U.S. GOVERNMENT USE OF COMMERCIAL CARD TECHNOLOGY: A CASE FOR CHANGE IN MILITARY CARD DISTRIBUTION POLICY

Richard J. Palmer, Mahendra Gupta, and Rodney Dawson

The U.S. Government has used bank *commercial card technology* since the 1980s to simplify and significantly reduce the cost of the process to acquire low-value goods and services. However, the transition from traditional payment tools to *commercial card payment* has been slow in recent years. The data presented in this article reflect that change in military practice regarding *purchase card distribution* is a major contributor to the observed slowdown. Given developments in purchase card technology and the maturation of card *spending controls*, it may be an appropriate time for the military to revisit its purchase card distribution policies. The ability of the U.S. Government commercial card program to deliver the benefits expected from card use call for this re-examination.

Keywords: *Commercial Card Payment, DoD Purchase Card Program, Purchase Card Distribution, Spending Controls, Commercial Card Technology*

image designed by Tia Gray »

PAPERWORK REDUCTION
PROVIDER DISCOUNTS
TRANSPARENCY

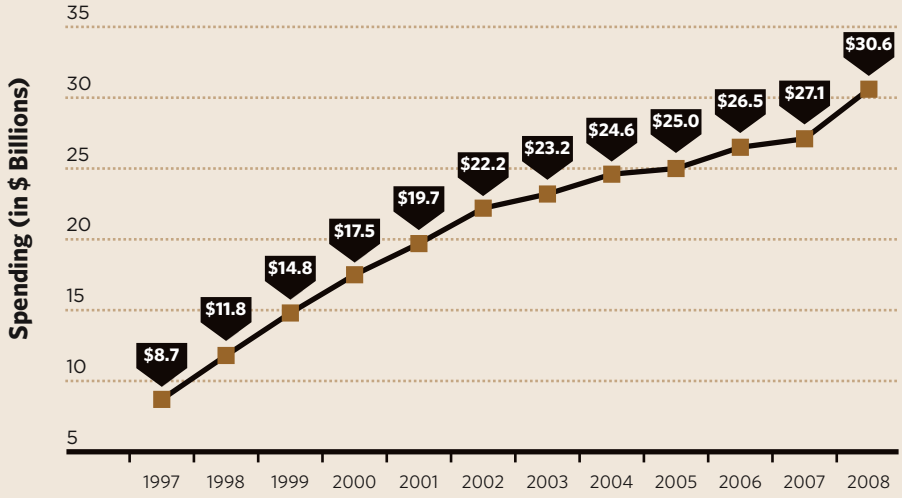
The U.S. Government has used bank commercial card technology since the 1980s to simplify and reduce the cost of the process to acquire goods and services. The term "commercial cards" includes purchase, travel, and fleet cards. Generally, purchase cards are used to acquire low-value, nontravel-related goods and services; travel cards are used to facilitate employee travel on government business, e.g., airfare, hotels, and auto rentals; and fleet cards are used to 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 procedural and technological fabric of the acquisition process. Purchase cards reduce or eliminate the paperwork associated with requisitions, purchase orders, invoices, and payments. The General Services Administration (GSA) estimates that purchases under $2,500 account for only 2 percent of total Federal Government spending but 85 percent of total procurement transaction volume (GSA, 2007). Estimates of Federal Government cost savings by use of purchase cards have ranged from $54 to $92 per transaction (GAO, 1996; DoD, 1998). Further, purchase cards have been found to reduce the time required to process paperwork transactions by 2 to 6 weeks (GSA 2006). The benefits of travel cards include convenience to the government agency; efficiency and transparency in travel spending, reporting, and management; and the elimination of cash travel advances. Employees can charge travel expenses, thus enabling the government to avoid the expense and reduce the risk associated with controlling cash advances, while enhancing visibility of spending activity. Aggregation and enhanced visibility of travel spending activity can be very important to obtaining discounts on airfare, hotels, or auto rentals. A recent survey of 824 public- and private-sector organizations reflected that organizations driving a higher percentage of their travel spending onto their travel cards reported higher discounts with travel service providers (Gupta, Palmer, & Markus, 2009).

While the value proposition of transitioning from traditional payment tools to commercial card payment technology appears sound, transition of government spending to commercial cards has slowed down in recent years, particularly in relation to the overall government budget. Figure 1 shows commercial card spending has increased from $8.7 billion in 1997 to $30.6 billion in 2008. However, Figure 2 shows that commercial card spending as a percentage of budgeted spending by the U.S. Government is currently 1.03 percent—down from the high water mark of 1.10 percent in 2002. Indeed, U.S. Government commercial card spending as a percent of budgeted spending had been in a steady state of decline between 2002 and 2007, rebounding modestly for the first time in 2008.

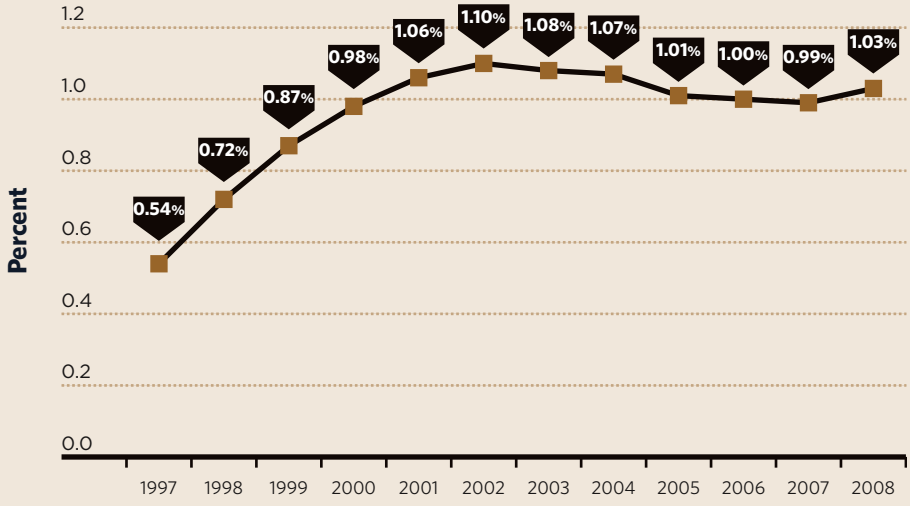
The purpose of this article is to identify the underlying dynamics associated with commercial card spending by the U.S. Government and its impact on governmental efficiency and cost savings. Since the military services and defense agencies comprise a significant component of

FIGURE 1. TOTAL COMMERCIAL CARD (PURCHASE, TRAVEL, AND FLEET) SPENDING BY U.S. GOVERNMENT (2000–2008)



Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

FIGURE 2. COMMERCIAL CARD SPENDING AS A PERCENTAGE OF BUDGETED SPENDING BY U.S. GOVERNMENT (2000–2008)



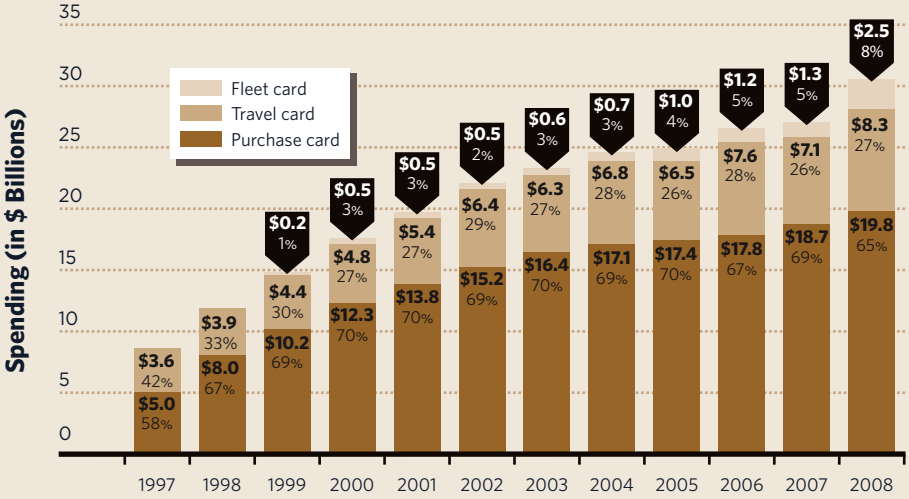
Note. Adapted from federal budget data found in the Final Monthly Treasury Statements of Receipts and Outlays of the United States Government, Department of the Treasury Financial Management Service. Commercial card spending data available at GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

government commercial card use, special attention will be given to their role in commercial card use trends. Finally, recommendations to enhance commercial card spending will be proposed.

Examining Commercial Card Use

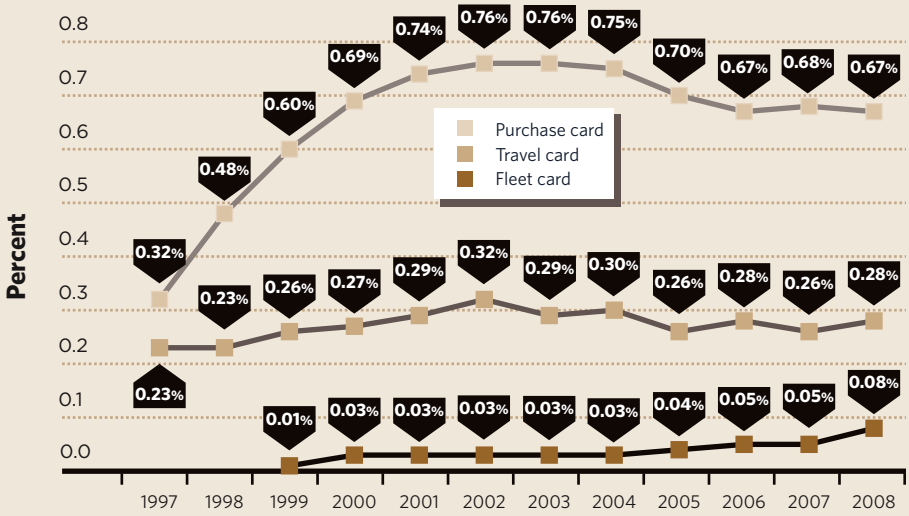
To dissect the longitudinal pattern of commercial card spending, we begin by examining its component parts. Figure 3 shows that purchase card spending has accounted for the majority of commercial card spending by the U.S. Government since 1997. Since 2000, purchase cards have accounted for 65 to 70 percent of commercial card spending. In Fiscal Year 2008, for example, the U.S. Government spent $30.6 billion on commercial cards. Of this amount, $19.8 billion, $8.3 billion, and $2.5 billion were spent on purchase, travel, and fleet cards, respectively. Further, Figure 4 shows that purchase card spending as a percent of budgeted government spending has experienced the greatest decline over the past 5 years, falling from 0.76 percent in 2002 to 0.67 percent in 2008. The travel card, by contrast, represents a smaller percentage of budgeted spending (0.28 percent in 2008) and, since 1999, has neither gone above 0.32 percent nor below 0.26 percent of budgeted spending. At present, fleet card spending is a de minimus percentage of budgeted government spending (0.08

FIGURE 3. COMMERCIAL CARD SPENDING (IN $ BILLIONS) BY CARD TYPE (1997–2008)



Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490. Data on fleet cards unavailable prior to 1999.

FIGURE 4. COMMERCIAL CARD SPENDING AS A PERCENTAGE OF TOTAL GOVERNMENTAL BUDGET BY CARD TYPE (1997–2008)



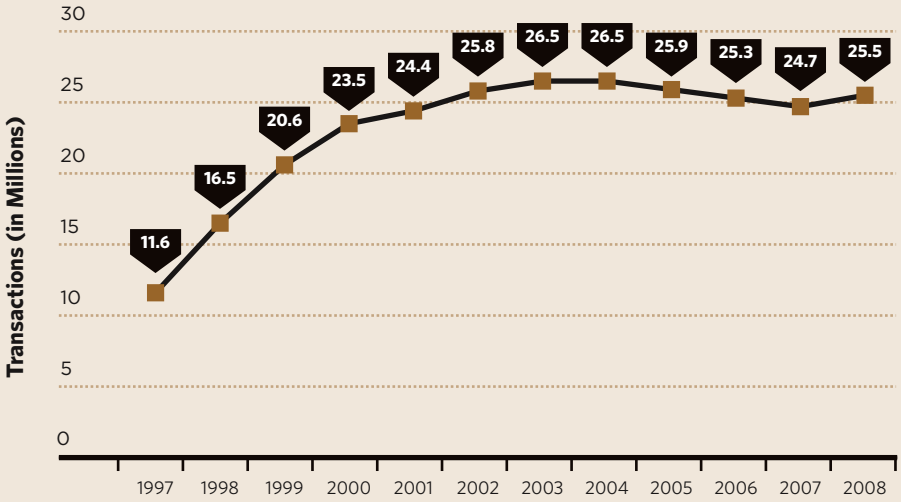
Note. Adapted from federal budget data found in the Final Monthly Treasury Statements of Receipts and Outlays of the United States Government, Department of the Treasury Financial Management Service. Commercial card spending data available at GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490. Data on fleet cards unavailable prior to 1999.

percent in 2008) that has been steadily increasing over the past 5 years. Thus, it appears that to understand commercial card spending performance by the U.S. Government, one must examine purchase card spending in greater detail given that it is the most significant component of commercial card spending over the past 11 years.

PURCHASE CARD USE BY GOVERNMENT

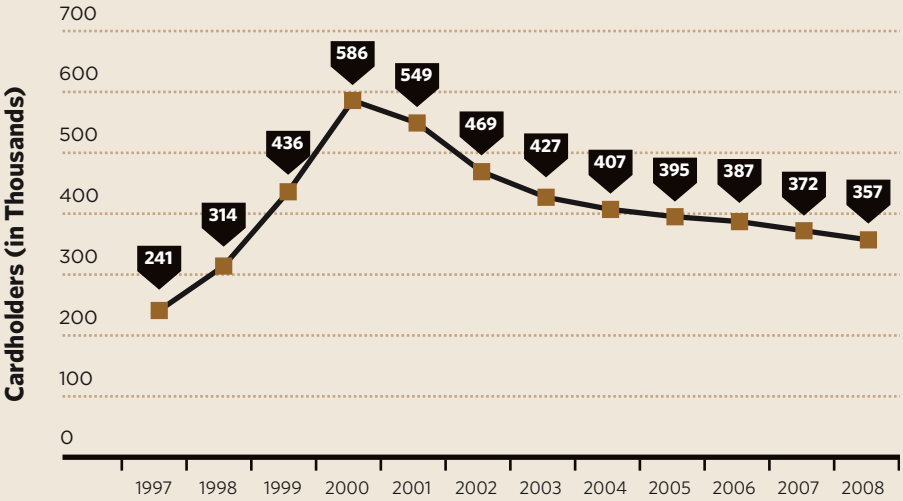
While the absolute total dollar value of purchase card spending by the U.S. Government has grown steadily since the card was adopted in the early 1990s (Figure 3), the number of transactions paid by the purchase card has been flat or declining since 2002. Figure 5 shows that 25.8 million transactions were paid for with a purchase card in 2002. By 2008, that number had declined to 25.5 million. The seemingly contradictory directions of spending and transactions are reconciled by the fact that the average transaction amount for government purchase card purchases continues to climb. In 1997, the average purchase card transaction amount was $436; by 2008, the average transaction amount was $779. This phenomenon will be discussed in more detail later in this article. Finally, the number of purchase cards held by government employees has changed over time. Figure 6

FIGURE 5. PURCHASE CARD TRANSACTIONS BY U.S. GOVERNMENT (1997–2008)



Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

FIGURE 6. U.S. GOVERNMENT PURCHASE CARDHOLDERS (1997–2008)



Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

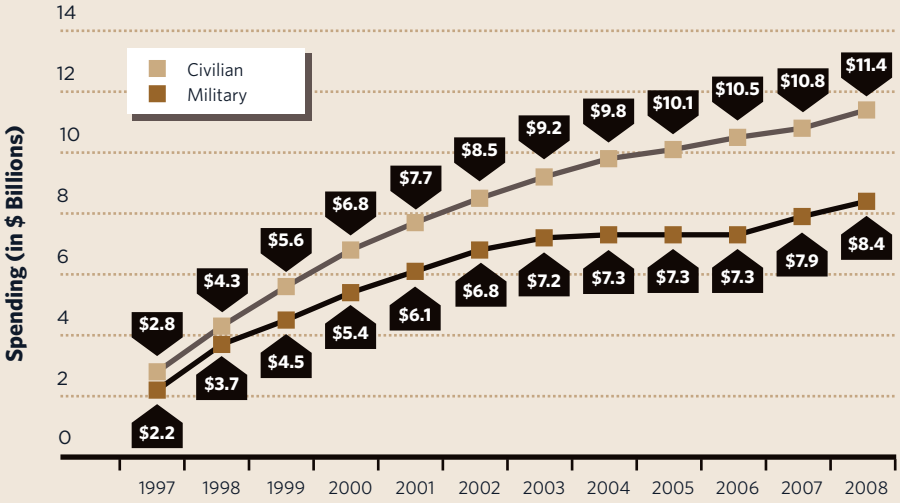
shows that the number of purchase cards in the hands of government employees increased steadily from 1997 until it reached a high point of 586,000 in 2000; thereafter, the number of purchase cardholders has fallen steadily to its 2008 level of 357,000.

TRENDS IN MILITARY AND CIVILIAN USE OF PURCHASE CARDS

The use of purchase cards can vary widely by type of federal agency. The most fundamental distinction between federal agencies is their character or orientation—civilian or military. As shown in Figures 7, 8, and 9, the military (Army, Air Force, Navy, and Department of Defense-Other) accounted for 42 percent of all government purchase card spending ($8.4 billion), 37 percent of all government purchase card transactions (9.4 million), and 31 percent of all government purchase cardholders (109,000) in 2008, respectively.

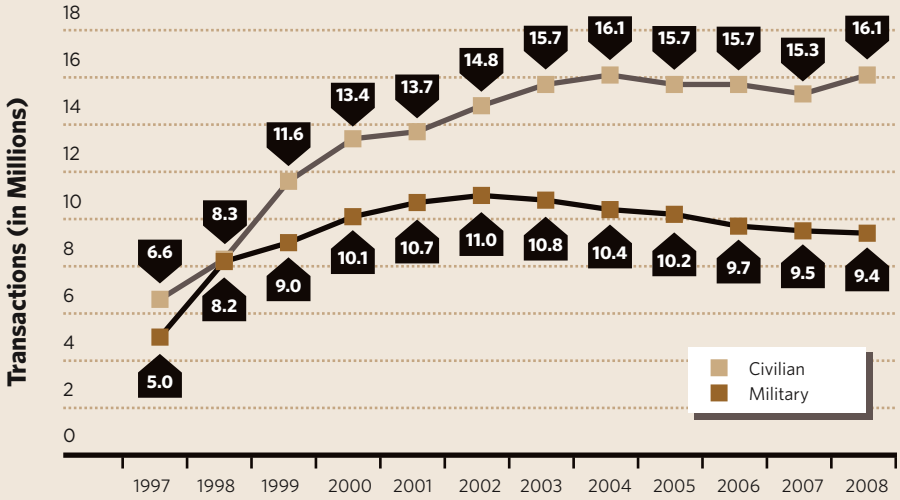
Figures 8 and 9 also reveal unique trends that separate military from civilian agency use of the purchase cards. Figure 8 reflects that purchase card transactions by the military more than doubled between 1997 and 2002, going from 5.0 million to 11.0 million. However, since 2002, military purchase card transactions have steadily declined to 9.4 million in 2008. Civilian agency purchase card transactions also more than doubled between 1997 and 2002 (going from 6.6 million to 14.8 million). Yet, unlike the military,

FIGURE 7. TOTAL PURCHASE CARD SPENDING BY CIVILIAN AND MILITARY AGENCIES (1997–2008)



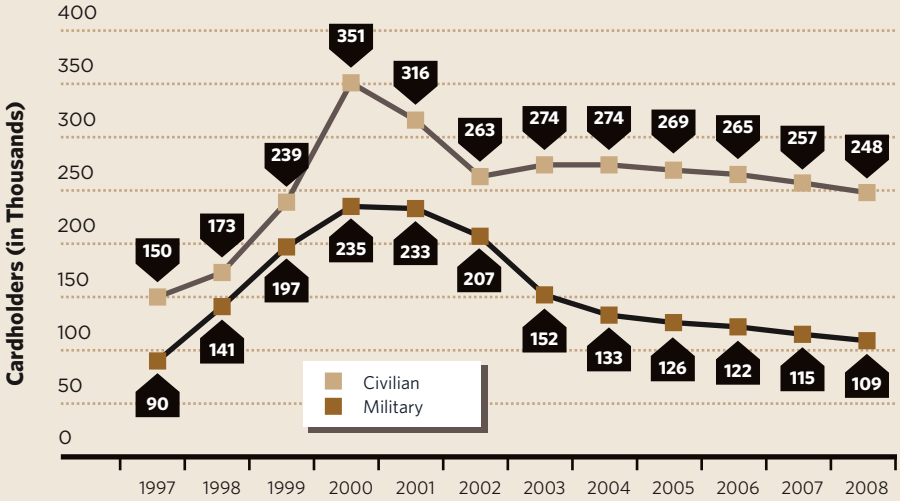
Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

FIGURE 8. TOTAL PURCHASE CARD TRANSACTIONS BY CIVILIAN AND MILITARY AGENCIES (1997–2008)



Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

FIGURE 9. TOTAL PURCHASE CARDHOLDERS BY CIVILIAN AND MILITARY AGENCIES (1997–2008)



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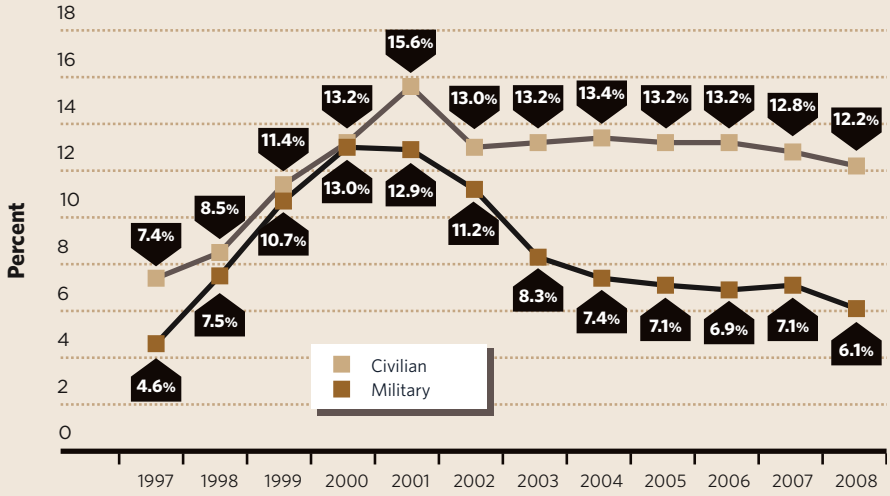
civilian agency purchase card transactions continued upward to a plateau of 16.1 million in 2004, a figure that is the same as that reported in 2008.

Further, trends in card distribution differ between military and civilian agencies. Figure 9 shows that, while both military and civilian agencies rapidly expanded the number of purchase cards given to employees between 1997 and 2000, thereafter the military reduced the number of cardholders at a more aggressive rate than its civilian counterparts. Specifically, Figure 9 shows that the military reduced the number of cardholders from 235,000 in 2000 to 109,000 in 2008—a 54 percent decline. Civilian agencies, by contrast, cut the number of purchase cardholders from 351,000 in 2000 to 248,000 in 2008—a 29 percent decline. Figure 10 puts the purchase card distribution practices into context, showing the percentage of employees provided purchase cards within civilian and military agencies. The percentage of civilian agency employees given purchase cards (Figure 10) has held reasonably steady since 2002 (around 12 percent to 13 percent), while the percentage of military agency employees given purchase cards has fallen steadily from 13.0 percent in 2000 to 6.1 percent in 2008.

FIGURE 10. PURCHASE CARD DISTRIBUTION BY MILITARY AND CIVILIAN AGENCIES (1997–2008)

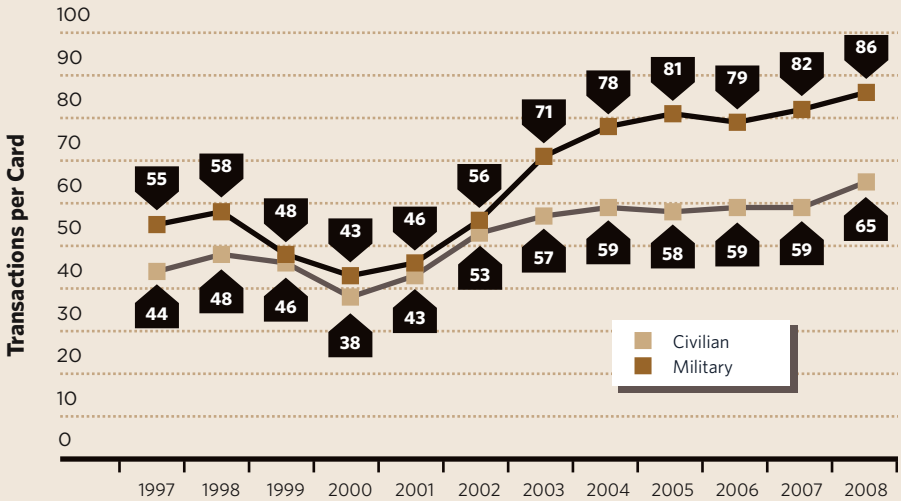


Note. Adapted from agency headcount data found in Federal Civilian Workforce Statistics: Employment and Trends (as of March in each year). Military headcount data found in the Active Duty Military Personnel Strengths by Regional Area and by Country (309A), Department of Defense at http://web1.whs.osd.mil/mmid/military/history/309hist.htm). Cards distributed are provided by the U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

Reconciling Spending Patterns at Military Agencies

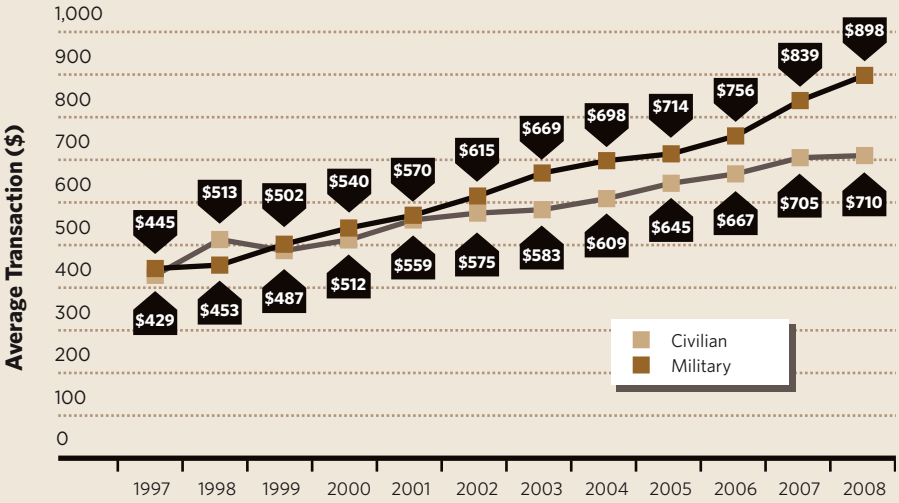
Figures 11 and 12 help to explain how military spending continues its upward trajectory while its card distribution and the number of card transactions continue to decline. Specifically, Figure 11 compares the annual number of transactions per card at military and civilian agencies. Between 1997 and 2002, the number of transactions per purchase card was similar among military and civilian agencies. In 2003, a clear shift occurred in the pattern of card use that differentiates military from civilian agencies. In 2003 and beyond, the relatively fewer military purchase cardholders became more active users of the cards distributed. Thus, in 2003 we find that the average military card was used to conduct 25 percent more transactions per year than civilian cards (71 versus 57 transactions), thereby compensating in part for the significant disparity in card distribution shown in Figure 10 (13.2 percent for civilian agencies and 8.3 percent for military agencies in 2003). By 2008, the typical military purchase card was used to conduct 32 percent more transactions per year than a civilian agency card (86 versus 65 transactions).

FIGURE 11. PURCHASE CARD TRANSACTIONS PER CARD BY MILITARY AND CIVILIAN AGENCIES (1997–2008)



Note. Adapted from agency headcount data found in Federal Civilian Workforce Statistics: Employment and Trends (as of March in each year). Military headcount data found in the Active Duty Military Personnel Strengths by Regional Area and by Country (309A), Department of Defense at http://web1.whs.osd.mil/mmid/military/history/309hist.htm). Cards distributed are provided by the U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

FIGURE 12. AVERAGE PURCHASE CARD TRANSACTION AMOUNT BY MILITARY AND CIVILIAN AGENCIES (1997–2008)



Note. Adapted from U.S. General Services Administration, GSA SmartPay Performance Summary at http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentType=GSA_OVERVIEW&contentId=11490.

As with transaction activity on cards distributed, a clear shift also occurred in the average transaction amount in 2003 that also differentiates military and civilian agencies. In 2003, the average military transaction amount was $669—a figure 15 percent higher than the average transaction amount of civilian agencies ($583). By 2008, the average transaction amount for the military had risen to $898—a figure 26 percent higher than civilian counterparts ($710). Thus, it appears that declining card distribution among military agencies has been at least partially offset by increasing card activity, both in terms of the number of purchase transactions and the amount of goods acquired when a purchase is made.

Summarizing the Differences and their Impact on Government Card Program Performance

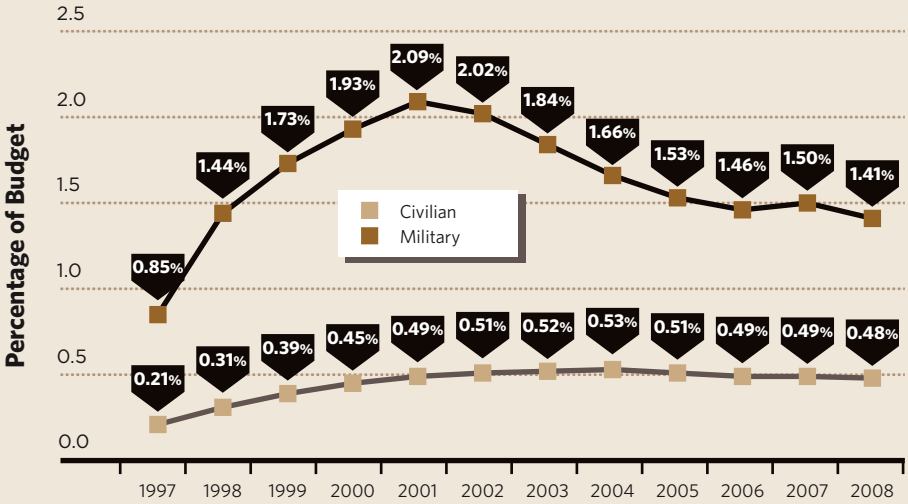
The U.S. Government recognized the potential benefit of purchase card use as far back as 1982 and has reaffirmed its value to operations through many administrations (see a brief history of government purchase cards contained in Palmer & Gupta, 2007a). The best estimate of government cost savings from driving a paper-based approval and payment process to a purchase card is $69 per transaction, based on the card's ability to reduce or eliminate the time needed to process requisitions, purchase orders, invoices, and payments (Palmer & Gupta, 2007b, pp. 24–31). Thus, the

higher the number of transactions driven to the purchase card, the greater the cost savings to the government. Each government agency is responsible for developing its own guidelines for the appropriate use of purchase cards, which presumably also reflect the agency strategy for extracting the most benefits of purchase card use (Office of Management and Budget, 2009).

Figure 13 summarizes the performance of military and civilian purchase card program strategies as measured against a key evaluative metric—purchase card spending as a percent of total budgeted spending. Figure 13 shows that the military has asserted a strong leadership role in governmental use of card technology. Specifically, military purchase card spending as a percentage of military budget has been and remains notably higher than its civilian counterparts. As of 2008, purchase card spending as a percent of budget by the military is nearly three times higher than civilian agencies (1.41 percent versus 0.48 percent).[1]

Figure 13 also illustrates important diverging trends between military and civilian purchase card use. For example, both the military and civilian agencies more than doubled their purchase card spending as a percent of budgeted spending in the 1997 to 2001 timeframe. The military (civilian) agencies increased purchase card spending as a percent of budgeted spending from 0.85 percent (0.21 percent) in 1997 to 2.09 percent (0.49

FIGURE 13. PURCHASE CARD SPENDING AS A PERCENTAGE OF BUDGET BY MILITARY AND CIVILIAN AGENCIES (1997–2008)



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percent) in 2001. However, since 2001, the military and civilian agencies have taken different paths. Military purchase card spending as a percent of budgeted military spending decreased in a fairly regular manner from 2.09 percent in 2001 to 1.41 percent in 2008. By contrast, civilian agency purchase card spending as a percent of budgeted spending has remained fairly constant since 2001 (around 0.50 percent of budgeted spending).

The downward trend in military purchase card spending in relation to the military budget has had a significant impact on the success of the overall government purchase card and commercial card programs. Figure 14 shows that if the military had held steady at its 2001 level of purchase card spending in relation to its budget (2.09 percent), total government purchase card spending would have increased by $4.1 billion (from $19.8 billion to $23.9 billion in 2008). Or, if the military could have achieved and held steady at the 2001 Army level of purchase card spending as a percent of budget (3.40 percent), total government purchase card spending in 2008 would have been $11.9 billion higher ($31.7 billion instead of $19.8 billion). Assuming an average transaction amount of $898 (the 2008 military norm), this would mean that potentially 13.22 million additional transactions could have been shifted to purchase cards, leading to additional administrative cost savings of $912 million (assuming $69 per transaction cost savings discussed earlier) for 2008 alone. Figure 15 provides the actual and potential cost savings (at $69 per transaction) since 2001 if the military had continued to capture a higher percentage of its budget (either 2.09 percent or 3.40 percent) on purchase cards. Figure 15 indicates that, cumulatively, over $5.4 billion in administrative

FIGURE 14. ACTUAL AND PROJECTED GOVERNMENT PURCHASE CARD SPENDING IF MILITARY PURCHASE CARD SPENDING HAD HELD CONSTANT AS A PERCENT OF BUDGET SINCE 2001

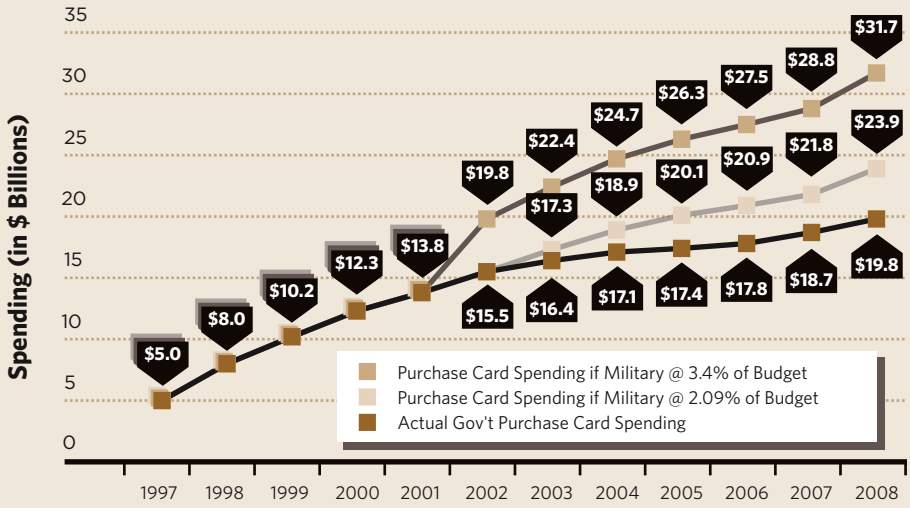
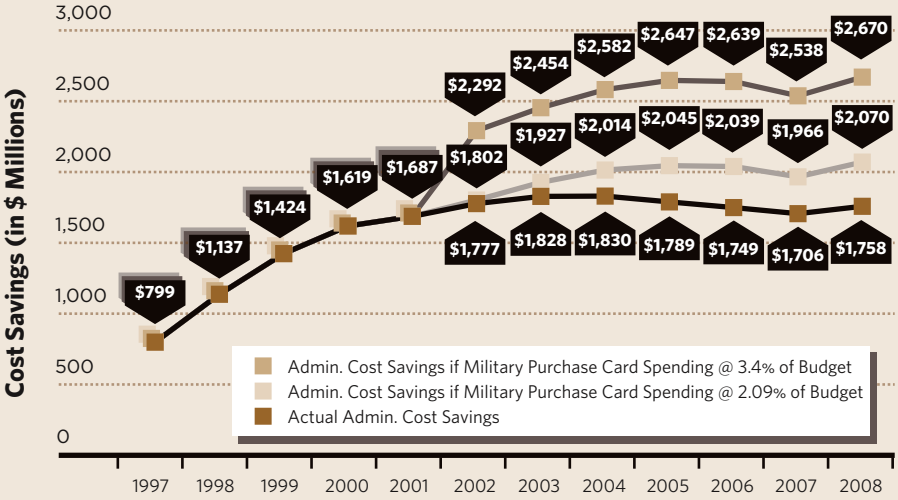


FIGURE 15. ESTIMATED ADMINISTRATIVE COST SAVINGS (IN $ MILLIONS) BASED ON ACTUAL AND PROJECTED GOVERNMENT PURCHASE CARD SPENDING IF MILITARY PURCHASE CARD SPENDING HAD HELD CONSTANT AS A PERCENT OF BUDGET SINCE 2001



cost savings could have been generated in the 2002–2008 time period had the military achieved and maintained purchase card spending at the Army 2001 level of 3.4 percent of budgeted spending.

Further, reduced purchase card use also diminishes direct cost savings in the form of refunds from card issuers and improved cash management practices such as petty cash requirements and float opportunities (AGA, 2006). Approximately $26 million in rebate revenue is potentially lost because of the drop in military purchase card spending from 2.09 percent to 1.41 percent of its budget (Federal News Radio, 2009).[2] Other potential benefits lost relate to the value of consolidated data supporting vendor discounts and indirect cost savings from reduced cycle time for purchases.[3]

Identifying Potential Root Causes of Reduced Purchase Card Distribution

The military changed its strategy with respect to the distribution and use of purchase cards on or about FY 2002. At that time, the military significantly reduced purchase card distribution, putting purchase cards in the hands of fewer people who were specifically tasked to serve as buyers for others in their units.[4] This explains both the increased transaction activity and higher average transaction amounts on the fewer cards distributed. While this strategy succeeded in reducing card distribution, it appears (based on continuing declines in purchase card spending as a

percent of budgeted spending) that many low-value purchases might be funneled through other procurement processes to fulfillment within the military. If these routes are nonelectronic and labor-intensive, the cost to the government to process these transactions is significant.

A variety of possible explanations exists for the change in military purchase card use. First, the military may be shifting a greater number of its potentially "cardable" transactions to other forms of electronic payment. However, we could not find any published report indicating that this has transpired.

The second possible explanation for the shift in military purchase card use is change in the nature of military purchases. Ongoing military operations overseas may have pushed military budgets outside of their normal parameters and account for a portion of the changes in purchase card spending patterns, including a possible reduction in cardable transactions.

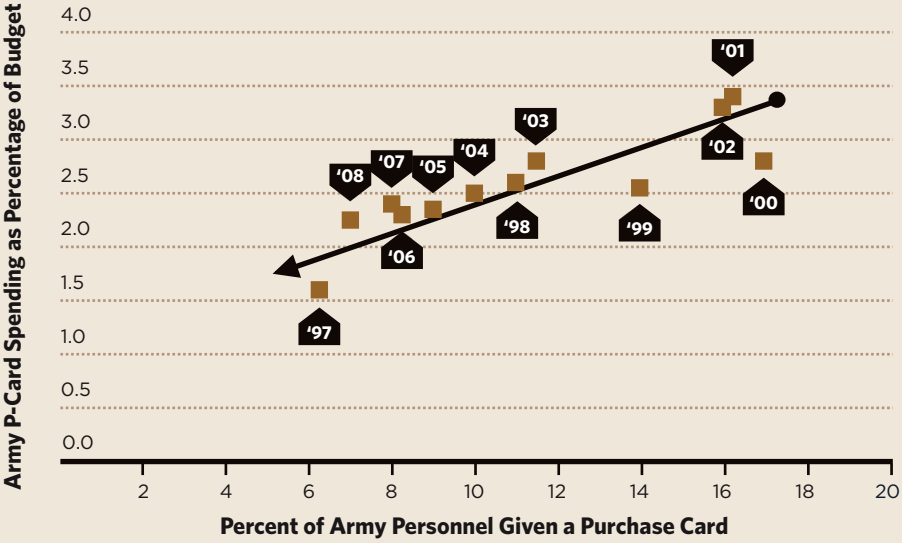
The third and most likely explanation for the military's change in purchase card use and purchase card program configuration has to do with military response to then-General Accounting Office (GAO) audit findings of incidents of military purchase card fraud, waste, and abuse (GAO, 2001a, 2001b, 2001c, 2001d; GAO, 2002c, 2002d, 2002e). These findings criticized several military purchase card programs for a variety of inadequacies related to the control over spending, including inadequate allocation of resources to manage programs, lack of supporting documentation, split purchases, inadequate accounting for asset acquisitions, lack of cardholder and approving official training, purchases made from "nonpreferential" sources, and lack of timely reconciliation and spending activity to card charges.

In response to the GAO findings, the Army (GAO, 2003a) and Navy (GAO, 2002b) stated plans to reduce the number of purchase cards in their organizations. The Air Force, subject to a similarly unflattering report of purchase card program mismanagement (GAO, 2002a), issued a formal policy memo in March 2003 directing that the number of cards issued should be minimized, and took steps to tighten card spending limits and deactivate purchase cards where cardholders violate policy (GAO, 2003a). In 2002, the Office of Management and Budget also required agencies to review the need for the number of purchase cards then in circulation, and reduce the number where appropriate (Styles, 2002). As shown earlier in Figure 10, the extent of these almost continuous GAO and Department of Defense Inspector General audits had a chilling effect on the distribution of purchase cards in the military agencies, with the percentage of military purchase cardholders dropping steadily at all military agencies since 2001. It is interesting and important to note that the GAO criticisms were directed at civilian agencies as well, though the pullback in card distribution at those agencies did not occur on the same scale.[5]

Unfortunately, the benefits that can be derived from purchase cards (reduced manpower to process paperwork, reduced purchase cycle times,

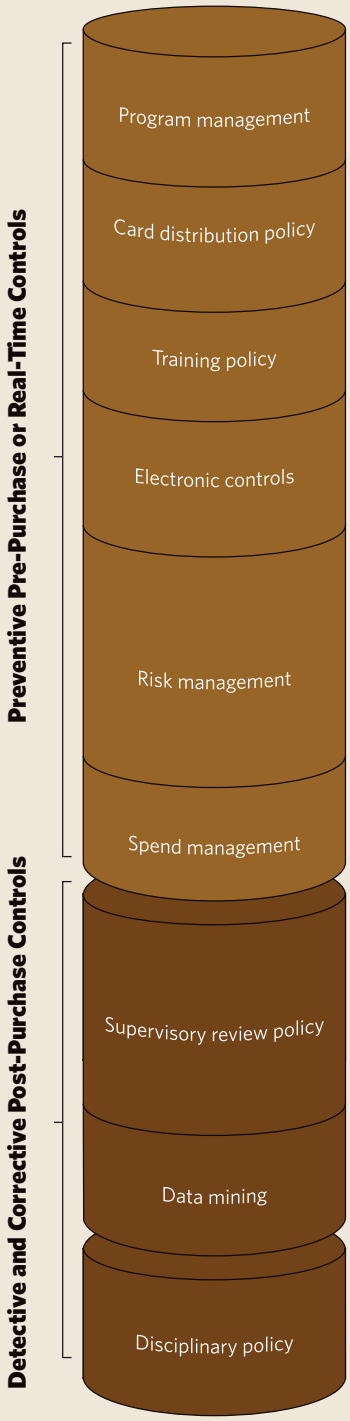
etc.) require purchase card use, which is closely tied to purchase card access. Figure 16 provides an example of the relationship between card distribution and purchase card spending as a percent of organizational budget in a military context, e.g., the Army, which accounts for over half of all military purchase card spending. As shown in Figure 16, the Army reported its highest purchase card spending as a percent of budget in those years with the highest levels of purchase card distribution across its employee base. Further, Figure 16 reflects a distinct trend: As the Army decreased the percentage of personnel to whom it provided purchase cards, it experienced a concomitant decline in the "capture" of budgeted spending on the purchase card.

FIGURE 16. ARMY CARD DISTRIBUTION AND PURCHASE CARD SPENDING AS A PERCENT OF BUDGET SPENDING (1997–2008)



Note. Adapted from federal budget data found in the Final Monthly Treasury Statements of Receipts and Outlays of the United States Government, Department of the Treasury Financial Management Service. Commercial card spending and card distribution data available at GSA SmartPay Performance Summary at http://www.usaspending.gov/pcard/index.php?reptype=a. Agency headcount data found in Federal Civilian Workforce Statistics: Employment and Trends (as of March in each year). Military headcount data found in the Active Duty Military Personnel Strengths by Regional Area and by Country (309A), Department of Defense, at http://web1.whs.osd.mil/mmid/military/history/309hist.htm.

FIGURE 17. A CONTROL MODEL FOR CARD-BASED PAYMENTS



Description of Control
Provide resources sufficient to support card program. Define duties and responsibilities. Link to job performance ratings. Resolve hierarchical conflicts to ensure a process to address card misuse by top management (if any).
Develop policies relating to card distribution, including the criteria for individuals who are given a card (the appropriate percentage of employees or types of employees to be given cards).
Establish requirements and methods (e.g., in person, Internet-based) for initial and refresher training for cardholders, approving officials, and administrators.
Put in place controls that are electronically enforced per transaction controls, monthly spending limits controls, merchant category code blocking, split purchase controls, cardholder spending profiles, etc.
Implement steps to manage financial risk associated with cards including (a) setting spending limits appropriate to purchase activity, (b) deactivating minimally used or unused accounts, (c) barring approving officials from possessing a card, (d) using "disappearing accounts" for projects, grants, trips, or specific purchases, and (e) obtaining card issuer-provided insurance related to fraudulent card use.
Develop policy and procedures to ensure that preferred suppliers are used for specific types of purchases and mechanisms exist (preferably electronic) to ensure applicable discounts are obtained.
Develop policies that ensure a comprehensive review of cardholder spending such as (a) formal evaluation of the reviewer's evaluation of subordinate spending, (b) capping the number of cardholders to be reviewed by one approving official, and (c) establishing and monitoring a process ensuring examinations of "decline authorizations" and disputed transactions.
Leverage the capabilities of electronic identification of unusual spending patterns, including purchases (a) at unusual times or dates, (b) from unusual vendors or merchant category codes, or (c) in unusual circumstances.
Develop policies and take disciplinary actions to preclude and guard against inappropriate and fraudulent card use, including terminations, employee record documenting, card removal, or card spending limit reduction.

Note. Adapted from Palmer & Gupta (2007c).

Is the Military Response Still Appropriate?

By implementing policies and practices to reduce the number of purchase cards (rather than relying on other actions to enhance control and oversight over program activities), the military has reduced the benefits available by card use.[6] Worthy of note is that during the same timeframe, civilian agencies did not exactly follow the DoD example and have not experienced declines in key metrics of their purchase card program performance. Given changes in purchase card controls and improvements in card technology since the turn of the century, it may be an appropriate time to revisit current card distribution practices across military agencies. Purchase card control models (such as the one shown in Figure 17) now reflect multiple layers of available spending controls tested across a wide range of organizations (both in government and in the private sector) and supported by ongoing changes in card technology. Further, card issuers and software developers have significantly upgraded the capabilities of card technology to accommodate improved information payload and advanced electronic controls such as Merchant Category Code, or MCC blocking, fraud alerts, data mining, and preauthorization requirements. Back-end improvements in technology now also support online statement review, approval, and certification. In addition, advances such as electronic accounts payable cards, virtual cards, and one-time-use cards enable an organization to maintain many legacy process controls while shifting the actual payment to the card, generating additional benefits for card users both in the government and private sector.

Conclusions

The purpose of this article was to examine the potential causes for the slowdown of the transition from traditional purchasing processes for low-value goods to commercial, card-based payment tools by U.S. Government agencies, and to recommend possible options to correct them. Because the military is the largest component of government commercial card use, special attention was given to its role in the card use trends. The analysis showed that the downward trend in military use of commercial cards is responsible for the reduced pace of U.S. Government commercial card spending and, potentially, costs of as much as $1 billion per year in unnecessary administrative transaction processing costs and lost rebates. Specifically, reduced card distribution by military agencies since 2002 appears to be the single most important reason for the slowdown of transition of low-dollar transactions to U.S. Government commercial cards. It may be the appropriate time for the military to reconsider its purchase card distribution policies and practices to fully capture the cost-savings benefits to the government from card use.

A re-evaluation of commercial card policies and practices by the military at this juncture (with increasing economic constraints) would be particularly advantageous, inasmuch as card issuers and third-party software firms now offer more alternatives and better control tools to manage and support card programs. Card issuers have been aggressively upgrading the capabilities of commercial card technology to accommodate improved information payload and advanced electronic controls such as data mining, fraud alerts, and preauthorization requirements. Back-end improvements in technology now also support online statement review, approval, and certification. In addition, advances such as one-time use "accounts payable" or "e-payables" cards enable an organization to maintain many legacy process controls while shifting the actual payment to the card, generating additional benefits for the government. The ability of the U.S. Government commercial card program to deliver the maximum benefits expected and available through card use requires this re-examination.

Author Biographies

Professor Richard Palmer is the department chair of Accounting and Management Information Systems at Southeast Missouri State University. Prior to joining academe, he held management positions in both public accounting and the banking industry. His commercial card research insights have been quoted in U.S. Senate hearings, the *Wall Street Journal*, *Business Week*, *CNN Money*, *CBS News MarketWatch*, and *American Banker*, among others.

(E-mail: rpalmer@semo.edu)

Dr. Mahendra Gupta is a professor of Accounting and Management at the Olin School of Business at Washington University in St. Louis. In 1981 he received his MSIA from Carnegie Mellon University and his PhD in Business from Stanford University in 1990. Dr. Mahendra has been a consultant to various manufacturing firms and government agencies. His writings have appeared in top accounting and management journals such as the *Accounting Review* and the *Journal of Accounting and Economics.*

(E-mail: guptam@wustl.edu)

Mr. Rodney Dawson II is an assurance associate with Clifton Gunderson LLP. Previously, he worked as a Research Associate for a purchase card consulting company and in the Financial Reporting and Analysis Group of Caterpillar, Incorporated. He received his MBA from Eastern Illinois University.

(E-mail: rldawson@eiu.edu)

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ENDNOTES

1. The civilian agency average is 0.78 percent when agencies with a high percentage of mandated spending (such as Health and Human Services, Social Security, etc.) are removed.
2. In Fiscal Year 2008 alone, the Federal Government received $190 million of rebates on $30.6 billion of spending (Federal News Radio, 2009). Thus, at this level of refund (0.63 percent of spending), the $4.1 billion of higher government spending that would have occurred if the military were able to maintain its purchase card spending at 2.09 percent of its budget, would have yielded an additional $26 million in rebates.
3. The GSA SmartPay Performance Report is available at http://www.gsa.gov/gsa/cm_attachments/GSA_DOCUMENT/ExecutiveSummary_R2FIAJ_0Z5RDZ-i34K-pR.doc
4. Interestingly, we examined each military branch and found remarkably similar patterns, particularly with respect to the shrinking number of purchase cardholders.
5. See, for example, GAO purchase card audits of the Forest Service (GAO, 2003b), HUD (GAO, 2003c), and FAA (2003d).
6. While the OMB prescribes policies and procedures to agencies regarding how to maintain internal controls, those prescriptions do not include a specification of the extent of card distribution within the agency. The Under Secretary of Defense for Acquisition, Technology, and Logistics, in cooperation with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and the DoD Purchase Card Joint Program Management Office, are responsible for the DoD purchase card program.