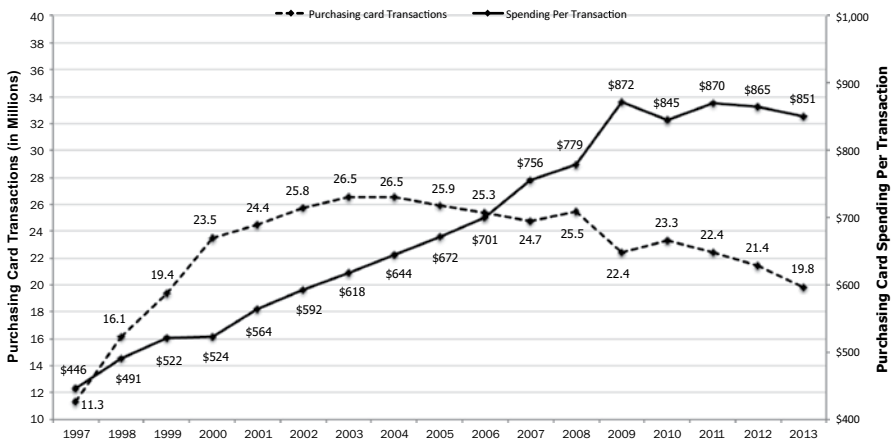

Fig. 5 Purchasing card transactions and spending per transaction by the US Government, 1997–2013. Note: Purchasing card data are available from the GSA from 1997 forward. Card issuer refunds and travel and fleet card data availability is available only from 2000 forward. Thus, this graph extends the timeframe to suit purchasing card data availability

[2] Actually, purchasing card spending increased consistently from 1990 to 2008. Exhibit 4 was constrained to the year 2000 and beyond because that is when data for all three card platforms was made available by the GSA.
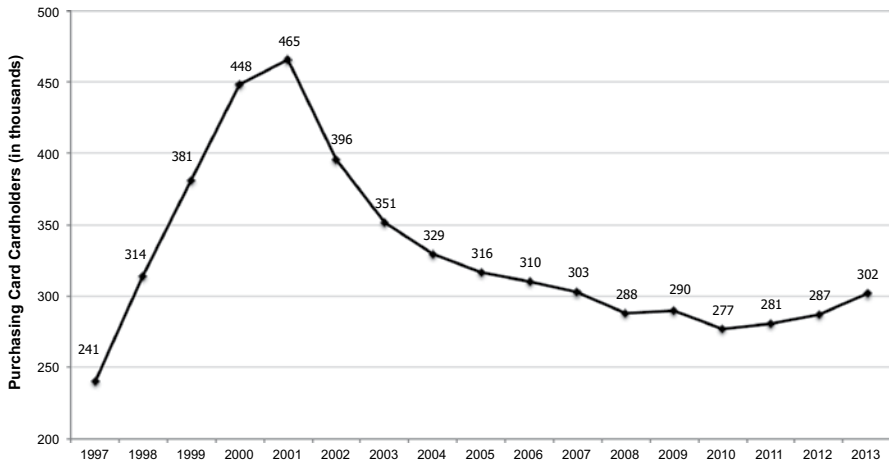
Fig. 6 Purchasing cards distributed to employees, by the US Government, 2000–2013

will be discussed below when we examine various audit outcomes and changes in federal guidelines over the past decade.

Cardholder Spending Behavior Changes in card distribution patterns may affect spending at the cardholder level. For example, Fig. 5 revealed that the average transaction amount of a purchasing card purchase had been trending upwards for most of the past 16 years. Thus, when purchasing cards are in the hands of fewer employees, those cardholding employees tend to make larger purchases (perhaps buying for themselves and others in their department who no longer have a purchasing card). Figure 6 showed that (with one exception in 2009) card distribution across the employee base steadily declined from 2001 to 2010. Likewise, Fig. 7 shows that the decline in card distribution that began in 2002 has meant that employees with
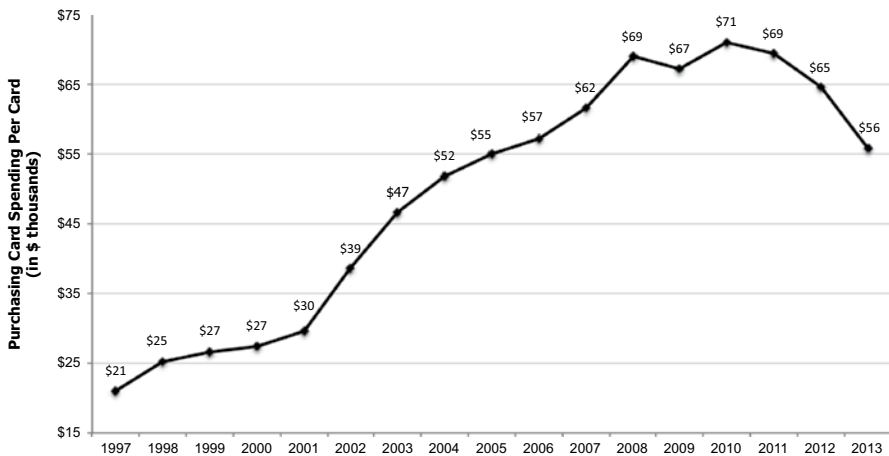

Fig. 7 Annual purchasing card spending per card, by the US Government, 2000–2013
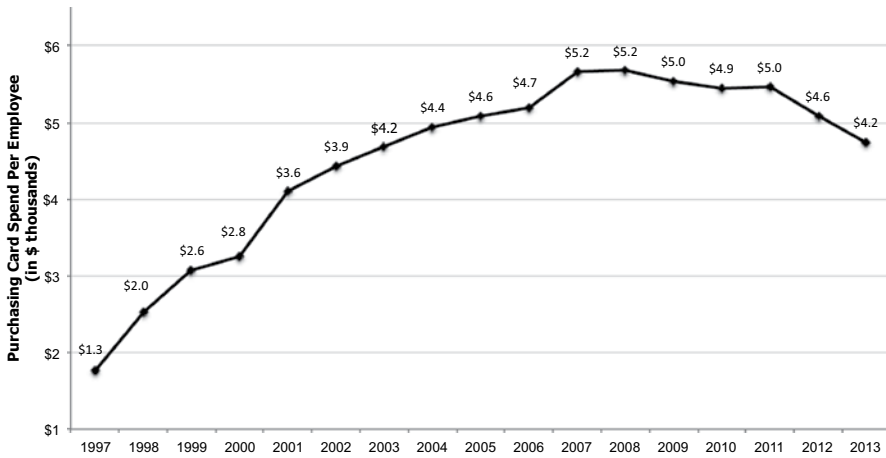
Fig. 8 Purchasing card spending per employee, by the US Government, 2000–2013

cards are conducting more purchases. In that timeframe, the annual purchasing card spending per card rose from $ 30,000 in 2001 to $ 71,000 in 2010. After 2010, the level of card distribution rose modestly (9 %) while the annual spending per card declined 21 % (from $ 71,000 to 56,000 per year).

Size-Adjusted Performance Metrics While "per card" metrics give an insight into cardholder behavior, size-adjusted metrics provide a more comprehensive view if the impact of the purchasing cards on the US Government spending habits. Purchasing card spending per employee is a program performance metric that reflects the extent of the transformation of governmental buying practices away from non-card payment methods to the purchasing card. Figure 8 shows that annual purchasing card spending per employee rose steadily from $ 1,300 in 1997 to $ 5,200 in 2007 where it plateaued for 1 year. Since 2008, purchasing card spending per employee has fallen to $ 4,200 in 2013.

Another size-adjusted performance metric which reflects the relative influence of purchasing cards on governmental buying practices is purchasing card spending as a percent of total budgeted spending. Figure 9 presents the US Government purchasing card spending as a percentage of the US Government budget (lagged on year) in relation to the purchasing card-to-employee ratio for the 1997–2013 time period.[3] The figure reveals that purchasing card spending as a percentage of budget was highest when card distribution was most liberal. Thus, the figure shows the high point of card distribution (in 2001 at 12.16 % of the employee base) is associated with the highest level of purchasing card spending as a percentage of the budget (in 2002 at 0.76 %). Since 2001, both card distribution and purchasing card spending as a percentage of budgeted spending have tracked downward.

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[3] Purchasing card spending as a percentage of budget is lagged to allow for cardholder adaptation to card spending policies and procedures.
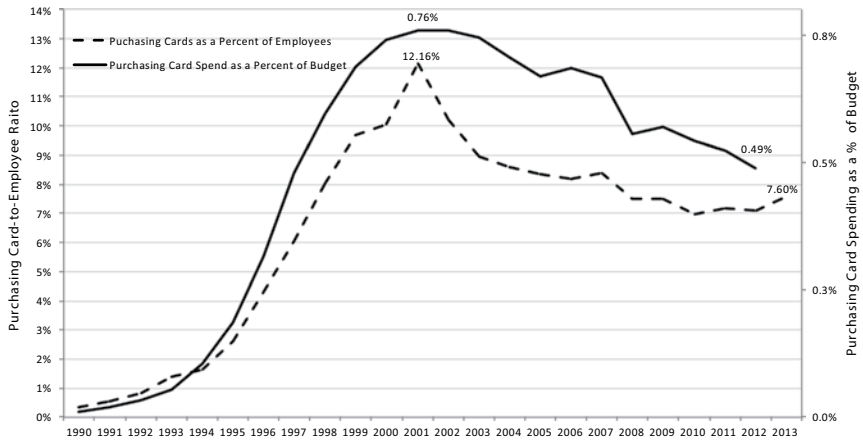
Fig. 9 Card to employee ratio with spend as a percent of budget (1 year lagged), 1990–2013. Note: Budgeted spending data from the Department of Treasury Financial Management Service Monthly Treasury Statements of Receipts and Outlays of the US Government. Government head-count data available at Federal Civilian Workforce Statistics: Employment and trends available at the Office of Personnel Management. Purchasing card spending data from 1990 to 1996 is taken from McHarg (2002)

Cost Savings The net effect of changes in purchasing card distribution and card-holder usage patterns associated is reflected in the savings experienced by the US Government. Figure 10 shows that the benefit derived from purchasing card use
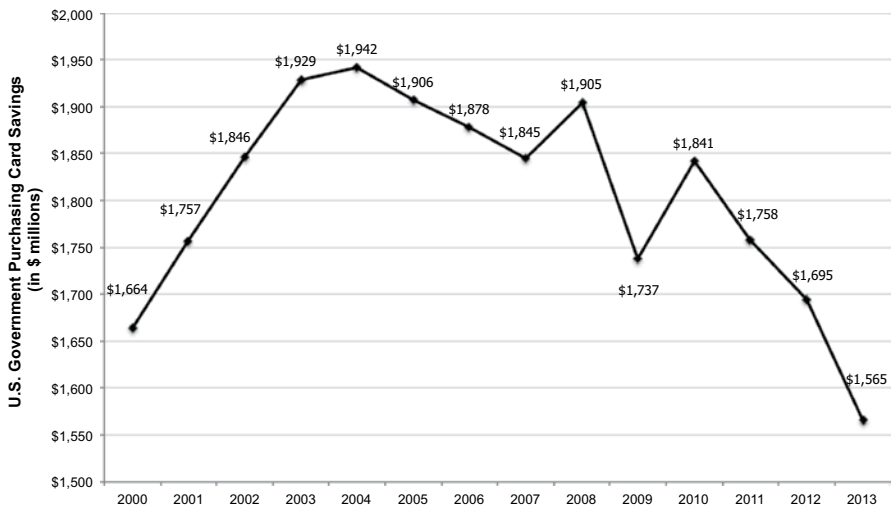
Fig. 10 Total administrative transaction cost savings and card issuer rebates from purchasing card spending by the US Government, 2000–2013Note: Administrative cost savings are calculated by multiplying purchasing card transactions by $ 70 as per GSA estimate found at https://smartpay. gsa.gov/about-gsa-smartpay). Card issuer rebate data is calculated by multiplying the percentage rate of the rebate experienced in each fiscal year times the purchasing card spending in that year. Presentation is limited to the years after 1999 due to availability of refund data

peaked in 2004 (at $ 1.9 billion in combined cash back incentives and transaction cost savings), primarily due to the record number of purchasing card transactions conducted in that year (26.5 million). With the exception of 2008 (where transaction activity spiked up to 25.5 million), total cost savings associated with purchasing card use drifted downward to $ 1.6 billion in FY 2013.

In sum, we find five key points associated with the US Government use of purchasing cards, as follows:

- Purchasing card spending peaked in 2008 at $ 19.8 billion, was flat between 2008 and 2011, and dropped significantly in both 2012 (to $ 18.5 billion) and 2013 (to $ 16.9 billion).
- Annual purchasing card transactions peaked in 2004 (at 26.5 million) and have declined (albeit unevenly) to 19.8 million in 2013. Purchasing card spending did not decline immediately upon reduction in transaction volume because the average card transaction amount was rising rapidly.
- The percentage of employees with purchasing cards fell from 12.2% in 2001 to 7.0% in 2010 (from 465,000 to 277,000 cards). Since 2010, the number of and percentage of employees holding purchasing cards has ticked upward modestly.
- Purchasing card spending as a percent of the budget was highest in 2002 and 2003, years in which card distribution was at high levels.
- The cost savings from purchasing card use peaked in 2004 (at $ 1.9 billion), the year of a record number of purchasing card transactions. While transactions were lower after 2004 the total cost savings were buoyed by rising card issuer rebates in the 2004 to 2010 timeframe. Notwithstanding, almost *all* of the decline in the benefits from the US Government commercial card use since 2010 is explained by changes in purchasing card use.

Military Versus Civilian Purchasing Card Activity

Palmer et al. (2010) observed that marked differences existed between military and civilian governmental agencies with respect to the use of purchasing cards.[4] Unlike civilian agencies, military agencies had begun a pattern of movement away from purchasing card use in 2002. The analysis of purchasing card spending in Fig. 11 breaks down civilian and military purchasing card spending and extends Palmer and Gupta's earlier analysis. The figure shows that while civilian purchasing card spending increased from $ 2.8 billion in 1997 to $ 12.1 billion in 2011, it has since dropped by 4% ($ 0.5 billion) to $ 11.6 billion in 2013. By contrast, military purchasing card spending increased from $ 2.2 billion in 1997 to the high point of $ 8.4 billion in 2008, but has since decreased by 37% ($ 3.1 billion) to $ 5.3 billion in 2013. In fact, the military reduction in purchasing card spending

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[4] Military is defined as the Department of the Army, Navy, Air Force, and DOD-other. All other agencies are considered civilian in nature.
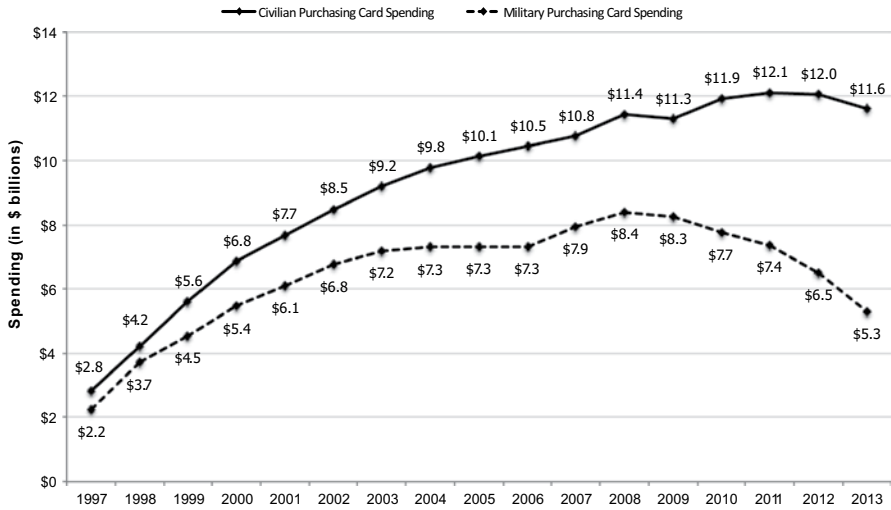
Fig. 11 Civilian versus military purchasing card spending, 2000–2013

between 2010 and 2013 ($ 2.4 billion) accounts for 86 % of the $ 2.8 billion drop in total US Government purchasing card spending (see Fig. 4) and 53 % of the $ 4.5 billion drop in total commercial card spending (see Fig. 1) in the 2010–2013 timeframe. Military spending as a percentage of total purchasing card spending has also slowly dropped from 47 % in 1998 to 42 % in 2009. Thereafter, annual military purchasing card spending as a percent of total purchasing card spending dropped more steeply, falling to 31 % in 2013.

Figure 12 presents purchasing card transaction activity in the 1997–2013 timeframe by military and civilian agencies. The figure shows that annual civilian purchasing card transactions increased from 6.3 million in 1997 to 16.1 million in 2004, remained relatively flat through 2008, dropped to 13.4 million in 2009, and
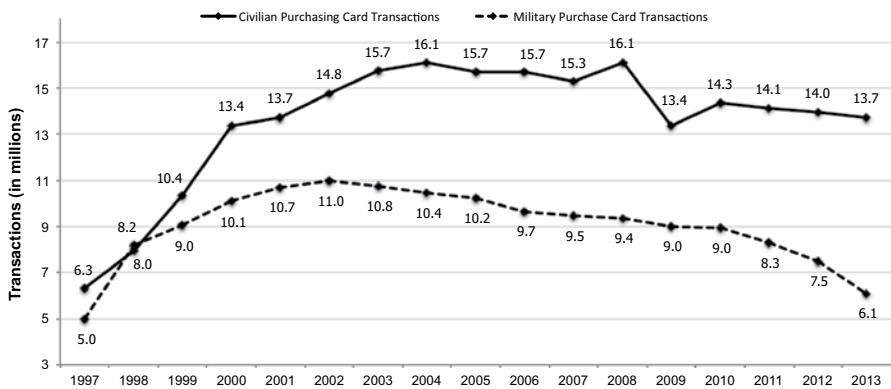
Fig. 12 Civilian versus military purchasing card transactions, 2000–2013
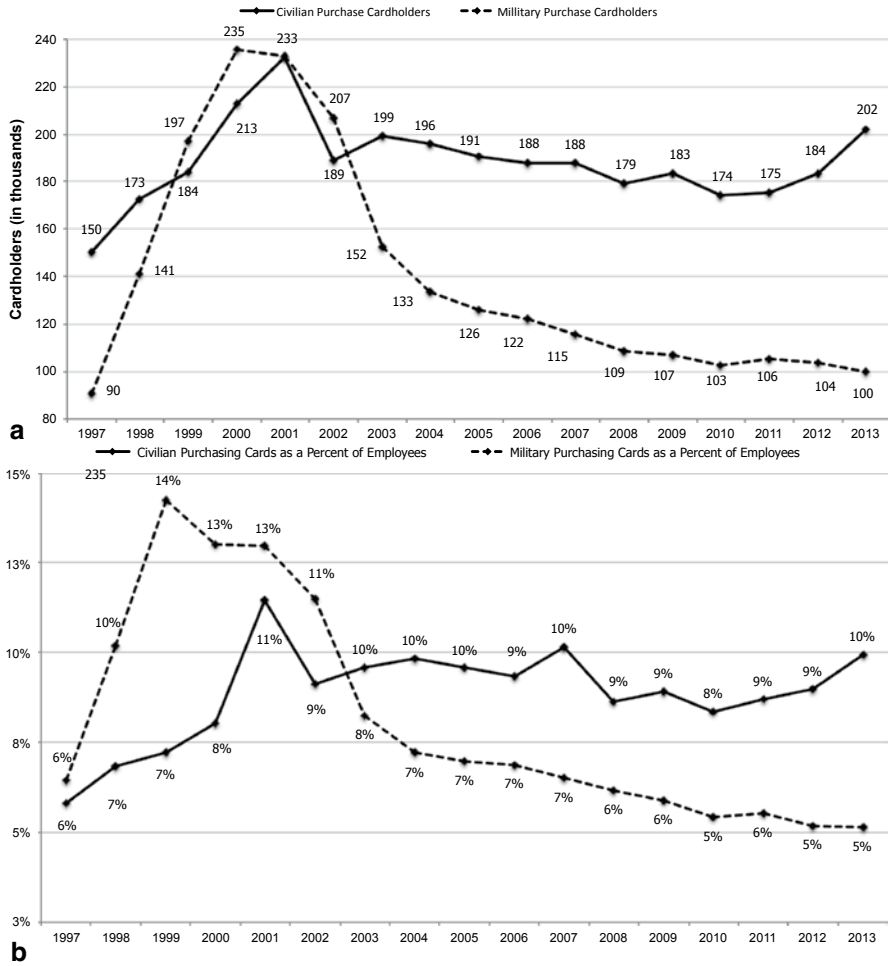
Fig. 13 a Civilian versus military number of purchasing cards, 2000–2013. **b** Civilian versus military purchasing cards as a percent of employees, 2000–2013

then rose again to 13.7 million by 2013. By contrast, annual military purchasing card transactions increased from 5.0 million in 1997 to 11.0 million in 2002, thereafter steadily decreasing to 6.1 million in 2013.

Purchasing Card Distribution Figure 13a presents the number of purchasing cardholders among civilian and military US Government agencies. The figure shows that the number of civilian purchasing cards rose from 150,000 to 233,000 in 2001, but fell sharply in 2002 to 189,000. After a brief uptick in 2003, the number of civilian purchasing cards generally fell between 2003 and 2010 (where it landed at 174,000). It has since risen back to 202,000 in 2013, 13.3 % off of its peak level in 2001. By contrast, the number of military purchasing cards rose dramatically

from 90,000 in 1997 to 235,000 in 2000, followed thereafter by an equally dramatic decline to 133,000 cards 4 years later in 2004. From 2004 to 2013 the number of purchasing cards declined by another 33,000 cards to 100,000, 57% lower than its peak level in 2000.

Figure 13b shows the changes in the percentage of the civilian and military employees provided with purchasing cards between 1997 and 2013. Civilian cards started at 6% in 1997 and increased to the high point of 11% in 2001. Thereafter, the percentage of civilian employees given purchasing cards dropped to 9% by 2002 and has remained relatively constant since that time. The percentage of military personnel given purchasing cards, by contrast, started at 6% in 1997 and increased to the high point of 14% in 1999, and then dropped significantly to 7% by 2004. Since 2004, the percentage of military personnel given purchasing cards has gradually decreased to its 2013 level of 5%.

Purchasing Card Spending as a Percent of Budgeted Spending. Figure 14 presents civilian and military purchasing card spending as a percentage of their budget. The figure indicates that civilian purchasing card spending as a percent of their budget increased from 0.2% in 1997 to 0.5% in 2000 where it has remained relatively consistent, dropping to 0.4% in 2009 and staying at that level through 2013. By contrast, military purchasing card spending as a percentage of budget has changed dramatically, increasing from 0.9% in 1997 to the high point of 1.9% in 2001, thereafter falling every year (except 2007) to its 2013 level of 0.8%.
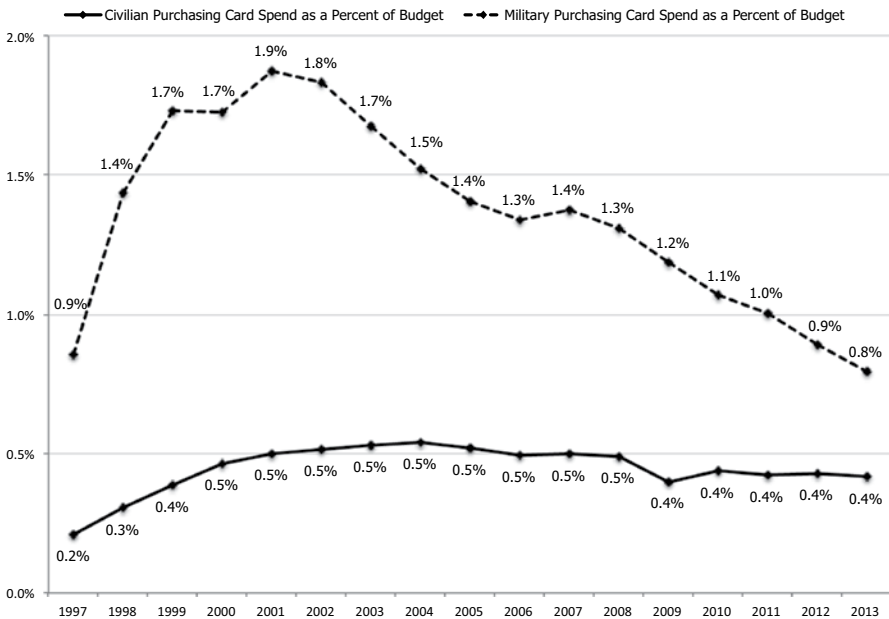

Fig. 14 Civilian versus military purchasing card spend as a percent of budget, 2000–2013
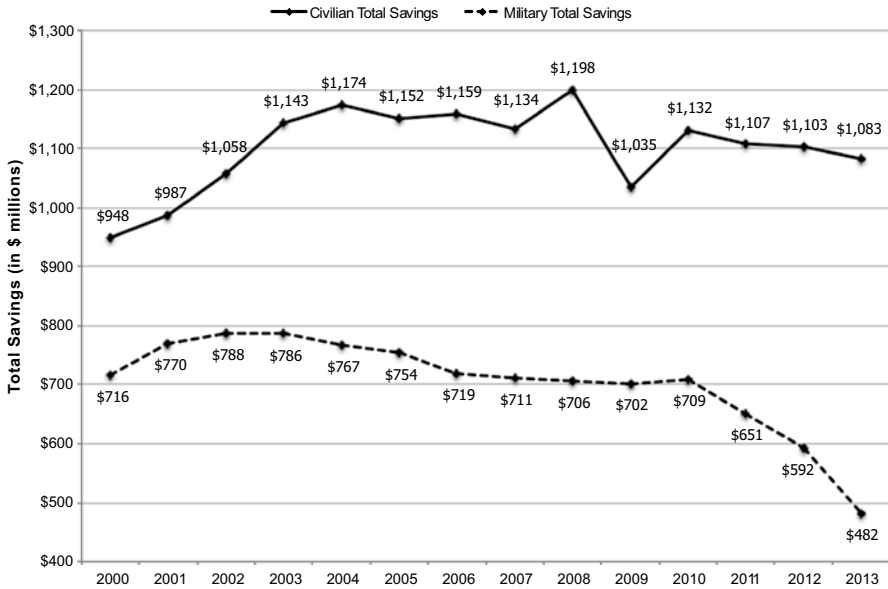
Fig. 15 Total military and civilian cost savings due to purchasing card use, 2000–2013

Cost Savings from Purchasing Card Use In a manner corresponding to spending, Fig. 15 shows the estimated total cost savings (including card issuer rebates and administrative cost savings) to the US Government by military and civilian agency use of the purchasing card.[5] The annual cost savings to civilian agencies increased from $ 948 million in 2000 to $ 1.2 billion in 2008, and has since dropped by 10 % (to $ 1.1 billion) in 2013. Annual cost savings attributable to military agency use of purchasing cards remained relatively flat between 2000 and 2010. Military cost savings attributable to purchasing card use peaked in 2002 (at $ 788 million), but have since dropped 39 % to its 2013 level of $ 482 million.

In Summary As shown in Table 1, the changes in purchasing card use by the military agencies has been declining steadily compared to trends experienced by civilian agencies over time, explaining how military purchasing card spending as a percentage of total US Government purchasing card spending has fallen from 47 % in 1998 to 31 % in 2013 (as shown in Fig. 11b). What would be more troubling to the US Government (in terms of cost savings) is if the pattern set by the military is now at the nascent stage of duplication among civilian agencies.

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[5] Card issuer rebate data for analysis of cost savings over time is available only for 2000–2013.

Table 1 Summary of differences in military and civilian purchasing card statistics 1997–2013

	Military	Civilian
Annual purchasing card spending	Peaked in 2008 at $ 8.4 billion, *falling by 37%* thereafter to $ 5.3 billion in 2013.	Peaked in 2011 at $ 12.1 billion, *falling by 4%* thereafter to $ 11.6 billion in 2013.
Annual purchasing card transactions	Peaked in 2002 (at 11.0 million) and has since fallen steadily to 6.1 million in 2013 (*a 45% decline* in transactions).	Peaked in 2008 (at 16.1 million) and has since fallen to 13.7 million in 2013 (*a 15% decline* in transactions).
Number of cards	The number of purchasing cards given to Military employees has been *reduced by 57%* since its high point in 2000, falling from 235,000 (14% of employees) to 100,000 (5% of employees) in 2013.	The number of purchasing cards given to Civilian agency employees has been *reduced by 13%* since its high point in 2001, falling from 233,000 (11% of employees) to 202,000 (10% of employees) in 2013.
Purchasing card spending as a percent of budget	Rose to its high point in 2001 (1.9%) and has since *dropped by more than half* to its 2013 level of 0.8%.	Has *remained steady* between 0.4% and 0.5%.
Annual cost savings attributable to purchasing card use	Peaked in 2002 (at $ 788 million), but has since *dropped 39%* to its 2013 level of $ 482 million.	Peaked in 2008 (at $ 1.2 billion), but has since *dropped 10%* to its 2013 level of $ 1.1 billion

Understanding Changes in Military Purchasing Card Use: The Cost of Control and Program Transformation

This section seeks to explore potential explanatory factors for the changes in purchasing card spending, transactions, and cost savings by the military (and to a lesser extent, civilian) agencies of the US Government. To that end, we examine (a) alternative payment tools supplanting card use, (b) changes in military budgets, (c) the history of policy and legal changes that might affect card program structure or performance, and (d) the changes in card distribution patterns that might influence agency use of purchasing cards.

Alternative Payment Models

Differing methods of purchasing goods within the Military may explain the changing patterns of purchasing card. For example, "Wide Area Workflow" (WAWF) is a secure web-based system for electronic submission and processing of receiving reports and invoices in order to support the Department of Defense's (DoD) goal of moving to paperless acquisition processes (Defense Logistics Agency 2013). WAWF provides the technology for government contractors and authorized DoD

personnel to generate, capture, and process receipt and payment-related documentation. The 2009 Defense Authorization Act directed a plan to enable capture of acceptance data for items bought with a purchasing card by modifying the WAWF to enable receiving reports for card transactions (Public Law 110-417 2008). Because the system has not been previously compatible with purchasing cards, its ability to support purchasing card use could be or become a cause for a decrease in card use.

Another potential factor that could alter purchasing card is the Federal Strategic Sourcing Initiative (General Services Administration 2014). The GSA, through the FSSI, has been implementing strategic sourcing solutions for the government since 2005. The primary goals of FSSI are increase total cost savings, value, and socioeconomic participation by collaborating with agencies across the federal government to strategically source goods and services widely needed across federal agencies (office supplies, delivery services, print management, telecommunications services). Greater use of FSSI will result in more bulk purchases of items that were previously under the micro-purchase threshold and purchased with a purchasing card.

Changes in Military Activities and Funding

Military activities and readiness may have had an impact on purchasing card use in the timeframe under review. The war in Iraq began in March 2003 and ended in late 2011. The war in Afghanistan has been active since 2001 but is beginning a winding down process as of this writing.

In 2013, the Congress agreed to "sequester" discretionary spending levels. The sequester began in March 2013 and could have significantly influence the more recent decrease in purchasing card spending in the military (since defense is the largest component of discretionary spending by the US Government and is expected to absorb a 10 % budget reduction). In 2014, the military is expected to absorb a $ 52 billion cut from its budget.

History of Policy Changes

A variety of audit findings, laws, and policy changes have influenced the growth of purchasing card spending since its initial use in 1982. We separate the chronology by military and civilian agencies into four time periods and discuss each time period below.

The Developmental Years

Palmer and Gupta (2007) summarized the developmental years of purchasing card use in the US Government. Briefly, the government's interest in purchase cards began in 1982 as a procurement reform initiative embodied in Executive Order 12,352

(Exec. Order No. 12,352 1982). The Executive Order called for federal government agencies to reduce administrative costs connected with procurement and that purchase cards be implemented to cut the cost of buying goods and services. Three years later, the Department of Commerce initiated a pilot program to test the use of a credit card program from the Office of Federal Procurement Policy (Poole and Welch 2002). The pilot program results indicated that purchasing cards were a more efficient way to buy goods and services that enabled end-users to acquire items directly from vendors instead of running the gauntlet of supporting procurement offices. The analysis of pilot program results indicated that instances of card abuse were negligible and, in some circumstances, purchase cards offered the potential to implement controls in areas where sufficient controls had not previously existed. As a consequence of the positive results of the pilot program, the GSA introduced a government-wide purchase card system in 1989.

Despite the potential for increased productivity, agencies resisted large scale use of purchasing cards in the early years (McHarg 2002). Purchasing card use got a boost in 1993 when the Clinton administration launched the National Partnership for Reinventing Government. As part of this initiative, Vice President Gore led a review which resulted in a report that recommended that all federal agencies increase the use of the purchase cards (Gore 1993).

Responding to the recommendation, the OD took the lead in advancing card use through a "pledge" program among members of the Procurement Executives Association (Poole and Welch 2002).[6] The Procurement Executives Association asked members to volunteer managers with the ability to authorize employees to buy small-dollar items directly and to double card spending over a one year period.[7] By September 1994, the Procurement Executives Association presented a report to the Director of the Office of Management and Budget (OMB), which read, in part: "by the end of the tenth month (after signing the pledge), [our agencies] had increased purchase card usage by 119 %, making 82,000 purchases per month worth almost $ 19,000,000 …. Since starting this project, the ten agencies have made 750,000 purchases faster, better and at less cost with the card. Plus, they report virtually no waste or abuse."[8]

1994–2000: Rapid Growth and Expansion

The pace of change in the use of purchase cards accelerated when Congress passed the Federal Acquisition Streamlining Act (FASA) of 1994 (FASA 1994). FASA encouraged the use of purchase cards by removing certain restrictions and shifting

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[6] The Procurement Executives Association was a group of senior procurement executives from the US Departments of Commerce, Treasury, Interior, Health and Human Services, Transportation, Energy, State, and GSA.

[7] Later, other agencies, including the Office of Personnel Management (OPM), the Federal Emergency Management Agency (FEMA), the Drug Enforcement Agency (DEA), and the Federal Prison Industries, joined in the effort. An interagency work group, the Purchase Card Council, was chartered to lead the effort under the Treasury Department.

[8] Procurement Executives Association. 1994. *The Government Purchase Card.* Report to Alice Rivlin, Director, OMB. September, 2004.

micro-purchase (purchase transactions of less than $ 2,500 at that time) authority to personnel other than government procurement professionals. Specifically, FASA reduced restrictions that required purchases from small businesses when certain conditions and competition standards were met and raised the simplified acquisition threshold from $ 25,000 to $ 100,000. Thus, after FASA, micro-purchases could be awarded non-competitively (and acquired via purchase cards) if the item being purchased was a non-recurring purchase of a competitively priced off-the-shelf item.[9]As part of FASA implementation, an interim Federal Acquisition Regulation was issued in December 1994 (Federal Acquisition Circular 1994) that identified the purchase card as the *preferred* method for micro-purchases and enabled their use for payments above the $ 2,500 threshold.

An Executive Order (Executive Order 12,931 1994) issued late in 1994 further promoted the opportunities made available by FASA by instructing agencies to take maximum advantage of the new micro-purchase authority by delegating the authority, to the maximum extent practicable, to the offices that would be using the supplies or services to be purchased. The order focused partly on micro-purchases because these purchases account for the bulk of government transactions (but only a fraction of spending), do not require extensive procurement knowledge, and are often available for immediate delivery. The Executive Order also promoted spending by front-line employees, eliminating the need for contracting officials to be involved in purchases where their expertise was not required.

Military agencies were particularly supportive of purchasing card programs. In a 1997 memo to the military agencies, Under Secretary of Defense John Hamre stated that the Army Audit agency had found that, when compared to using purchase orders, the use of purchasing cards provided a savings of $ 92 per transaction (Hamre 1997). Further, Hamre stated that purchasing cards are "now considered by the Army organizations as the preferred method of obtaining goods and services valued at or less than $ 2,500." Within 2 years of the letter, military purchasing card spending doubled (going from $ 2.2 billion in 1997 to $ 4.5 billion in 1999. By the year 2000, Military agencies used 235,465 purchasing cards to pay for $ 5.4 billion of goods and services while civilian agencies used 212,705 purchasing cards to pay for $ 6.8 billion of goods and services.

2001–2002: Troubling Audit Findings Focus on Level of Card Distribution

A series of General Accounting Office (GAO) reports beginning in 2001 were to have a strong impact on the purchasing card program configuration and use for the next 12 years. In 2001, a GAO audit of the Navy card program (U.S. GAO 2001a) reported significant breakdowns of internal control over purchasing card use. These breakdowns included lack of:

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[9] Notwithstanding the relaxation in procurement requirements, employees are required to "equitably distribute [purchases not greater than $ 2,500] among qualified suppliers (41 U.S.C. §428(d) (2004).

- Key policies regarding the issuance of purchase cards, establishing credit limits, and minimizing the federal government's financial exposure
- Employee training on card use policy
- Appropriate purchase documentation related to card purchases, and
- Internal review to ensure that internal controls were being effectively implemented

The weak control environment led to many cases of alleged fraud and abuse. The GAO connected many of these internal control issues to the high number of cards, recommending that the two Navy commands under review "establish specific policies and strategies governing *the number* of purchase cards to be issued with a focus on minimizing the number of cardholders" (p. 5, emphasis added) and that they "develop criteria for identifying employees eligible for the privilege of cardholder status" (p. 5).

Due to the concerns raised in the Navy audit, the scopes of a subsequent Army (U.S. GAO 2002a) and Air Force (U.S. GAO 2002b) audits in 2002 were expanded. The GAO audit of the Army found that the purchasing card program had significant benefits, but a weak overall control environment and breakdowns in key internal control activities left it vulnerable to fraud, improper use, and abuse. As with the earlier Navy audit, the GAO pointed to the level of card distribution as a causal factor, stating that the audit failures "…illustrate that the Army as a whole *may also need to reduce its active cards*" (p. 22, emphasis added) and that the Army "… can reduce the government's exposure to fraud, waste, and abuse by monitoring cardholder account activity and determining *whether issued cards continue to be required*" (p. 20, emphasis added).

The GAO audit of the Air Force held to the same pattern as the Navy and Army, with weaknesses in the control environment and breakdowns in key controls. Among its recommendations, the GAO also called on the Air Force to change its card distribution policy, specifically recommending that it:

- "establish specific policies and strategies governing *the number of purchase cards* to be issued with a focus on minimizing the number of cardholders" (p. 54, emphasis added)
- "direct all … agency program coordinators to review purchase card use with a view toward *eliminating unneeded purchase card accounts*" (p. 54, emphasis added)
- "eliminate purchase cards used to facilitate line item accounting" (p. 54)
- "deactivate purchase card accounts of alternate cardholders and approving officials when primary cardholders and approving officials are available" (p. 55), and
- "require cardholders and/or approving officials to reimburse the government for any unauthorized or erroneous purchase card transactions that were not disputed" (p. 55)

The GAO findings associated with military agencies engendered significant political criticism and drove the OMB to issue a memorandum in 2002 to executive

branch agencies stating that card misuse identified by the GAO and inspectors general was unacceptable and required prompt remedial action if the purchase card programs were to continue (Office of Management and Budget 2002).[10] The memo requested that each agency review the adequacy of internal controls used to manage risk associated with purchase card programs, including an examination of the number of cards issued at each agency. The OMB recommended that agencies deactivate all purchase cards at that time and reactivate them selectively for a smaller number of cardholders.

Congress also responded legislatively to the unflattering audit outcomes of military agencies. The Bob Stump National Defense Authorization Act for FY 2003 (2002) required the DoD to take actions to improve the management of the purchase card program. Specifically, the Act required the DoD to limit the number of purchase cards, train purchase card officials, monitor purchase card activity, review purchase card activity to better aggregate purchases and obtain lower prices, establish guidelines and procedures to discipline cardholders who misused the purchase card, and assess the credit worthiness of cardholders. The 2003 DoD Appropriations Bill was more specific—requiring the DoD to limit the combined number of purchasing and travel cards to 1.5 million for FY 2003.

2003–2007: On-Going Evaluation of Purchasing Card Programs

The 2003–2007 timeframe was a period of on-going evaluation of purchasing cards. In this timeframe, the GAO engaged in two major initiatives. First, the GAO followed up on the military audits of 2001 and 2002. Second, they performed initial audits of purchasing card programs at the FAA (GAO 2003a), HUD (GAO 2003b), Forest Services (GAO 2003c), VHA (GAO 2004a), and the DHS (GAO 2006).

In December 2003, the GAO completed a review of the actions taken by the DoD to implement provisions included in the Bob Stump National Defense Authorization Act as well as evaluate the status of the response to recommendations and disciplinary actions taken against individuals identified in the prior GAO report (U.S. GAO 2003a). In this second audit review, the GAO reported that the DoD and the military services had taken strong actions to improve the controls over the purchase card program and had responded to nearly all of 109 recommendations made in its four reports on the purchase card program. The GAO noted that the DoD had issued

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[10] The problems in military agencies were so acute that Senator Charles Grassley (R-Iowa) concluded that the Department of Defense's (DoD) purchase card program did little more than "create an army of spenders. With a DoD credit card in hand, they have almost unlimited authority to spend money. There are no controls, no responsibilities, and no accountability … Pentagon credit cards are being taken on a shopping spree, and taxpayers are footing the bill." Senator Grassley further asserted that charge cards had given the Pentagon a "short-cut to the cash pile" and that Pentagon leaders were "giving everyone a big scoop shovel and telling them to rip into the national money sack at both ends," found in *The Use and Abuse of Government Purchase Cards: Is Anyone Watching?: Hearing Before the H. Comm. on Gov't Reform, 107th Cong. 3 (2001) (statement of Sen. Grassley)*.

key policy giving guidance to field activities to (a) perform periodic reviews of all purchase card accounts to reestablish a continuing bona fide need for each card account, (b) cancelled accounts that were no longer needed, and (c) devised additional controls over infrequently used accounts to protect the government from potential cardholder or outside fraudulent use. These policy, the GAO observed, resulted in a substantial reduction in the number of purchasing cards in military agencies—going from 233,000 in 2001 to 152,000 in 2003 (as shown in Fig. 13a).

Audits of civilian agencies by the GAO in the 2003–2007 timeframe resulted in many similar concerns over internal control but no recommendation to significantly change card distribution policies. As with military agencies, the GAO remarked on civilian agency purchases of a questionable nature, the proper accounting for asset acquisitions made with the purchasing card, split purchases, and lack of timely reconciliation by cardholders. Some GAO issues—non-closure of accounts, use of card by someone other than the authorized cardholder, inadequate segregation of duties, and disputed purchases not being tracked—occurred slightly more frequently in civilian agencies than in the military. Other issues—problems related to lack of training, excessive span of control, purchases made from "non-preferential" sources, allocation of inadequate resources to manage and monitor program, and improper purchases—were found slightly more frequently in military agencies. In spite of the similar results the between the civilian and military agencies, the GAO did not recommend that civilian agencies reduce the number of cards. Nevertheless, apparently taking their cue from earlier GAO recommendations to the military, the number of purchasing cards issued at civilian agencies did drop from 213,000 in 2000 to 196,000 in 2004, a decline far less precipitous than that undertaken by their military counterparts.

Going forward, the GAO declared its focus would turn to the establishment of procedures to enhance accountability for purchase card spending, including the monitoring the results of purchase card reviews conducted by the agencies, tracking whether agencies were consistently applying disciplinary guidelines to those who made and/or authorized improper or abusive acquisitions, and notifying the appropriate officials if disciplinary guidelines were not being consistently applied.

2008–2013: Tightening Control over Purchasing Cards

Given the range of findings over the preceding seven years, the GAO was asked to analyze government-wide purchasing card transactions in 2008 to determine whether internal control weaknesses existed in the government purchase card program and, if so, to identify examples of fraudulent, improper, and abusive activity (U.S GAO 2008). To examine these issues, the GAO extracted samples from two populations—one covering the population of purchasing card transactions over $ 50 from July 1, 2005 through June 30, 2006 (over 16 million transactions totaling almost $ 14 billion) and a second of about 600,000 purchase card acquisitions (totaling nearly $ 6 billion) over the micro-purchase threshold during the same time

period.[11] From these two populations, two samples of 96 transactions each were extracted and examined for (a) proper authorization[12] and (2) independent receipt and acceptance.[13] Additionally, the GAO drew a non-representative sample of 550 transactions "data mined" from purchasing card activity from July 1, 2005 to September 30, 2006. The transactions were extracted because their profile matched that of a purchase of "highly pilferable" goods or services (e.g., the purchase was from a vendor or a vendor in a merchant category that offered goods or services found on restricted/prohibited lists, personal in nature, or of questionable government need).

In summarizing their analysis, the GAO recognized that purchasing cards could play a large part in adding to efficiency to government operations by reducing the amount administrative time required to process a purchase and increasing flexibility to meet a variety of government needs. If used properly purchasing cards can be a very effective tool to save time and money. However, since 2001 the GAO had found a number of agencies that demonstrated that when card programs are not properly controlled and managed, the use of purchasing cards results in fraud, waste, and abuse. Their 2008 analysis also showed that the government-wide purchasing card program overall internal control failure rate to be unacceptably high. An estimated 41 % of all transactions were not properly authorized, or had no evidence that the goods or services were received by an independent third party.[14] For purchases over the micro-purchase threshold ($ 2,500 at the time) an estimated 48 % of transactions did not have proper authorization or independent receipt and acceptance. It was also found that agencies could not provide evidence showing possession or otherwise account for a significant amount of pilferable items.[15]

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[11] The second sample was selected because of additional requirements associated with purchases over the micro-purchase threshold and the higher dollar amount associated with these transactions. Specifically, while only 3 % of government-wide purchase card transactions from July 1, 2005 to June 30, 2006 were over the micro-purchase threshold, they accounted for 44 % of the dollars spent during that period.

[12] To determine if a transaction was properly authorized, the GAO review documentation to ascertain if an individual other than the cardholder was involved in the approval of the purchase. Such documentation might include (in the case of under $ 2,500 purchases) purchase requests from responsible officials, requisitions, e-mails, or other documents of government need. Transactions exceeding $ 2,500 required prior purchase authorization, such as a contract, a requisition, or other approval document. Additionally, the transaction had to comply with the Javits-Wagner-O'Day Act for sourcing.

[13] To determine whether goods were independently received and accepted, the GAO compared the quantity, price, and item descriptions on the vendor invoice and shipping receipt to the purchase requisition to verify that the items received and paid for were actually the items ordered. In addition, they sought evidence that a person other than the cardholder was involved in the receipt of the goods or services purchased. Independent receipt and acceptance existed if the vendor invoice, shipping documents, and receipt materially matched the transaction data, and if the signature or initial of someone other than the cardholder was on the sales invoice, packing slip, bill of lading, or any other shipping or receiving document indicating receipt.

[14] The GAO noted that the 41 % rate was actually a significant improvement of earlier audits from 2002 to 2006 (some of which had 85 % appropriate authorization failure rate and 60 % independent receipt failure rate.

[15] Specifically, the results of the GAO analysis indicated that estimated 15 % of transactions did not have appropriate authorization and for 34 % of transaction independent receipt and acceptance

The GAO made thirteen recommendations to improve internal control over the government purchasing card program, and to strengthen monitoring and oversight of purchasing cards. Of these recommendations, three were clearly directed at purchasing card programs. First, the GAO recommended enhanced financial accountability from agency employees. Specifically, the GAO recommended that cardholders, approving officials, or both should reimburse the government for any unauthorized or erroneous purchase card transactions that were not disputed. Further, if and when an official directed a cardholder to purchase a person item for that official, and management later determines that the purchase was improper, the official who requested the item should reimburse the government for the cost of the improper item.

Second, to address the internal control failure rates, the GAO recommended that the GSA provide agencies guidance on how cardholders can document independent receipt and acceptance of items obtained with a purchase card. Specifically, the GAO called on the GSA to promulgate guidelines to encourage agencies to (a) identify a "de minimus" purchasing card purchase amount that would not be subject to internal control testing for independent receipt or acceptance and (b) indicate that the approving official or supervisor took the necessary steps to ensure that items purchased were actually received. In response to the recommendations, the GSA argued that it was not within the scope of its authority to issue guidance of this nature.

Third, the GAO recommended that the GSA provide agencies guidance regarding what should be considered sensitive and pilferable property. Pilferable property (i.e., iPods, digital cameras, computers) is easily converted to personal use and the GAO recommended that the GSA remind agencies that purchases of such nature should be subject to property accountability controls (e.g., tagging and logging equipment in the property records) and that property accountability officers promptly record sensitive and pilferable property that is obtained with a purchasing card.

The Military was an early adopter of GAO recommendations, attaching financial liability for purchasing card spending not only on to cardholder but also to departmental accountable officials and certifying officials. A memo from the department of the Under Secretary of Defense on November 7, 2008 stated that "a certifying officer is pecuniarily liable for illegal, improper, or incorrect payments resulting from improper certification" (Under Secretary of Defense 2008). The memo also stated that "accountable officials may be held pecuniarily liable for erroneous payments resulting from their fault or negligence…." Military agency implementation of enhanced accountability may have been a driving factor in the increased decline since 2009 of (a) purchasing card spending (Fig. 11a), (b) purchasing card spending as a

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could not be verified. We believe that these failure rates to be misleading. Purchasing cards are generally used for low-dollar purchases where independent receipt is not feasible (an employee purchases a good at a hardware store while in the field) or economically irrational. We also disagree with the measurement of proper authorization. By its nature, when an agency provides an employee with a purchasing card it is "pre-approving" their purchases with that card. The technology of card will control much of their use of it (per transaction and monthly spending limits, restricted merchant category codes, etc.). If an employee must go through all the same steps to get approval from a supervisor it reduces the benefits to be derived and purpose of issuing the employee a card.

percentage of budgeted spending (Fig. 14), (c) the percentage of military personnel provided with purchasing cards (Fig. 13b), and (d) purchasing card cost savings as a percentage of budgeted spending (Fig. 15). Declines of this nature have not been experienced by civilian agencies.

In January 2009, the OMB drafted a memo in response to the recommendations made by the GAO. The OMB memo discussed four changes made to their Circular A-123 guidance, including (a) raising the micro-purchase threshold to $ 3000, (b) expanding descriptions for erroneous and improper purchases and the practices for minimizing such purchases, and (c) adding a requirement for charge cardholders, approving officials, or both to reimburse the government for any unauthorized transactions or erroneous purchase card transactions that were not disputed, and (d) guidance on disciplinary actions for fraud and other abuse of a government charge card.

GAO recommendations with respect to employee financial accountability (and the recovering costs for erroneous or improper purchases) on purchases cards found their way into Congressional discussions and became law in October 2012 when President Obama signed the Government Charge Card Abuse Prevention Act (Public Law 112-94 2011). The Act, which is consistent with the existing guidance in OMB Circular No. A-123 (OMB 2014), addresses the requirement of recovering costs for erroneous or improper purchases on purchasing cards.[16] Since the Act became law, Fig. 16 shows that purchasing card spending by civilian agencies has shrunk by similar increments as experienced by military agencies when they began implementing their enhanced accountability in 2009.

Despite the heightened sensitivity to control issues and the criticisms of overly liberal distribution of purchasing cards, some governmental reports have strongly
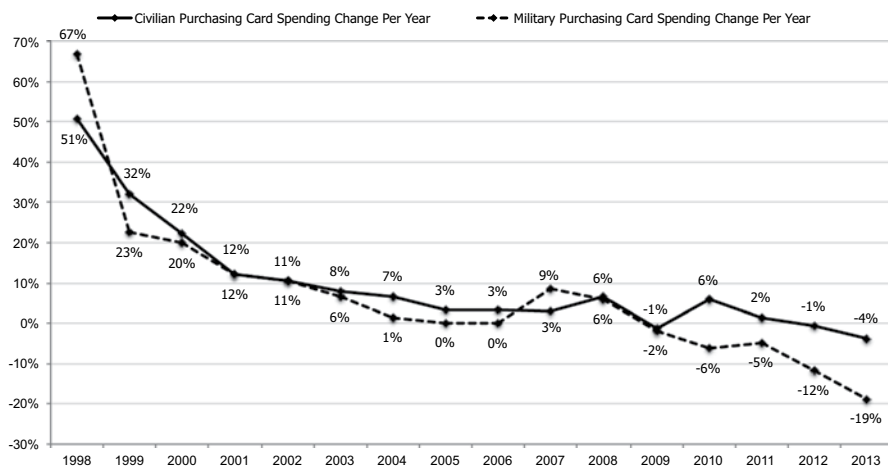

Fig. 16 Military and civilian annual increase in purchasing card spending, 2000–2013

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[16] Such requirements relating to employee misuse of government travel cards have already been established.

supported expanded purchasing card use. In 2004, the GAO (U.S. GAO 2004b) remarked on how agencies generally did not take advantage of opportunities to obtain more favorable prices on purchase card buys with frequently used vendors and that "automating" the discounts through card technology could save hundreds of millions of dollars. In 2013, the VA Office of the Inspector General (2013) issued a report that chided the VHA for its failure to use maximize purchasing card use and "…miss[ing] opportunities to decrease procurement processing costs by about $ 20 million and obtain additional rebates of about $ 4 million" (p. 2).

Decentralized to Centralized "Transformation Failure"

As shown in Fig. 17, three key performance measures form the framework necessary to understand government purchasing card spending. They are the number of active cards, card transaction activity, and average transaction (or "ticket") size. The multiplication of these elements yields monthly purchasing card spending and provides insight into card program performance. The framework illustrates how agencies can make trade-offs to improve their purchasing card program. The key performance measures are derived from intermediate calculations which, in turn, are composed of basic organizational data. For example, the number of active cards
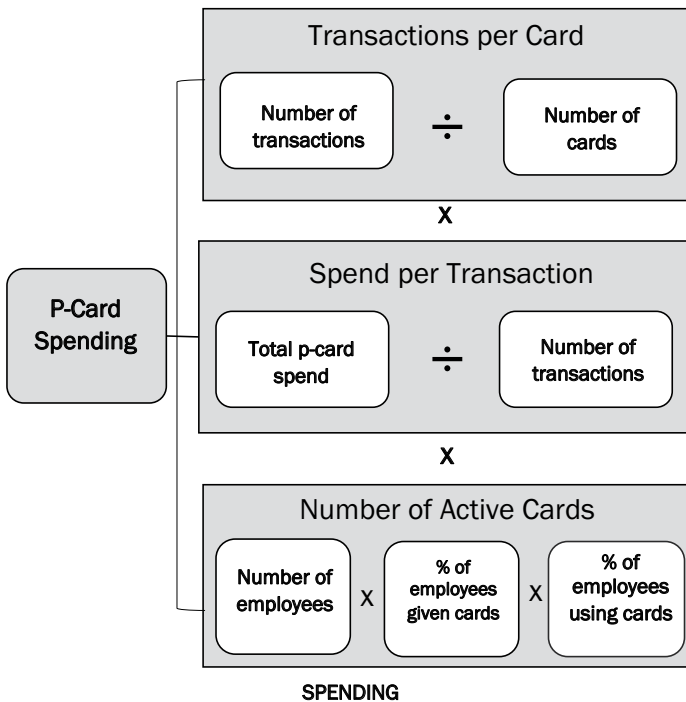

Fig. 17 A Framework for understanding purchasing card

in an organization is a function of the number of employees, the percent of employees given a purchasing card, and of those employees given a purchasing card, the percent that use the card to acquire goods or services. Thus, increases in the raw number of active cards can be accomplished by either giving a larger percentage of employees a purchasing card or by taking measures to insure that employees actually use the purchasing cards already in their possession. Similarly, the number of transactions per card and the average transaction amount can be influenced by restrictions on the types of goods and services that may be purchased, the vendor from whom goods and services may be purchased, and the transaction dollar amount of a purchase.

Spending

The framework provides insight into why successful agency purchasing card programs may differ in their approach to card program management. Because the key performance measures are multiplicative, agencies make trade-offs to achieve their purchasing card spending goals. For example, an organization can have a relatively large base of cardholders who individually engage in a modest number of transactions. Collectively, this can add up to a high dollar value of organizational spending. We call this the *decentralized card distribution* model. This model maximizes the potential for work reduction in purchasing and moves low dollar purchasing out of the purchasing function. By contrast, an agency can give cards to a relatively small number of employees. In this case, the agency may distribute fewer cards, but each card is associated with a high number of transactions and/or high average ticket amounts that ultimately increase overall organizational spending. We call this a *centralized card distribution* model.

   Though in theory both models can generate similar card program spending, the evidence indicates that the military agencies have not made an effective transition from a decentralized to a centralized purchasing card program model. The first row of Table 2 shows the actual military (and civilian) number of cards, spending per card, transactions per card, average transaction amount, and total purchasing card spending in 2001. The rightmost column of the second row of Table 2 shows the purchasing card spending that would have occurred in 2013 had the military (civilian) agencies spent at the 2001 level of purchasing card spending as a percent of agency budget. The second row also presents the actual number of military (civilian) purchasing cards in 2013, a 2001 average transaction amount (CPI-adjusted to the 2013 level), and calculated amounts for annual spending per purchasing card and the annual number of purchasing card transactions per card.

   Table 2 shows that military agencies have conceded cost savings by failing to direct the same level of spending to a shrinking number of purchasing cards. The table shows that if the military had captured 1.87 % of its budget on purchasing cards (as it had in 2001), then 2013 purchasing card spending would have been $ 11.5 billion instead of the $ 5.3 billion it actually spent on purchasing cards (a $ 6.2 billion trans-

Table 2 Projected versus actual military and civilian purchasing card spending based on 2001 purchasing card spending as a percent of budget and 2013 actual purchasing card distribution

	Number of cards	Spend per card ($)	Transaction per card	Average transaction ($)	Total spend (in $ millions)
Military Agencies					
2001 actual	232,928	26,230	46	570	6110
2013 projection based on 2001 P-card spending as a percent of budget, the 2013 actual number of P-cards, and a CPI-adjusted average transaction amount[a]	99,754	115,193	153	752	11,491
2013 actual	99,754	52,930	61	866	5280
Military transformation failure		(62,263)	(92)	113	(6211)
Civilian agencies					
2001 actual	232,505	33,023	59	559	7678
2013 projection based on 2001 P-card spending as a percent of budget, the 2013 actual number of P-cards, and a CPI-adjusted average transaction amount[b]	202,172	68,914	94	737	13,932
2013 actual	202,172	57,369	68	844	11,598
Civilian transformation failure		(11,545)	(26)	106	(2334)

[a] Projection is of military spending is calculated based on a 1.87 % of the budget as was the case in 2001. The number of cards is based on total actual cardholders in 2013. Average transaction is based on 2001 figure adjusted for changes in the Consumer Price Index (CPI)

[b] Projection is of civilian spending is calculated based on a 0.50 % of the budget as was the case in 2001. The number of cards is based on total actual cardholders in 2013. Average transaction is based on 2001 figure adjusted for changes in the CPI

formation failure). If the military had shrunk the number of cards but maintained its 2001 level of spending, it would have spent (on average) $ 115,193 per year on each card instead of the $ 52,930 per card it actually experienced in 2013. Further, if the military had shrunk the number of cards but maintained its 2001 level of spending, it would have conducted (on average) 153.1 transactions per year on each card instead of the 61.1 annual transactions per card actually experienced in 2013. These

differences are offset by a modestly higher average transaction amount, to wit: a CPI-adjusted average transaction amount in 2013 would be $ 752.28, but military agencies actually report a higher average transaction amount in 2013 ($ 865.60), indicating that the reduction in cards is pushing up the amount of goods purchased when the cards are used.

Civilian agencies, by contrast, have maintained more of their cost savings despite changes in their level of purchasing card distribution. Table 2 shows that if the civilian agencies had captured 0.5% of their budget on purchasing cards (as they had in 2001), then 2013 purchasing card spending would have been $ 13.9 billion instead of the $ 11.6 billion actually spent on purchasing cards (a $ 2.3 billion difference). If the civilian agencies had shrunk the number of cards but maintained their 2001 level of spending, it would have spent (on average) $ 68,914 per year on each card instead of the $ 57,369 per card it actually experienced in 2013. Further, if the civilian agencies had shrunk the number of cards but maintained their 2001 level of spending, it would have conducted (on average) 93.5 transactions per year on each card instead of the 68 annual transactions per card actually experienced in 2013. As with the military, civilian agencies report a 2013 average transaction amount ($ 844.02) that is higher than a CPI-adjusted average transaction amount of $ 737.32, indicating that the reduction in the number of cards is pushing up the amount of goods purchased when cards are used.

In sum, Table 2 indicates that military agencies have had less success at maintaining purchasing card spending in light of reductions in the number of cards than their civilian counterparts. For the military to generate the same purchasing card spending as a percent of their budget as in 2001, their 2013 cardholders would need to more than double their current annual spending (going from the current $ 52,930 to over $ 115,000). By contrast, for civilian agencies to generate the same purchasing card spending as a percent of budget as in 2001, their 2013 cardholders would only need to increase their current annual spending by only 20% (going from $ 57,369 to 68,914).

Conclusion

The US Government and its agencies acknowledge significant administrative cost savings and cash rebates based on its spending on commercial cards. However, since 2008, commercial card spending (both in dollars and as a percentage of budgeted spending) has been lower than the 2008 level and dropped sharply in 2012 and 2013. An analysis of the US Government commercial card spending indicates that the changing patterns of purchasing card spending are primarily responsible for the overall decline in commercial card spending.

The US Government spending on purchasing cards reached its zenith in 2008 (at $ 19.8 billion) and has declined to $ 16.9 billion in 2013. The highest number of annual purchasing card transactions (26.5 million) harks back to 2004, 6.7 million more than the 19.8 million transactions paid with purchasing cards in 2013. The

number of purchasing card distributed throughout the US Government agencies has fallen from 465,000 in 2001 to 302,000 in 2013.

An examination separating military and civilian agency purchasing card use provides some insight into the changing patterns of purchasing card use across the US Government agencies. Our analysis shows that civilian purchasing card spending increased from $ 2.8 billion in 1997 to $ 12.1 billion in 2011, but dropped by 4 % ($ 0.5 billion) to $ 11.6 billion in 2013. By contrast, military purchasing card spending increased from $ 2.2 billion in 1997 to the high point of $ 8.4 billion in 2008, but has since decreased by 37 % ($ 3.1 billion) to $ 5.3 billion in 2013. In fact, the military reduction in purchasing card spending between 2010 and 2013 ($ 2.4 billion) accounts for 86 % of the $ 2.8 billion drop in total US Government purchasing card spending and 53 % of the $ 4.5 billion drop in total commercial card spending in the 2010–2013 timeframe. Military agency transactions with purchasing cards have fallen steadily from a zenith of 11 million in 2002 to 6.1 million in 2013. Card distribution in the military has been cut by more than half since 2001.

A historical analysis of governmental card use indicates that several factors may have influenced the trends revealed in the record of military purchasing card spending. First, military purchasing card programs grew rapidly in the early years with the support of top leadership. By 2001, military agencies had distributed purchasing cards to 13 % of their employee base and paid for 1.9 % of their budgeted purchases with the purchasing card, figures that far outpaced their civilian counterparts (11 %, 0.5 %). GAO audit recommendations in 2001 to the Navy and in 2002 to the Army and Air Force to reduce the number of purchasing cards had a notably negative short and long-term impact on the military purchasing card program. Military spending as a percent of budget fell from 1.9 % in 2001 to 1.4 % in 2005 where it leveled off through 2008. In short, the military was not able to transform its successful decentralized purchasing card model to a more centralized edition—as the number of purchasing cards fell, the use of the remaining cards did not expand to support previous levels of spending

A second wave of decline occurred in 2009 when the military heightened financial accountability for purchasing card spending. Within the new control structure, officers may be held financially liable for illegal, improper or incorrect payments resulting from their improper certification of subordinate cardholder spending. One can argue that this control is not overly onerous. However, being held financially liable for a poor review of cardholder spending may not be viewed positively by certifying officers who may now discourage card use. What is certain is that purchasing card spending and transactions have dropped significantly between 2008 and 2013 (spending falling by $ 3.1 billion and transactions by 3.3 million).

Civilian agencies, which got off to a slower start with purchasing cards, have trod a less volatile path and were not subject to a GAO recommendation that they use fewer purchasing cards (though the GAO seemed to identify about the same degree of internal control issues within civilian agencies as found in their military counterparts). Civilian agency purchasing card spending has grown at a steady pace and its recent downturn (from $ 12.1 billion in 2011 to $ 11.6 billion in 2013) has been far less dramatic than that experience among military agency counterparts

(which fell from $ 7.4 billion to $ 5.3 billion in the same time period). However, civilian agencies may be soon be affected by the enhanced financial accountability of certifying officers due to recent changes in legislation.

In conclusion, the analysis of the US Government purchasing card spending shows that the government needs to push its agencies to evaluate cost-benefit trade-offs and resolve control concerns to move forward. The GAO has identified the GSA as the appropriate promulgator of "purchasing card program management" directives, a role the GSA does not accept. Leadership is needed among the agencies to sort through and resolve the issues of accountability, control, and structure lest the taxpayer be asked to endure more unnecessary costs.

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