

The State Purchase Card:

*Uses, Policies and Best
Practices*

Second Report in the
AGA Purchase/Travel Card Series

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THE STATE PURCHASE CARD:

Executive Summary

This report focuses on the use of the purchase card by state governments and is the second in a series of AGA reports on the use of purchase and travel cards by federal, state and local governments. The AGA series is designed to provide a comprehensive review of the current government policies and procedures regarding the use of these cards, to assess the financial implications of purchase and travel card use, and to identify policies, practices and innovative management actions that can be transferred between and among the levels of government to maximize the benefit of this payment option.

The purchase card was initially introduced in the federal government in the 1980s as a means of procuring small items in a more efficient and effective manner. After a Department of Commerce pilot program, carried on with other agencies in 1986, indicated significant advantages of purchase card use, the use of the federal purchase card began to expand and in 1989 the General Services Administration was granted government-wide responsibility to manage the purchase card program. The use of the purchase card grew rapidly after the National Performance Review in 1993 identified the purchase card as an effective means of improving the efficiency of federal procurement of smaller dollar items or “micro-purchases.”

This study was designed to provide an overview of state governments’ purchase card use and their policies regarding the purchase card. Included in the study is an assessment of the major reasons for adopting the purchase card, actual card use patterns, state policies regarding card use, as well as best practices and purchase card management innovations. The study was carried out by means of a web-based survey of the 50 states. Thirty-three states responded to the survey.

State procurement card programs began in the early 1990s. However, widespread use of purchase cards by state government departments did not emerge until the mid-1990s. State governments’ use of the purchase card has continued to increase both in terms of dollar value as well as number of transactions. For example, the results of this study suggest that there was a 10 percent increase in the number of transactions between FY2004 and FY2005. The states indicate that cost savings from processing procurements is one of the major reasons for adopting the purchase or procurement card. Like the federal agencies, the states found that the purchase card reduced paperwork associated with small item acquisitions and provided a convenient and efficient means of processing small item purchases. By reducing paperwork and the time involved in small purchases, both cost savings and service delivery were enhanced.

The states have implemented a number of policies to enhance the benefits of purchase card use and to insure that they are used appropriately. Among the policies identified in this study are the establishment of category blocks, setting maximum transaction dollar limits and setting limits on the types of purchases that can be made with state purchase

cards. These and other results of this study of state purchase card uses and policies are summarized in this report.

Study Background

Emulating the use of purchase cards by federal government agencies, state governments expanded the use of purchase or procurement cards in the mid-1990s as a way to acquire small-dollar items in a more efficient manner. A 2000 study by the National Association of State Comptrollers identified California as a leader in adopting the purchase card as it had established a statewide procurement card program in 1992. [National Association of State Comptrollers, NASC, 2000, p. i]. The number of state purchase card programs grew rapidly, and by the mid-1990s, 30 of 36 states that responded to the NASC survey indicated that they had established statewide purchase card programs. Another five states indicated that pilot programs were under way, and one state indicated that it was planning the implementation of such a program [NASC, 2000].

The same study indicated that states were considering a wide variety of modifications to their card programs including increasing the limit for card use, allowing travel expenses to be charged to purchase cards, using ghost cards for utility bills and including the purchase card in a statewide e-procurement initiative [NASC, 2000]. As with the federal government, the wide acceptance and use of the purchase or procurement card resulted from a recognition of its potential to reduce paperwork associated with requisitions, purchase orders and invoices for small-dollar acquisition transactions among other considerations.

The potential for reducing purchase card-related paperwork can be realized by considering the traditional state government purchasing process. With the traditional purchase order system, a relatively simple purchase of office supplies involves several steps. First, a requisition is prepared, reviewed and signed in the originating office. Next, additional approval signatures are required of individuals throughout the organization designated as purchasing approval authorities. Once these processes are complete, the purchase order can be issued. All of these steps are eliminated with the purchase card. As a result, a staff member can go to a local supplier and acquire the needed items in the same day. Therefore, it is not surprising that the anticipation of cost savings associated with the use of purchase cards and the reduced acquisition time has expanded their use in federal and state governments as well as in the private sector.

There have been numerous studies of governmental purchase card use over the last two decades, including an AGA study on federal agency use of the purchase card conducted as part of this series [AGA, CPAG Research Report Series No. 4, April, 2006]. However, the majority of these studies have focused on individual federal agencies or special aspects of state purchase card policies including fraud and abuse, department purchase use policies, best practices and the like. There has not been a comprehensive study of the state government’s use of the purchase card in recent years. Recognizing the lack of a current review of state government

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purchase card policies and procedures, AGA commissioned this study to provide a state government-wide review of the use and benefits of state purchase card programs.

Purpose of Study

The purpose of this study was to conduct a comprehensive review of the current use of purchase cards by state governments. Included in the review was an assessment of current state policies regarding use of state purchase cards, management practices designed to enhance cost savings and/or financial benefits of purchase card use and best practices regarding purchase card programs.

The State Purchase Card: A Brief History

As previously indicated, state government use of the purchase card for the procurement of goods and services grew rapidly in the mid- to late 1990s. A small number of states had begun use of the purchase card as a procurement vehicle in the early 1990s. The momentum for adoption of the purchase card was, undoubtedly, enhanced by the publicity that the federal purchase card received when it was recognized as a procurement reform initiative by Vice President Al Gore in the National Performance Review (NPR) (1993). The NPR highlighted the purchase card as a reform initiative that held promise for enhancing the efficiency of government procurement activities. The NPR recommendation was based on data that suggested that the use of the purchase card provided a less costly and more efficient way to acquire goods and services. The purchase card provided a means for bypassing the traditional processing requests that had been used to make direct purchases from vendors, while still retaining control over and accountability for purchases.

The expanded use of state purchase cards in the '90s created several program management and procedure issues including:

- The purposes for which the purchase card could be used
- Employee eligibility requirements for use of purchase cards as well as card access controls
- The setting of maximum transaction limits for the use of the purchase card
- Monitoring and auditing procedures needed to insure that the purchase cards are properly used
- Policies for preventing fraudulent use of state purchase cards
- Policies clarifying whether card used should be limited to transactions with vendors with statewide contracts
- Purchase card rebate policies and how card rebates are used
- Responsibility for negotiation of purchase card agreements and contracts and the requirements for card negotiations

While, as noted, there have been limited broad-based studies of state purchase card policies and procedures, the NASC surveyed the adoption of the purchase card in 1998 and 1999. The results of the study [NASC, October 2000]

provide a limited historical perspective on state adoption and use of the purchase card. Their study summarized data from 36 states that responded to their survey and indicated that as of 2000, 30 of the 36 reporting states reported statewide implementation of procurement card programs. Data from the current survey, completed in October 2006, indicated that 32 of 33 responding states had implemented purchase card programs. Although the states responding to the current study are not all the same states that responded to the NASC study, the combination of the studies indicate that the use of the purchase card has grown and has become common practice.

State Purchase Card Research Methodology

As noted, the primary purpose of this study was to determine current state government purchase card use policies and card management procedures. To acquire these insights, a comprehensive survey document was prepared [See Appendix C] with the assistance of an advisory group of state government officials [see Appendix A for membership]. The survey was organized into three major sections focusing on purchase card implementation, policies and procedures, and an appendix. In addition to card use policies and procedures, respondents were asked to identify best practices and recommendations for policy changes in addition to providing estimates of the financial benefits and implications of purchase card use.

Surveys were sent to the person responsible for the administration of the purchase card program for each of the 50 states in June and July 2006. The survey was administered on-line through SurveyMonkey.Com. The advisory group of state government officials provided assistance by identifying the state officials that would be the most appropriate respondents to the survey.

Because of the length and complexity of the survey, respondents were officially given six weeks to respond, and by August 2006, 33 states responded.¹ Of those, one state did not use the purchase card (Indiana); three additional states (Georgia, Maryland and Utah) did not have sufficient information available to complete the survey. The bulk of the information presented in the rest of this report is based on the information provided by the respondents from the 29 states with purchase card programs as identified in *Figure 1*, although not every survey question was answered by every respondent. The survey found that eight states have implemented "integrated card" programs, which merge procurement and travel transactions in one card program. Appendix B provides a summary of insights provided by the states regarding their integrated card programs.

State Agency Use of Purchase Card

Among the survey respondents, Kentucky, Ohio, Pennsylvania, Texas, Virginia and West Virginia were early implementers of a purchase card program; their programs are more than 10 years old. By contrast, Arizona is the most recent implementer of a purchase card program, with the programs starting in 2003. The dates of the purchase card implementation are listed in *Figure 1*.

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States appear to be expanding their use of purchase cards. Based on card data provided by 10 states, the general trends show increases in the number of purchase card transactions and the total dollar value processed through the purchase card. For the fiscal years 2004 to 2005, the aggregate percent change in number of transactions processed through the purchase card for the eight states with data was about 10 percent. The 2004 to 2005 aggregate percent change in dollar value of transactions processed through the purchase card for the 11 states with data was nearly 25 percent. The available data on the number of transactions charged to state purchase cards for fiscal years 2004 and 2005 is shown in *Figure 2*. Also shown are the total dollar value of purchases and the average dollar value per transaction charged to the card. Of the respondents with data reported in *Figure 2*, South Carolina and Wisconsin are the heaviest users of the purchase card.

Nearly 70 percent of the states used a bidding process to select purchase card contracts. Twenty-eight percent of the states used bidding to first select a vendor but negotiated the details of the purchase card contract. The length of the contract varies widely by state ranging from annual renewal up to renewal every 10 years. However, the majority of the states have contracts from three to five years. Fifty-three percent of the states use the same brand of card for both the purchase card and travel card. Visa is the most popular brand of purchase card currently utilized by the responding states. Sixty-five percent of the responding states used the

Visa Card. MasterCard is used by 21 percent and American Express, Discover Card and Citibank Corporate Card are being used for the purchase card programs by the remaining 14 percent of the respondents. More than half of the states combine purchase card accounts and travel card accounts in the bidding and negotiation of card contracts and rebates.

Ghost cards are utilized by 62 percent of the responding states. Ghost cards are purchase cards that are not assigned to a particular employee. Instead, account numbers are provided to a vendor to charge purchases that are frequent or reoccurring in nature. Ghost card use would typically be monitored by an assigned employee, but many employees may be able to charge to the account for purchases made with the vendor. Respondents report that common uses of the ghost cards are for purchases of office supplies, travel services and utilities.

Savings and Financial Implications of State Purchase Card Use

Cost savings and/or revenue enhancement can accrue to state governments as a result of purchase card use. State government purchase card savings could vary depending on procurement practices and innovative actions taken by the states to maximize purchase card-related savings. Information derived from this survey on the cost savings associated with their purchase card is limited, as only Florida officials indicated that they had recently done an analysis of the sav-

ings attributable to the purchase card. More than half of the survey respondents indicated that substantial savings resulted from the enhanced efficiencies in processing procurement transactions. The majority of the respondents attributed some or substantial savings to purchase card use for all of the processes listed in *Figure 3* on page 8, except for employee training on purchase policies. The purchase card reduces staff time in preparation and processing procurement authorizations. There are also efficiencies in the administrative oversight and monitoring of the purchase card compared to the typical purchase order. More than 95 percent of the respondents reported some or substantial cost savings in finance-related procedures including billing, payment and ex-post procurement audit activities. Nearly 64 percent of the respondents reported income enhancement attributable to the purchase card resulting from differing (compared to purchase orders) cash management practices such as petty cash requirements and float opportunities. None of the respondents indicated that there were financial losses associated with any of these processes.

Figure 1:
Survey Respondents and Fiscal Year of Purchase Card Implementation

State	Fiscal Year of Implementation	State	Fiscal Year of Implementation
Arizona	2003	New Jersey	1999
Arkansas	2002	New Mexico	2000
Delaware	NA	New York	1998
Florida	1997-1998	Ohio	1995
Hawaii	2002	Oklahoma	2001
Idaho	2002	Oregon	1996
Iowa	2000	Pennsylvania	1995
Indiana	No card program	South Dakota	NA
Kentucky	1995	South Carolina	1998
Louisiana	2000	Tennessee	2001-2002
Minnesota	1997	Texas	1995
Mississippi	1997	Virginia	1995
Missouri	1998	Washington	about 1996
Nebraska	1999-2000	West Virginia	1995
Nevada	1998	Wisconsin	1998

NA = Implementation date not available

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State Purchase Card Implementation

The state respondents were asked to indicate the importance of several factors influencing the decision to implement a state purchase card program. The most important factor influencing implementation was the anticipated cost savings associated with a purchase card program. Nearly 60 percent of the respondents cited the anticipated cost savings as a “very important” motivation for implementation, and another 37 percent of the respondents reported that the anticipated cost savings were “somewhat important.” Enhanced audit capability of transactions was viewed as a “very important” or “somewhat important” factor for implementation by two thirds (67%) of the respondents. Only 26 percent of the respondents indicated that internal management directives were “very important” and 23 percent reported that external government-wide directives such as gubernatorial directives or executive orders were “somewhat important” factors for implementation. Just over half of the respondents claimed that purchase card rebates offered by card companies were “very important” or “somewhat

important” factors for implementation. Another 30 percent of the respondents indicated that potential purchase card rebate revenues were of “medium” importance. Another benefit attributed to purchase cards is that government cards verify to vendors that purchases are eligible for government discounts. Just over 75 percent of the respondents indicated that the benefit of facilitating government discounts from vendors was “very,” “somewhat,” or of “medium” importance in the decision to implement a purchase card program.

Other important factors for implementing the purchase card program identified by the state respondents include:

- reduces paperwork to issue purchase orders
- expedites payment to vendors
- expands vendor options beyond those willing to accept field purchase orders
- interfaces with an e-commerce procurement system

States use several methods for financing the administration costs associated with a purchase card program. Fifty-two percent of the respondents use direct or indirect

appropriations from the General Fund to cover the program costs, while 28 percent use agency funds. About 21 percent of the reporting states “self-finance” the program through revenues generated through the purchase card program such as card rebate revenues or service fees charged to state agencies. Note that these financing options are not mutually exclusive and a few states use more than one of these financing options to cover the card administration costs.

State Purchase Card Policies and Procedures

Purchase Card Restrictions

Purchase cards are just one mechanism for payment and therefore the general procedures for procurement are applicable. The states have enacted a variety of purchase card policies designed to promote appropriate use of the card as a payment mechanism. A particular concern is that cards are only used for authorized purchases and, therefore, policies provide guidelines regarding permissible purchases and dollar value of purchases. Restrictions called merchant category blocks are frequently coded into the purchase card to prevent use at unauthorized groups of merchants. To better understand the nature of the purchase card policies, state respondents were asked to identify whether

Figure 2: Number of Transactions and Dollar Value for State Purchase Card Purchases in Fiscal Years 2004 and 2005 by State

	Transactions		Dollar Value of purchases		Average Dollar Value per Transaction
	2004	2005	2004	2005	2005
Arizona	NA	NA	\$3,191,710	\$9,835,855	NA
Arkansas	42,786	63,808	6,269,720	10,084,666	158
Iowa	27,756	35,567	5,351,235	11,763,742	331
Louisiana	266,820	293,000	42,300,000	NA	NA
Minnesota	82,000	89,000	8,000,000	10,600,000	119
Mississippi*	70,695	NA	8,151,987	NA	115
Missouri	105,459	111,039	11,585,320	13,876,531	125
Nebraska	NA	NA	4,420,006	5,641,107	NA
Nevada	98,730	116,061	17,389,609	21,578,290	186
New Mexico	NA	NA	31,964,948	NA	NA
New York	NA	318,000	26,000,000	77,000,000	242
Oregon	NA	NA	14,715,155	18,421,593	NA
South Carolina	728,734	788,212	169,529,870	164,810,633	209
Wisconsin	483,822	530,528	99,977,351	114,086,604	215
TOTAL:	1,906,802	2,345,215	\$448,846,911	\$457,699,021	198

*Mississippi values are for FY 2003

NA = indicates that the data was not available.

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their card program imposes the following card restrictions (with the percentage of respondents imposing the restriction in parenthesis):

- Merchant category blocks (75 percent)
- Maximum dollar value per transaction (85 percent)
- Monthly acquisition limits (80 percent)
- Type of purchase limits (69 percent)
- Credit checks on users (4 percent)

As shown, a cap on the maximum dollar value per transaction is the most widely used of the card restrictions. The cap value may be set at a single value for all transactions, or the cap may depend on the transaction. For example, Arizona allows card purchases of up to \$10,000 for service transactions, but other card purchases are limited to \$1,000 or less. On the other hand, Nevada does not allow the purchase card to be used for service transactions at all. Two states reported that the limit for an individual cardholder transaction was \$5,000, another reported \$3,500. States reported that they raised the limit as they became more experienced with the card program or that the PCard limits get raised along with the agencies' limit for processing small dollar payments. One said it had raised the limit for emergency use. The controls most often mentioned were monthly and post-audits and one state reported they do reviews on-line in real time.

Merchant category blocks are used to restrict the types of goods and services that can be purchased through the card. Merchant blocks can be turned on and off for an individual card to match the permissible categories to the responsibilities of the employee, and thereby designate the card for particular uses. In addition, monthly acquisition limits set an aggregate bound on the dollar amount of transactions that can be processed through the card in a given month. Only one respondent considered personal credit risk before authorizing an employee to hold a purchase card. Similarly, employee credit checks were not used as a screening mechanism for issuing the integrated purchase/travel card.

A purchase card usually carries government liability for the transactions charged to the card. As a result, personal credit is not a factor for the spending limitations on the card. Some argue that screening out employees with high credit risk will reduce the incentives for card fraud, but there is little evidence to support this notion. In response to a new set of provisions related to the implementation of Sec. 639 of the Consolidated Appropriations Act, 2005 (Pub. L. 108-447), requiring federal agencies to assess the credit worthiness of travel or purchase card applicants prior to issuing a card, the Office of Management and Budget issued draft guidance, "Improving Government Charge Card Guidance" (Federal Register, Feb. 25, 2005) requiring federal agencies to institute credit checks on employees holding purchase cards. However, this guidance did not take effect, because the set of provisions was not included in later legislation (See AGA CPAG No. 4, *The Federal Purchase Card Use, Policy and Best Practice*, April 2006, p. 11).

The distribution of purchase cards is managed by card use authorization policies. Procurement employees are identified as authorized card holders for 85 percent of the responding states. In addition, for 70 percent of the respondents, procurement cards are always or frequently authorized for employees "designated" by the agency or department head as needing the cards for departmental procurements. Respondents report that other employees are also issued cards. Specifically the survey indicated that, among two-thirds of the respondents, administrative/clerical staff, contracting officers and financial office staff were "frequently" or "always" authorized purchase card holders. State respondents indicated that purchase cards were only occasionally authorized for contractors performing services for state agencies and non-governmental employees.

Insuring Appropriate Card Use

The state respondents suggest three primary actions to promote appropriate use of the purchase card:

- Ensure training is done before a card is issued and reinforce the training periodically.
- Institute a policy that deals with consequences if the card is used inappropriately.
- Use available data and software tools to monitor credit card purchases.

A first step in preventing abuse of the purchase card is to provide adequate training to employees on the policies and procedures governing the use of the card. Sixty-two percent of the respondents provide training prior to the issuance of the card. Nineteen percent of the respondents provide training at the time the card is issued. The nature of the training varies among the states ranging from distribution of pamphlets and handbooks to formalized workshops. Some states

Figure 3: Source of cost savings associated with Purchase Card use

	Substantial	Some	No Savings	Savings Loss
Processing of purchase authorization	21.7%	60.9%	17.4%	0.0%
Processing procurement transactions	52.4%	42.9%	4.8%	0.0%
Administrative oversight and monitoring (including dispute resolution)	13.6%	68.2%	18.2%	0.0%
Processing bill payment and ex-post Procurement audit activities	27.3%	68.2%	4.5%	0.0%
Employee training	9.1%	18.2%	72.7%	0.0%
Cash management	13.6%	50.0%	36.4%	0.0%

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provide training through a statewide program. Other states delegate the training to each agency, often with centralized oversight. Most training is done by state employees, but several states outsource the training to private companies (often the bank holding the card contract). Only two respondents reported that they provide ongoing training after the card is issued. One of those states is New Mexico, where procurement card training is conducted quarterly for all procurement cardholders, procurement administrators and management. South Carolina provides one-on-one training when the card is issued and also provides reoccurring training for all cardholders through conferences.

Florida promotes accountability of purchase card use through the following procedures. Card holders are told upfront of their responsibilities and they sign a written agreement stating they understand the PCard Program² and that any fraudulent or questionable purchases will be investigated. Part of the agreement states that within 24 to 36 hours of a purchase, the charges appear on the agency's charge screen reviewed by local approvers and to the PCard administrator. If an employee has any doubts about a purchase, they are to contact the PCard administrator. Employees are provided the relevant telephone numbers, e-mail addresses and fax numbers.

The structure and organization of the purchase card program can help address fraud and abuse issues. The responsibilities of the purchase card are often centralized (58 percent of respondents) in one state agency or department that provides for centralized training and bank card contract negotiation and oversight. On the other hand, most of the states (73 percent of respondents) assign the primary auditing responsibility to the individual agency level. The primary benefit of auditing at the agency level is that agency management usually authorizes individual card transactions and is therefore better positioned to spot inappropriate card usage.

Penalties

Fraud and abuse policies also include penalties imposed on employees for inappropriate use of the purchase card. Most states including Arizona, Arkansas, Idaho, Iowa, Louisiana, Minnesota, Mississippi, Nevada, New York, Oklahoma, Pennsylvania and South Carolina will terminate employment for egregious abuse of the purchase card. Another common penalty is taking away or deactivating a card issued to an employee. In general, the penalties for purchase card abuse are comparable to standard discipline procedures stipulated for other procurement violations. The typical discipline procedures are illustrated in Louisiana's policies. In Louisiana, an employee caught misusing the purchase card will receive disciplinary action up to and including termination of employment, and must reimburse the state for all incurred charges and any costs related to the collection of such charges. Additionally, any such charges owed to the state may be deducted from any money that would otherwise be due or owed to the employee, including salary or wages, to the extent allowed by law. For some states, such as Texas, the penalties are determined primarily at the agency/university level.

Split Transactions

Split transactions occur when an expensive purchase is broken into several smaller components in order to circumvent the maximum dollar amount per transaction limits. Suppose a state has a maximum cap of \$5,000 per transaction that can be charged to the purchase card. An example of a split transaction is breaking a \$20,000 purchase of computer equipment into four \$5,000 transactions. The reason for restricting large purchase items on the card is that procurement policies on large transactions generally require additional documentation, which does not occur if the transaction is split into several smaller transactions.

States vary widely in the procedures that they have in place to detect split transactions. On one end of the spectrum are simple policies that assign responsibility to agency managers to identify suspicious transactions. Monitoring and/or auditing is typically done by the agency card program administrator or central administrator by reviewing reports of transactions by vendor. Arizona agencies can establish stricter guidelines with regard to purchase card procedures, but they cannot be more lenient than statewide procedures. Most states rely on transaction audits to detect split transactions. In addition to audits, Kentucky requires supervisor approval of all transactions, deterring split transactions and misuse of the card. New York and South Carolina use tailored assistance provided through the bank to monitor purchases and detect split transactions. Technology

Figure 4: Employee Groups Authorized to use Purchase Cards

	Always	Frequently	Occasionally	Never
Senior Agency staff	20%	24%	56%	0%
Administrative/clerical staff	20%	48%	32%	0%
Contracting officers	21%	46%	21%	13%
Procurement staff	38%	46%	15%	0%
Financial Office staff	20%	48%	32%	0%
Staff designated by Agency Director (or designee)	42%	29%	29%	0%
Contractors performing services for state agencies	0%	0%	16%	84%
Non-government employees	0%	0%	16%	84%
All Agency staff	8%	8%	20%	64%

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is being used in other ways as well. In Missouri, the departmental purchasing card coordinator has the capability to review real-time online transactions.

The ease and convenience of using the purchase card must be balanced against the need for additional controls for large purchases. The incentive for employees to split transactions is greater if the transaction caps are too low. The agencies in Idaho regularly review transaction caps and raise the limits for employees that may need more authorization.

Purchase Card Use at Field Locations

State agencies sometime provide services that require the procurement of goods and services while on the road or in field locations. The state respondents were asked to identify the impediments and benefits of using the purchase card in field locations. A majority of states indicated that there were no impediments to card use in field locations. The primary impediment encountered by the respondents is that some small business vendors were unwilling or not equipped to process the card transaction. The survey did not directly address the extent to which cards are not accepted in field use, but the respondents' comments did not convey that card acceptance was a widespread impediment. One state expressed concern that the "de-centralized" use of the purchase cards in the field opens the opportunities for misuse, but continued to say that misuse can be mitigated with sufficient oversight. Similarly, another state respondent remarked that field use of the purchase card results in less centralized control of procurement process and therefore a lag time in gathering documentation centrally for reallocation in the accounting system. Loss of documentation to support card purchases in field locations was also cited by one state as a concern. Other states have addressed this concern by moving to paperless (electronic) documentation.

The major benefit of purchase card use in field locations is that goods and services can be procured in an expedited fashion. A majority of respondents noted that employees can obtain supplies more quickly and efficiently than waiting for a purchase order, as check processing in the field location is not very practical. Card transactions are often coupled with electronic documentation systems that reduce the time required to process paper approvals. Moreover, paperless documentation reduces the amount of lost paperwork that frequently occurs in field work. Purchase card transactions are tracked electronically and therefore provide a more detailed accounting of transactions over field purchases transacted with cash. Vendors who accept purchase cards benefit from expedited payments compared to the 30-day lag with purchase orders. Many states noted the convenience of purchase cards when responding to emergency situations such as hurricanes and tornadoes.

Florida highlighted the procedures that they have implemented to deal with the particular challenges that come with emergency or natural disaster situations. All Florida employees receive the standardized PCard training prior to receipt of the Pcard. During the training employees are familiarized with the agency's policies and procedures. Prior to a purchase, employees are required to complete an electronic

requisition form through the E-Req. system. When the governor issues an Executive Order during an emergency situation such as hurricane or tornado, some card restrictions (merchant category blocks, spending limits, etc.) are removed until the Executive Order time period comes to a close. Travel reimbursement vouchers and PCard charges are compared and audited (post audits), and if necessary, the cardholder or regional office is contacted for clarification.

State respondents were asked to identify effective practices in their purchase card policies that mitigate fraud and misuse in field locations. Most states confirmed that field purchases were subject to the same controls as centralized purchases. Nevertheless, flexibility was a key response, as many states allow agencies or departments to establish more stringent policies regarding use and permissible merchant codes. The agencies determine who is authorized to make purchases and monitor card usage reports.

The purposes of field purchases are documented and are either pre-approved or reviewed by the supervisor. Additional oversight is conducted by the central agency, the state and by the bank providing purchase card services. In Wisconsin, the agencies with field offices are expected to have an employee with program oversight responsibilities at satellite locations.

Best Value Purchases

The purchase card is just one method of payment for procuring goods and services. State governments are concerned about obtaining the best value on the purchase of goods and services and therefore have procurement policies that apply to all transactions. The states identified policies and procedures they impose to promote best value purchases on the purchase card.

- Follow standard procurement internal control policies and bidding processes.
- Compare pricing to non-purchase card purchases.
- Offer multiple payment options to vendors.
- Require multiple vendor quotations for the item being ordered.
- Use state-approved or preferred vendors.
- Negotiate volume discounts with vendors.
- Promote appropriate card usage where rebates apply.

State Purchase Card Program Benefits

The purchase card program can have an impact on the performance of state agency outcomes. The respondents highlighted some of the ways that performance has improved relative to achieving their mission, enhancing their outcomes, improving the speed of their service delivery and influencing confidence in state's financial management practices and procedures.

Time benefits: The processing of purchase orders is streamlined and the amount of paperwork is reduced because the purchase card consolidates transactions on the card that can be processed with one payment. The purchase card is particularly beneficial for small purchases. One state

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reports that it has allowed agencies to focus on high-dollar value purchases instead of spending a significant portion of time processing purchases under \$1,000. In this state, low-dollar purchases account for 80 percent of the transactions but only 8 percent of their budgets.

Vendor Benefits: Vendor relationships with the state are enhanced because the vendors receive payments through the purchase card faster than the traditional purchase order. The merchants usually get paid within two or three days, and the state can take 30 days to pay the card balances. As a result, many states have seen growth in the vendor base, leading to more competition for government purchases. Increased competition may decrease prices paid or enhance the quality of the goods and services purchased. The purchase card program also facilitates analysis of past purchases with various merchants that may lead to a stronger position in negotiating contract prices.

Cost benefits: Florida reported that they have saved several million dollars by using the purchase card program. The need to have warrants issued, copies of invoices made, No. 10 Window envelopes purchased and postage paid for mailing each warrant to each vendor has made a significant fiscal difference on an annual basis. Furthermore, the state is able to take advantage of the “2 percent/10 days” discounts when possible.

Timing benefits: The purchase card enhances the ability of state agencies to respond to spontaneous events. Even in traditional procurement, the purchase card reduces the time it takes to acquire and employ goods and services.

Local government spillover: In some states the local governments are taking advantage of the benefits associated with purchase cards by joining the card contracts negotiated by the states. For example, in New Mexico, local governments are building on the state purchase card contracts to negotiate lower fees and better card service.

State Purchase Card Policy and Use Recommendations

In addition to identifying current use policies of the state purchase card, this study asked responding states to provide recommendations that would enhance the value of the purchase card for the states. State respondents provided their insights regarding the purchase card program that could potentially improve the efficiency and benefits of the card program. The recommendations provided focused on both state policies regarding the use and management of purchase card programs.

Respondents to the state purchase card study survey provided a series of recommendations that they felt would enhance the benefits that their state realized from the purchase card program or that they would recommend their state counterparts to consider. The recommendations included suggestions for enhancing the financial benefits of state purchase card programs as well as program adjustments that state survey respondents found improved the operational aspects of their purchase card program.

Recommendations for enhancing state purchase card financial benefits focus on expanding purchase card use and insuring that state agencies maximize potential program benefits. Such recommendations include:

- Enhance state purchase card financial savings and benefits by encouraging use of the purchase card for larger-dollar procurements.
- Enhance state purchase card financial benefits by ensuring rebates and rebate policies are part of purchase card contract renegotiations.
- Enhance state purchase card financial savings and benefits by expanding the number of agencies using the purchase card program in the various states.
- Enhance state purchase card financial savings and benefits by conducting periodic analysis, including cost-benefit assessments of which state procurement activities benefit from purchase card procurement procedures.
- Ensure purchase card programs are being efficiently operated by providing adequate training on technical aspects of the program (acceptable use, restricted vendors, etc.).
- Ensure purchase card programs are being effectively carried out by educating employees on their responsibilities regarding card use (including authorizing expenditures, reviewing purchases and ensuring the program is conducted properly).
- Ensure purchase card programs are being operated efficiently and effectively by restricting card authorizations to needs of authorized personnel and their agencies (such as Travel-Only, Commodity-Only or an Integrated Card).
- Ensure purchase card programs are being operated appropriately by negotiating card contracts with process protection against fraudulent transactions (including the mining of transactions based upon patterns of use and authorized purchases).
- Ensure purchase card program administration efficiency by requiring vendors to report level 3 data to enable responsible state agencies to provide more meaningful audits of purchase card transactions (data that indicates actual goods purchased, not just the vendor and amount). State purchase card respondents provided specific recommendations that could enhance oversight and streamline the purchase card processes:
 - Segregate duties between the card custodian and the approving or card authorizing manager.
 - Establish online monitoring and approval processes for card transactions.
 - Motivate agencies to pay their bill faster to obtain the incentives, including rebates.
 - Establish a process whereby the purchase card can be used for services that are “1099” reportable. (Note: South Carolina is implementing a new statewide accounting system, SCEIS - S.C. Enterprise Information System, which may remedy Form 1099 reporting difficulties that have previously limited the use of the purchase card for medical services.)

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- Map merchant category codes to the state's financials.
- Establish a state website development for agency and cardholder usage.

Conclusions

The use of state purchase cards expanded rapidly during the 1990s and continues to expand today both in terms of dollar value as well as number of transactions. This pattern of expanded purchase card use mirrors the expanded purchase card use by federal agencies previously reported [AGA, CPAG Research Report Series, No. 4, April 2006]. The principal reason cited by state personnel for adopting the purchase card was the anticipation of reduced procurement cost processing. While only one state, responding to this survey, indicated that it had conducted an analysis of cost savings attributable to the purchase card, survey responses indicated that state administrators perceive that substantial savings are being realized as a result of reduced time involved in processing procurement transactions including authorizations and processing bill payments. They also indicated that the purchase card benefits included enhancements in administrative oversight, in ex-post audit activities and in improved cash management.

Other conclusions determined from this study include:

- Other benefits of purchase card programs identified by survey respondents included increased agency performance due to speed of service delivery; quicker processing of transactions; improved relationships with vendors due to faster payments; and more effective negotiations with vendors resulting from better transaction history.
- This study indicates that the states use a variety of methods for financing the costs associated with purchase card programs. Fifty-two percent use direct or indirect General Fund appropriations while 28 percent use agency funds. Approximately 21 percent finance their programs by means of rebates or service fees charged to state agencies.
- The states employ a variety of management practices to ensure that their purchase cards are being used appropriately including merchant category blocks, caps on transaction dollar value, monthly acquisition limits, and limits on types of purchases that are allowed on the card.
- States restrict access to purchase cards with the major users being procurement staff (85 percent of the responding states). Individuals are often "designated" by agencies for card use authorizations (70 percent of responding states). Other administrative staff members may also be authorized to use the purchase card. Contracting officers are frequently authorized to use the card while the financial staff (50 percent) is also frequently authorized to use the card.
- The states have taken seriously their policies regarding the use of the purchase card as well as ensuring that employees understand their responsibilities regarding card use. Training is an important component of state purchase card program management.

- States use the card in field locations with limited problems or difficulties. There are periodic problems with card acceptance. The major benefit of field use is expedited acquisition of procured goods and services.

This review of state purchase card use policies and processes indicates that the purchase card has gained wide acceptance for the procurement of small-dollar value items and services by the states. The use of the purchase card continues to expand and respondents to this survey indicated a desire to increase the use of this procurement method largely because of realized cost savings. They perceive that additional benefits and cost savings are potentially available with the prudent expansion of purchase card utilization. Like federal agencies, state agencies appear to no longer perceive the use of the purchase card to be a "best practice" procurement method. Rather, the use of the purchase card has become a "common practice" purchasing strategy.

This study also suggests that the states have implemented several innovative policies and procedures to maximize the benefits of purchase card programs. Continued innovations and the sharing of best practices will further enhance the benefits of state purchase card programs and permit the states to maximize the financial benefits of this alternative procurement payment mechanism.

End Notes

1. Total survey responses were 37, but two survey responses were received from three states. In these cases the two responses were merged into a single response for the state. Guam also provided a very limited response to the survey and their response is not incorporated in the analysis.
2. The purchase card program in Florida is known as the PCard.
3. E-Req. is the software system that Florida uses to process electronic requisition orders.

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Appendix A: State Purchase Card and Travel Card Advisory Group

Advisory Group Member	Representing
Glen B. Gainer III	West Virginia
Lenora Kingston	Colorado
Terry Mason	Tennessee
Sam M. McCall, CGFM	Tallahassee, FL
D. Clark Partridge	Arizona
Tom Sadowski, CGFM	Missouri
Patricia A. O'Connor	NASACT
Patricia Knight	NASACT

Appendix B: Integrated Purchase/Travel Card

Responses were received from eight states with integrated purchase/travel cards: Arizona, Florida, Idaho, Iowa, Minnesota, New Mexico, Washington and West Virginia. Many of these states use the integrated card on a limited basis. For example, Iowa is currently undergoing a pilot project of the integrated card. New Mexico only authorizes the integrated card for use in the governor's office. Minnesota permits each agency to submit a proposal for integrated card use that is subject to approval by the oversight agency. Consistent with the selective implementation of the integrated cards, the administrative and audit functions associated with the integrated cards are not centralized.

For the majority of the respondents indicating use of the integrated card, the following factors were viewed as very important in the decision to implement an integrated card:

- Streamlined and simplified card administration

- Enhanced audit capability of transactions
- Reduced concerns over personal liability on travel cards
- Internal agency management directives
- Response to government-wide directives (such as gubernatorial directives or executive orders)

State policies regulating the use of integrated cards are generally the same as those imposed on state purchase cards. The following limits are always or frequently imposed in nearly every state which uses integrated cards:

- Merchant category blocks
- Maximum dollar value per transaction
- Monthly acquisition limits
- Type of purchase limits

Integrated cards appear to be issued mostly to senior agency staff, while the other categories of employees listed in *Figure B-1* are issued cards frequently or occasionally.

Figure B-1: State Employees Authorized to use the P/T Card

	Senior Agency staff	Administrative /clerical staff	Contracting officers	Procurement staff	Financial Office staff	Designated Staff by Agency Director
Always	4	2	2	3	3	3
Frequently	1	3	3	4	2	4
Occasionally	3	3	2	1	3	1
Never	0	0	1	0	0	0
TOTAL:	8	8	8	8	8	8

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Appendix C: State Government Purchase Card Survey

April 2006

Survey Respondent Identification:

State: _____
Department: _____
Respondent Name: _____

Address: _____
Title: _____
E-mail: _____
Phone: _____

1. Do any agencies in your state use the Purchase Card for procurement for purchasing activities?
 Yes No
 - a. Do any agencies in your state use an integrated Purchase/Travel (PT) Card?
 Yes No
(Note: The on line version will automatically skip Part II if "no" is clicked on this question)
 - b. What bank (or banks) do you contract with to administer card services?
Purchase Card: _____ (N/A)
Integrated Purchase/Travel Card: _____ (N/A)
 - c. What brand of card does your state use for the Purchase Card? _____
 - d. Does your state use the same brand and bank for the Travel Card? _____
 - e. Are Purchase Card contracts bid or negotiated with banks? _____
 - f. How frequently are contracts bid or negotiated with banks? _____
 - g. Does your state combine Purchase Card accounts and Travel Card accounts in the negotiation of contracts and rebates?
 Yes No
 - h. Provide the following information from the current card contract.
Rebate rate _____
Late fee: _____

PART I: State Purchase Card

2. In what Fiscal Year was the Purchase Card first authorized for use in your state? _____

3. Who sets the policy for Purchase Card use authorization?
 - a. State legislature
 - b. Oversight agency
 - c. Administrative official
 - d. Other, please describe: _____
4. Please indicate the nature of your state's Purchase Card use authorization:
 - a. Authorization included all state agencies
 - b. Authorization was restricted to specific agencies
 - c. Authorization was limited to certain individuals (i.e., procurement officers)
 - d. Authorization included all permanent state personnel
 - e. Other _____
5. On a scale from 1 to 5, with 5 being very important, please rank the importance of the following factors in your state's decision to implement a Purchase Card program. (circle appropriate ranking)
 - 1 2 3 4 5 Anticipated cost savings
 - 1 2 3 4 5 Enhanced audit capability of transactions
 - 1 2 3 4 5 Internal agency management directives
 - 1 2 3 4 5 Response to government-wide directives (such as gubernatorial directives or executive orders)
 - 1 2 3 4 5 Response to Purchase Card rebates offered by card companies
 - 1 2 3 4 5 Facilitate government discounts from vendors
 - 1 2 3 4 5 Other, explain:

6. How are the administrative costs of the Purchase Card program funded in your state?
 - a. General fund
 - b. Agency funds
 - c. Self funded (through rebates, fees, etc.)
7. How are rebate revenues used?
 - a. Purchase Card administration
 - b. Unrestricted agency use
 - c. Reverts to the state general fund
 - d. Other (please explain) _____

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8. What limitations has your state imposed on Purchase Card holders? (In your response, please indicate the frequency of such limitations as follows: 1= never, 2= occasionally, 3= frequently, 4= always)

- 1 2 3 4 Merchant category blocks
- 1 2 3 4 Maximum dollar value per transaction
- 1 2 3 4 Monthly acquisition limits
- 1 2 3 4 Type of purchase limits
- 1 2 3 4 Credit checks on users
- 1 2 3 4 Other restrictions, please describe:

9. Please indicate which state employees are authorized to use the Purchase Card using the scale that: 1= never, 2= occasionally, 3= frequently, 4= always)

- 1 2 3 4 Senior Agency staff
- 1 2 3 4 Administrative/clerical staff
- 1 2 3 4 Contracting officers
- 1 2 3 4 Procurement staff
- 1 2 3 4 Financial Office staff
- 1 2 3 4 Staff designated by Agency Director (or designee)
- 1 2 3 4 Contractors performing services for state agencies
- 1 2 3 4 Non-government employees
- 1 2 3 4 All Agency staff
- 1 2 3 4 Other, please describe:

10. How frequently is training on Purchase Card policies required for the card holder?

- a. Prior to issuance
- b. At time of issuance
- c. Once after time of issuance
- d. Occurs regularly for all card holders

11. What methods are used to provide this training?

12. What is the degree of acceptance of the Purchase Card among employees in your organization? Rank on a scale of 1 to 5 with 5 being wide acceptance and 1 being wide refusal to use the card.

- 1 2 3 4 5

13. Does your state use "ghost" Purchase Card accounts?

No: _____ Yes: _____

If Yes, for what purposes are ghost accounts used?

14. Are the administrative responsibilities for the Purchase Card administration centralized in one agency or department?

a. No

b. Yes. If yes, how many full time equivalent employees does your state employ for the administration of the Purchase Card? _____

15. Are the auditing and control responsibilities for the Purchase Card centralized in one agency or department?

a. No

b. Yes. If yes, how many full time equivalent employees does your state employ for the auditing and control of the Purchase Card? _____

16. What penalties are imposed as a deterrent against Purchase Card abuse?

17. Please indicate changes in your state's Purchase Card use policies and the reasons for such changes that have been implemented since initial authorization.

Purchase Card policy changes	Year & Reason for change
1. _____	_____
_____	_____
_____	_____
_____	_____
2. _____	_____
_____	_____
_____	_____
_____	_____

Note: If more changes occurred during the period than can be reported here, please attach additional sheet (s).

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18. Please indicate directives, procedures, and management practices implemented by your state to detect and prevent Purchase Card fraud and/or misuse.

- a. _____

- b. _____

- c. _____

19. What does your state do, in addition to standard procurement regulations, to insure that Purchase Card transactions provide the “best value to government”?

- a. _____

- b. _____

20. What does your state do to guard against inappropriate split transactions (splitting purchases larger than permissible thresholds into several smaller procurement transactions)?

21. Has your state authorized the use of the Purchase Card for field or remote Offices (areas outside of capital city)?
_____ Yes _____ No (If no, proceed to next question)

a. Please describe unique impediments associated with using the Purchase Cards in field or remote locations.

b. Please describe unique benefits associated with using the Purchase Card in field or remote locations.

c. Please describe “best practices” that your state has identified to mitigate fraud and misuse in field or remote operations.

22. Has the Purchase Card or P/T Card program impacted the performance of your state’s agencies (relative to the achievement of their mission, enhancing their outcomes, improving the speed of their service delivery or influencing confidence in your state’s financial management practices and procedures)? If so, please describe those impacts

23. Please describe insights (“lessons learned” or best practices) by your state regarding the use of the Purchase Card or P/T Card which might benefit other states or agencies of the federal government:

a. Insights regarding the overall Purchase Card or P/T Card program which, if adopted, would improve the efficiency and benefits of the overall card program:

b. Insights regarding the Purchase Card or P/T Card program which, if adopted, would enhance the efficiency and benefits of the program for individual agencies:

24. Please describe Purchase Card or P/T Card policy changes (regarding use, transaction limits, and other policies) that your state would recommend for other states or federal government agencies

a. “Use” policy change recommendations:

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b. "Limit" policy change recommendations

c. Other recommendations

25. Cost savings and/or revenue enhancement can accrue to state governments as a result of Purchase Card use (or P/T Card use). State government Purchase Card savings could vary depending on procurement practices and innovative actions taken by the states to maximize Purchase Card related savings. Please indicate the degree to which the following items contribute to cost savings or enhanced revenues realized by your Agency as a result of Purchase Card use: (1=substantial savings, 2=some savings, 3=no savings, 4=savings loss)

- 1 2 3 4 Reduced staff time (and cost savings) in preparation and processing of authorization
- 1 2 3 4 Enhanced efficiencies in processing procurement transactions
- 1 2 3 4 Enhanced efficiencies in administrative oversight and monitoring (including dispute resolution)
- 1 2 3 4 Cost savings in finance related procedures including billing, payment and ex-post procurement audit activities
- 1 2 3 4 Net savings in the training costs
- 1 2 3 4 Income enhancement resulting from differing cash management practices such as petty cash requirements and float opportunities.
- 1 2 3 4 State government Purchase Card refunds
- 1 2 3 4 Other: Please describe:

26. Has your state conducted a recent analysis of the savings attributable to the Purchase Card?

No Yes.

If yes, what is the estimated savings per year

27. Does your state have a mechanism for apportioning the rebate revenue (or portion of the rebate) back to funding sources?

No Yes

If Yes, please explain

28. This section requests information regarding your state's Purchase Card transactions for the past 5 fiscal years as available. (If your state uses a P/T Card then please exclude travel transactions)

a. Annual number of **TRANSACTIONS**

FY Year:	Purchase Card
2000	<hr/>
2001	<hr/>
2002	<hr/>
2003	<hr/>
2004	<hr/>
2005	<hr/>

b. Annual **DOLLAR** value of sales

FY Year:	Purchase Card
2000	<hr/>
2001	<hr/>
2002	<hr/>
2003	<hr/>
2004	<hr/>
2005	<hr/>

29. Potential Purchase Card Use

a. In this question, we would like you to estimate the potential for expanded use of the Purchase Card in your state. Please indicate the total dollar value and number of transactions using the Purchase Card and the dollar value and number of transactions eligible for Purchase Card use but acquired by use of the Purchase Order in your state in FY2005, if available

	Purchase Card	Purchase Card Eligible
Total dollar value:	<hr/>	<hr/>
Number of Transactions:	<hr/>	<hr/>

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b. What were the major reasons that the Purchase Card was not used for eligible transactions?

1. _____

2. _____

3. _____

4. _____

30. Do you have other suggestions or recommendations about the use of Purchase Cards or P/T Cards that were not covered this survey? If so, please discuss here.

Part II: Integrated Purchase/Travel (P/T) Cards:

(Note: States without P/T Cards will skip this section)

31. In what Fiscal Year was the integrated P/T Card program implemented in your state? _____

32. Who sets the policy for P/T Card use authorization?

- a. State legislature
- b. Oversight agency
- c. Administrative official
- d. Other, please describe: _____

33. Please indicate the nature of the P/T Card use authorization:

- a. Authorization included all state agencies
- b. Authorization was restricted to specific agencies
- c. Authorization was limited to specific categories of employees
- d. Authorization included all permanent state personnel
- e. Other _____

34. On a scale from 1 to 5, with 5 being very important, please rank the importance of the following factors in your State's decision to implement a P/T Card program. (circle appropriate ranking)

- 1 2 3 4 5 Streamline and simplify card administration
- 1 2 3 4 5 Enhanced audit capability of transactions
- 1 2 3 4 5 Reduce concerns over personal liability on Travel Cards
- 1 2 3 4 5 Internal agency management directives
- 1 2 3 4 5 Response to government-wide directives (such as gubernatorial directives or executive orders)
- 1 2 3 4 5 Response to card rebates offered by card companies
- 1 2 3 4 5 Other, explain:

35. Are the administration responsibilities for the P/T Card administration centralized in one agency or department?

- a. No
- b. Yes. If yes, how many full time equivalent employees does your state employ for the administration of the P/T Card? _____

36. Are the auditing and control responsibilities for the P/T Card centralized in one agency or department?

- a. No
- b. Yes. If yes, how many full time equivalent employees does your state employ for the auditing and control of the P/T Card? _____

37. What limitations has your state imposed on P/T Card holders? (In your response, please indicate the frequency of such limitations as follows: 1= never, 2= occasionally, 3= frequently, 4= always)

- 1 2 3 4 Merchant category blocks
- 1 2 3 4 Maximum dollar value per transaction
- 1 2 3 4 Maximum account balance restrictions
- 1 2 3 4 Type of purchase limits
- 1 2 3 4 Credit checks on users
- 1 2 3 4 Other restrictions, please describe:

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38. Please indicate which state employees are authorized to use the P/T Card using the scale that: 1= never, 2= occasionally, 3= frequently, 4= always)

- 1 2 3 4 Senior Agency staff
- 1 2 3 4 Administrative/clerical staff
- 1 2 3 4 Contracting officers
- 1 2 3 4 Procurement staff
- 1 2 3 4 Financial Office staff
- 1 2 3 4 Staff designated by Agency Director (or designee)
- 1 2 3 4 Contractors performing services for state agencies
- 1 2 3 4 Non-government employees
- 1 2 3 4 All Agency staff
- 1 2 3 4 Other, please describe:

39. What challenges have your agencies experienced in implementing an integrated P/T Card?

40. What specific benefits have your agencies experienced in using an integrated P/T Card over the nonintegrated card?

Thank you very much for participating in this study.



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