

*EXPANDED USE OF
THE PURCHASE CARD
Advanced Management Program*

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PURPOSE

We are recommending expansion of the purchase card process to generate additional costs savings and to transition into the eCommerce environment.

BACKGROUND

The purchase card is a government commercial purchase card used for small dollar purchases to cut red tape normally associated with the federal procurement process. Per NAVSUPINST 4200.94, the purchase card may be used to buy and pay for supplies and services up to \$2,500, considered micro-purchases. Additionally, the purchase card may be used as a method of payment in conjunction with other contracting methods for purchases up to \$100,000. Under a GSA blanket contract, the Navy has contracted with Citibank for its card services.

The purchase card restricts purchases of safety/safety of flight, configuration control, weapon system related parts, sales, rental and lease of vehicles, and classified requirements or other requirements that require contract terms and conditions. Enclosure (1) of NAVSUPINST 4200.94 lists other miscellaneous prohibited and special attention items and certain restrictions under the Federal Acquisition Regulations (FAR)(i.e. FAR Part 13 requirements, i.e. training).

Despite the latest GAO Report concerning accountability weaknesses in the purchase card program, the use of the purchase card has provided millions of dollars of savings. Citibank estimates the Navy's savings from rebates and accrued interest alone of \$8.3 million in cumulative rebates and \$530,000 in accrued interest, as of 31 July 2001. Use of the card expanded from 4 million purchases worth more than \$1.6 billion in FY 1995 to 10 million purchases worth more than \$5.5 billion in FY 2000.

The purchase card provides a less costly and more efficient way for DoD to buy supplies and services directly from vendors instead of processing a request through government procurement offices. Studies have shown that simply using a purchase card vice a purchase order cuts internal costs in half. Additionally, a Navy study shows that delivery time is reduced on an average from 30 days to six days.

The DoD/DoN has recognized the increased use of electronic technology, the Internet and the move to eCommerce. As an example, Purchase Card Reengineering Memorandum # 6, issued by the Under Secretary of Defense on 20 July 1998, requires that DoD activities using Electronic Commerce or Electronic Data Interchange systems that result in a more cost-effective payment process shall develop a Business Case Analysis (BCA) for each system. The BCAs must compare the benefits and costs of the current system versus the use of the purchase card as a method of payment.



We reviewed current practices, historical data regarding the use of the card, and areas that have been resistant or unable to utilize the benefits of the purchase card program. The resistance to the purchase card use was generated by either restrictive instructions or a workforce attitude that cannot accept altering a system that works relatively well.

DISCUSSION

A. Expansion Benefits

There are numerous benefits to expanding the purchase card. Two of these benefits are cost savings and eCommerce integration.

1. Cost Savings

The savings that are most noteworthy are order processing, administration, and transaction costs. Also, there are savings due to personnel reductions. Order processing costs can be significantly reduced using the purchase card. An example is shown in the table below. Also, carrying charges are reduced from speeding up the payment and not paying interest and penalties. Further, there is a potential that contractors may offer the government price reductions (discounts, rebates, and incentives). This is due to the shortening of the process of paying the contractor since the purchase card is now used for payment.

Table 1: Order Processing Costs

Dept of Agriculture	Processing Cost
Purchase Order Generation	\$77.00
Purchase Card Implementation	32.00
eCommerce	17.00

(source: GAO/NSIAD-96-138)

Turning to the administration costs, this too is significantly reduced. The chart below shows the incremental benefits for every customer interaction in an on-line scenario.

Table 2: Administration Costs

Call Center	Web Chat	E-Mail	Web Self Service
\$5.01	\$2.50	\$2.00	\$0.04

(source: Forrester Research)

As for the transaction costs, these costs are also reduced. Automating the bill paying process reduces time and effort. It costs less to process a bill for payment at DFAS. By converting the bill paying process from the regular vendor invoice process to the



electronic bill paying process that the purchase card uses, the cost of bill payment bill is reduced by half as shown below. Further, interest payments are reduced or eliminated because of shorter reconciliation time.

Table 3: Individual Transaction Costs

	FY00	FY01
Vendor Bill	\$16.00	\$17.88
Vendor Bill (Electronic)	12.00	8.58

(source: current DFAS billing rates)

Finally, there is a reduction in military and civilian personnel when utilizing the purchase card. With more purchases by cardholders, there are fewer contract requirements for the contracting activity to process, hence a reduction in contracting personnel. Also, there is savings in personnel due to automation and optimization when using electronic commerce or electronic data interchange systems.

2. eCommerce Integration

The purchase card is a likely transition mechanism to the eCommerce philosophy currently held within the commercial industry. By expanding an established, proven procurement system not only can money be saved, but a quick win established in the data sharing between industry and government. As the payment and procurement processes become more established, the transition to eCommerce will become seamless thus facilitating other government business practices to the transition to eCommerce.

We also need to take into account increased market opportunity. Contractors doing business with the Government find it cumbersome and difficult due to the many regulations and the contract itself, thus leading many vendors not to do business with the Government. Using the purchase card tears down this barrier, thus opening-up the vendor market base. Vendors are amenable to conduct business with the government due to faster and more reliable payments. The vendors assume less risk when they are paid faster and the Government accepts the risk by agreeing to meet the 30-day payment requirement.

Real-time procurement can be achieved by introducing an eCommerce connection with the purchase card and the contracting official. This eCommerce connection will create a more real-time environment between the vendor and the government. This greater accessibility will eventually boost eCommerce usage and acceptance. The purchase card is thus a model that transitions into eCommerce. For example, increasing the use of requirements contracts will allow greater use of the purchase card since one need only place orders. The next step could be to have special clauses to overcome some of the hurdles described below.



B. Expansion Hurdles

There are several hurdles to expanding the use of the purchase card. The hurdles include placing new technology over existing problems, special procurement documentation, centrally controlled items, and internal weaknesses.

1. New Technology Over Existing Problems

Placing new technology and procedures over existing payment problems exacerbates the issues. Using the purchase card does not address the inefficiencies endemic to the DFAS payment process. However, it can reduce the various processing costs as described above. Additionally, the purchase card accelerates vendor payments. What it does not address or fix is the DFAS payment procedure problems we currently experience.

2. Procurement Documentation

There are contract terms and conditions required for certain purchases. Currently, there is no system to allow the inclusion of these terms and conditions by the purchase cardholder, creating an inability to use the card. A specific example regarding this hurdle exists within the Naval Inventory Control Point (NAVICP) for weapon system related parts involving nuclear buys. Although, 70% of the purchases currently conducted by NAVICP for NAVSEA 08 are under the \$2,500 threshold, the required written contract terms and conditions for these parts do not allow use of the card.

Additionally, there are inspection requirements for nuclear parts pursuant to NAVSEA 08 policies. The inspection requirements must be done prior to delivery. This prevents the use of the purchase card since a purchase cardholder does not physically do the inspection of nuclear items.

There are no delivery dates when using a purchase card. Many items for NAVSEA 08 have long delivery timeframes. The items are usually not off-the-shelf items, thus use of the purchase card is not feasible.

Moreover, under current contracting protocol, the NAVICP cannot purchase material using a purchase card and have delivery to a stock point. Stock material is now sent and received directly at stock points. The ICPs do not receive ordered material directly. Hence, a NAVICP purchase cardholder neither inspects nor confirms receipt of an item in accordance with specific mandated instructions.

Further, a purchase cardholder may not modify orders. Changes to the purchase document may be required as modifications develop during the manufacturing process. A cardholder cannot request changes to an end item once purchased.



3. Centrally Controlled Items

Central Control Agencies prohibit the purchase of certain items. Some of the items on the exclusion list include vehicles and rent (land/space). The purchase card could be used to purchase these items or as a payment method without decreasing the service provided by these Agencies. The intent of limiting these contract procurements is to restrict them to the Central Control Agency and may not be based on the end-item itself.

4. Internal Weaknesses

In GAO-01-995T, GAO found several weaknesses at two Navy activities. First, there was a lack of effective policies over the issuance of the purchase card. As a result, there was a proliferation of cards and an inadequate number of approving officials. Second, there was a lack of procedures to maximize rebates, thus we did not get the rebates. Third, cardholders and approving officials must be created/trained in accordance with the NAVSUPINST 4200.94 and GAO found they were not effectively trained, thus improper purchases occurred.

CONCLUSIONS

As demonstrated above, we have shown that an expansion of the purchase card use can create a cost savings. Re-engineering our business practices to incorporate smarter contracting and customer interface will save money and will additionally ease the workload currently experienced by our contracting personnel. This is not only a benefit to the organization, but also to the individuals that make up that organization. Automation of existing operating procedures will save resources and this action will springboard our organizations into a complete eCommerce environment by more effective collaboration between contractors and the organizations they support.

The ability of an organization to change and become more efficient is a direct function of what the people of that organization believe is best for them. If we as managers can be innovative and create processes that improve productivity while at the same time creating a more desirable working environment, the stigma of resistance to change can be overcome. This AMP study identifies areas that can be challenged to improve our business practices and create more user-friendly working processes.

RECOMMENDATIONS

Expand the use of the purchase card to improve the buying potential over a wider range of procurement actions.



Expanding the use of the purchase card can transition the procurement system into utilizing the eCommerce environment.

Vendors and Government organizations can better utilize eCommerce to discuss current bidding processes utilizing this dialogue.

The current restriction list in NAVSUPINST 4200.94 of June 1999 appears to have become outdated. This list should be reviewed to exclude items that are acceptable under the purchase card program. Also, the list should be reviewed to determine if the items bought through a central authority could be bought with a purchase card.

REFERENCES

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