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THESIS

ANALYSIS OF BANK CREDIT CARD CONTRACTING
AT NAVY FIELD CONTRACTING ACTIVITIES

by

David W. Brumfield

December, 1991

Thesis Advisor: Stephen Zirschky

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This research reviews the use of bank credit cards as a small purchase method in the Navy field contracting system. The paper reviews the use of the bank credit card at Naval Weapons Center, China Lake, CA, Naval Ordnance Station, Indian Head, MD, Naval Postgraduate School, Monterey, CA, and Marine Corps Base, Camp Lejeune, NC. The focus of the evaluation is an assessment of how successful the existing bank credit card programs are at the four sites, and the advisability of expanding the program to other field contracting activities. The Study also identifies possible barriers and difficulties that would be encountered if the credit card program were to be expanded to other field contracting activities. The paper examines the existing management controls in place for the program, and makes recommendations to the Naval Supply Systems command regarding expansion (further implementation) of the credit card program to other field contracting activities.

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Analysis of Bank Credit Card Contracting
at Navy Field Contracting Activities

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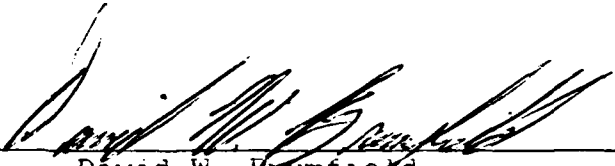State University (1980)

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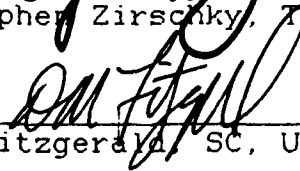MASTER OF SCIENCE IN MANAGEMENT
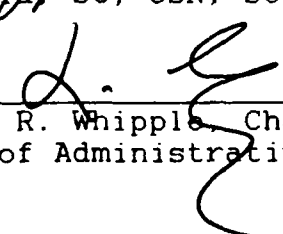
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ABSTRACT

This research reviews the use of bank credit cards as a small purchase method in the Navy field contracting system. The paper reviews the use of the bank credit card at Naval Weapons Center China Lake, CA, Naval Ordnance Station, Indian Head, MD, Naval Postgraduate School, Monterey, CA, and Marine Corps Base Camp Lejeune, NC. The focus of the evaluation is an assessment of how successful the existing bank credit card programs are at the four sites, and the advisability of expanding the program to other field contracting activities. The study also identifies barriers and possible difficulties that would be encountered if the credit card proram were to be expanded to other field contracting activities. The paper examines the existing management controls in place for the program, and makes recommendations to the Naval Supply Systems Command regarding expansion (further implementation) of the credit card program to other field contracting activities.

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I. INTRODUCTION

This research will review the use of bank credit cards for small purchases in the Navy field contracting system. In August 1989, Naval Supply Systems Command authorized the bank card purchase method for small purchases of less than $2,500. The primary thrust of the research will evaluate the present use of bank credit cards at Naval Ordnance Station Indian Head (NOS Indian Head), Naval Weapons Center China Lake, (NWC China Lake), Naval Postgraduate School (NPS), and Marine Corps Base, Camp Lejeune (MCB Camp Lejeune), and recommend standardized procedures and management controls for the implementation of bank credit card purchases at other field contracting activities.

For purposes of this research, a field contracting activity is defined as an activity that has procurement authority delegated to it by a headquarters level activity [ref 1: p.79]. In the case of the Navy, the Naval Supply Systems Command is responsible for a supply system in which the procurement of supplies is controlled by field organizations [ref 1: p.79].

A. RESEARCH QUESTIONS

1. Primary Research Question:

How successful is the use of bank credit cards at the above cited Navy (Marine Corps) field contracting sites, and is it advisable to expand the use of credit cards to other field contracting activities?

2. Subsidiary Research Questions:

a. What is the bank credit card program?

b. How has the bank credit card program worked from its implementation, to date, at NOS Indian Head, MD, NWC China Lake, CA, MCB Camp Lejeune, and NPS Monterey, CA?

c. What are the barriers or possible difficulties that would be encountered if the credit card program were to be expanded to other field contracting activities?

d. If the credit card program were to be expanded to other field contracting activities, what standard management controls would need to be in place to promote greater efficiency and prevent fraud?

e. What recommendations could be made to the Naval Supply Systems Command regarding expansion

(further implementation) of the credit card

program to other field contracting activities?

B. DISCUSSION

Credit cards are currently in use at NOS Indian Head, and NWC China Lake, MCB Camp Lejeune and NPS Monterey, for use in small purchases of less than $2500. NWC China Lake was in the pilot program for the use of credit cards in Government procurement. The pilot program for the use of credit cards in Government procurement will be described in detail in Chapter II of the thesis. NOS Indian Head, NPS Monterey and MCB Camp Lejeuene were not in the initial test phase of the program, but subsequently decided to participate in the credit card program. The study will assess the similarities and differences between the four sites, with a focus on the primary research question. Questions to be considered include: What is the command policy at each site for the use of credit cards? How well has the program worked? What are the disadvantages, if any, to the imp'ementation and use of credit cards for small purchases?

C. SCOPE OF THE THESIS

The thesis will focus on an analysis of how the existing credit card program is working at the four above referenced

bases. The study will be a review and assessment of existing management policy for the use of credit cards for procurement in the Navy, and the feasibility of expanding credit card use to other Navy field activities. The research also will focus on what type of management controls need to be adopted including those to discourage fraud and abuse of the buying process.

D. METHODOLOGY

The methodology for this research will consist primarily of a review of existing policy, and interviews with the principal participants in the programs at NWC China Lake, NOS Indian Head, MCB Camp Lejeune and NPS Monterey, CA. This method of research was chosen because there is not a multitude of existing literature on the use of credit cards for Government purchases. The presentation of data collected is for the specific timeframe of the site visit. Accordingly, the data are not an ongoing discussion of the status of each site's program at the time of publication of this research.

E. ORGANIZATION OF THE THESIS

Chapter I discussed the purpose and direction of the thesis as well as the scope of the research and methodology of data collection. Chapter II provides background

information concerning the bankcard program. A synopsis of the history of the bankcard program is presented. Chapter III presents a description of the methods used to collect data, and a presentation of facts and responses to interviews. Chapter IV is an analysis of the data presented in Chapter III. Chapter V provides conclusions and recommendations. Recommendations will be made to the Naval Supply Systems Command Headquarters regarding further implementation of the credit card program. Recommendations also will be made regarding what management and policy controls need to be in place for implementation of the program.

II. BACKGROUND

The bank card program is an internationally accepted commercial credit card available to civilian and military Government employees for making small purchases for official Government use. The objectives of the program include simplifying procurement, improving productivity by reducing procurement administrative lead time (PALT), strengthening internal management controls, enhancing cash management, and improving customer support. The bank card program is designed to replace the Standard Form (SF) 44, and the imprest fund in the small purchase process. Often, merchants would not accept these methods of procurement because of uncertainty or delay in payment. This limited the potential source of supply for small purchases, and often resulted in inflated prices being paid for goods or services. The use of a commercial credit card is a viable solution to this problem.

A. HISTORY

The Commercial Credit Card program was initiated as a procurement reform initiative under Executive Order 12352, "Procurement Reform." [Ref. 2.: p.3] The bank card program began as a Government-wide pilot program sponsored by the

Department of Commerce in 1986. The Office of Management and Budget subsequently tasked the General Services Administration (GSA) with the acquisition of Government-wide commercial credit card services. Four Navy test sites were selected in April 1988: Naval Supply Center, Jacksonville, FL; Naval Ocean Systems Center, San Diego, CA; Naval Undersea Warfare Engineering Station, Keyport, WA; and Naval Weapons Center, China Lake, CA. GSA awarded a Government contract to Rocky Mountain Bankcard Systems Incorporated (RMBCS) in November 1988 to provide VISA cards for one year with annual renewal options for four subsequent years. The Naval Supply Systems Command authorized the use of credit cards by all Navy activities in August 1989. [Ref. 3]

The official name of the Government-wide card is International Merchant Purchase Authorization Card (I.M.P.A.C.). The credit card is distinctively designed and identified for official Government use. The VISA card is distinguished from other cards by bearing the Great Seal of the United States along with the unique trade name I.M.P.A.C.. (I.M.P.A.C. is a registered trademark of Rocky Mountain BankCard Systems, Inc., Denver, CO). The card is used to obtain goods and services, exclusive of travel, meals, and lodging. The credit card can be used worldwide for small purchases of less than $2,500. These purchases

are for commercially available items that can be delivered for immediate use. The use of the credit card does not replace other methods of procurement such as stock in local warehouses, GSA mandatory sources of supply, or blanket purchase orders and purchase orders. The card also does not relieve the holder of complying with existing Department of the Navy controls and restrictions that apply to certain types of goods and services such as automated data processing equipment (ADP) and plant property. The use of the card provides a less costly and more efficient method of delivering goods and services to the end-user (customer).

B. MECHANICS OF THE BANKCARD PROGRAM

Under current Naval Supply Systems Command guidance, each command is granted considerable autonomy in establishing bankcard procurement procedures and controls. However, the functional organization of activities using bankcard procurement is fairly common and is presented below.

Each activity using the bank card will designate an individual as the bankcard administrator, that will be responsible for coordinating all aspects of the command's bankcard procurement. General duties include: initiating all external correspondence to the contractor regarding

issuance and cancellation of bankcards; helping the contractor in resolving disputes or questioned charges; and ensuring approving officials and cardholders receive procurement training before use of the bankcard.

Each department at a command will assign a departmental bankcard administrator, that reports directly to the command bankcard administrator. The departmental administrator will process cardholder statements for each department, and also serves as a liaison with local vendors and the command's comptroller.

The approving official is generally a department supervisor that is responsible for all cardholders under their cognizance. The approving official shall review the account statements of cardholders and certify the statement for accuracy and correctness of purchase. The approving official is responsible for forwarding the completed statement package to the bankcard administrator for processing and payment by the command's finance office.

The bankcard holder is ultimately accountable for the use and security of his (her) credit card. The individual card that is issued to the Government employee has his (her) name embossed on it. The card is to be used for Government purchases only. The bank card holder makes purchases using his credit card and reconciles his monthly bank statement.

The cardholder then forwards the monthly statement to the approving official.

The terms of the GSA contract state that the cardholder will not receive promotional literature from RMBCS, and no personal credit check is required prior to issuance of the card. When the card is not being carried by a cardholder it should be safeguarded in the same manner as cash.

C. AUTHORIZATION PROCESS AND SPENDING LIMITS

RMBCS, in issuing the card to Federal employees, has established several steps in the authorization process that are executed each time the bankcard is used. There are two ways the credit card may be used: over-the-counter or telephone purchases. Over-the-counter buys occur when the Government employee executes the transaction at the vendor's place of business. The merchant may request verification of the Government employee's purchase authority through the bank's authorization system. This verification of purchase authority can be accomplished 24 hours a day, every day of the year, by electronic means or telecommunication method. VISA requires all purchases over $50.00 to be authorized by the card issuer (RMBCS). This authorization ensures that the individual cardholder is within his single purchase and monthly purchase limits. The authorization also ensures

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that the merchant is of the type permitted under the GSA contract. All merchants classified as travel and entertainment will be denied approval at the point of authorization. The types of businesses denied includes airlines, restaurants, bars, hotels, travel agencies, and car rental agencies. In addition, the user of the card is restricted from other transactions and purchases including: cash advances; rental or lease of land or buildings; personal clothing or footwear; janitorial or maintenance services; rental or lease of vehicles; printing or copying services; or payment of telephone calls.

Spending limits are assigned to each individual credit card, and these limits are furnished to RMBCS. The amount of the dollar limitations for each credit card is set by each agency's internal operating procedures. Three spending limits are established for each cardholder: a single purchase dollar limit, a monthly purchase dollar limit, and a monthly office dollar limit. Furthermore, each cardholder is limited to a maximum dollar amount for individual transactions as well as a monthly dollar total. The cardholder's account is assigned a unique code identifying the cardholder's pre-authorized purchasing limits. This authorization system allows for denial of purchases at the point of sale if necessary.

The Navy has established the single purchase limit for users of the bankcard at $2,500 [Ref 3]. The maximum number of authorization requests allowed for an employee is six in one day or $10,000 per day, at which point an identification check will be requested. RMBCS does not restrict the monthly purchase limit or the monthly office limit. These limits are established by command/departmental procedure, allowing the command to correlate bankcard procurement with a monthly budget restriction. When the bankcard purchases under an approving official's account number reach 80 percent of the monthly limit, RMBCS notifies the approving official that his office is approaching the spending threshold of his purchasing capability. If monthly limits need to be increased or modified, the approving official notifies the command bankcard administrator.

D. BENEFITS/DRAWBACKS

As with any new system, the cost and benefit associated with the implementation of the bankcard system needs to be assessed to decide if the credit card is an effective purchase and payment method. While the credit card program is still in its infancy stage, the early returns for this program appear to be good. The use of the bankcard has resulted in decreased PALT, increased customer support,

enhanced productivity, increased savings to the Government, and simplified many small purchases.

The credit card program has realized tremendous reductions in PALT. NWC China Lake reported reducing the average time from the initiation of a purchase through product delivery from 28 days to six days for orders of less than $2,500. [Ref. 4: p.27.]

Equally impressive is the positive customer support provided by the bankcard program. According to a senior procurement official at NWC China Lake, since 1980 the number one problem affecting center operations was procurement support, specifically an increasing nonresponsive small purchase process. [Ref. 4: p. 27.] Are customers satisfied with the new system? At NWC China Lake, managers feel the bankcard program is invaluable. Engineers and scientists are pleased with the quick delivery times, and technicians believe the bankcard program has made procurement easier and reduced delivery times. One customer remarked: "Procurement is working with the customers rather than against them." [Ref. 4: p. 27.]

Another plus of the bankcard purchase method is increased savings to the Government and increased

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[1] Mr. Jeff Miriam, Associate for Management within the Procurement Department.

productivity of procurement personnel. Naval Ordnance Station Indian Head performed a cost benefit analysis of bankcard purchases versus traditional small purchase methods for a six month period (April-September 1990) and concluded that bankcard purchases realized savings of approximately $17.77 per transaction [Ref. 5]. The 2000 bankcard purchases made during this timeframe translates into a savings of more than $35,000![2] The use of the bankcard procurement procedures increases procurement personnel productivity. The transfer of procurement responsibility to the cardholder allows procurement personnel to focus their efforts on the more difficult procurements without overburdening the cardholder. At NOS Indian Head cardholders invest approximately 1.98 hours per purchase [Ref. 5].

The development of user friendly procedures, and minimal bookkeeping and paperwork has streamlined the small purchase process. Adequate training and the development of a command user handbook is the key to simplifying small purchase procedures.

What are the weaknesses of the program? To date these appear to be minor, but include the decentralization of the purchase function and the cost impact of a bankcard service

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[2] 2000 X $17.77 = $35,540.

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fee. Currently, the Government is paying an administrative fee to RMBCS of .502% per month of the total purchases.[3] Total Government sales are accumulated from month to month. As this total reaches certain benchmark dollar volumes lower administrative fees become applicable. The fee matrix with benchmarks and administrative fees are indicated below:

Dollar Volume	Administrative Fee[4]	
	Standard	Electronic
$50,000,000	1.143%	1.049%
$75,000,000	1.036%	.942%
$100,000,000	.502%	.408%
$150,000,000	.422%	.328%
$200,000,000	.346%	.252%
$250,000,000	.311%	.217%
$500,000,000	.237%	.143%
$1,000,000,000	.235%	.141%

RMBCS is permitted a fee adjustment based on economic conditions. The adjustment of the fee matrix occurs annually on 4 September, and is in accordance with a negotiated formula. The formula is connected with the Federal funds rates. Yet, this administrative fee was added into the cost benefit analysis performed by NOS Indian Head above, and the results indicated that the Government is

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[3] Administrative fee as of 16 October 1991.

[4] Standard: RMBCS bills the agency through the mail and the agency pays through the mail, or electronic funds transfer (EFT). Electronic: RMBCS invoices the agency electronically, and the agency pays through EFT or Treasury check.

still realizing savings by using the bankcard. The total administrative fee paid out as of 1 October 1991 is $682,966 for 117,334 purchases [Ref.: 17]. This equates to $5.82 per buy.

Coupled with the use of the bankcard is a more decentralized purchasing function, and the increased prospect of fraud and abuse. The bankcard, although embossed with Federal identification appears in all respects like a regular credit card. Tight management controls and random audit and review are the keys to minimizing fraudulent use of the card. RMBCS currently has approximately 29,000 cards issued to Federal agencies with four instances of fraud or abuse of the card detected by the contractor during the two and a half years of the contract [Ref 6]. In two instances, the VISA card was used by Federal employees to obtain cash advances; in one instance the card was used to make purchases from a liquor store; in the final incident, a Federal employee received the bankcard at home and assumed the card was for personal use and subsequently made several purchases from a retailer. In all four instances, the contractor notified the Federal Agency concerned for further action. Each command must make its own assessment if it is willing to assume increased risk for the convenience of bankcard procurement.

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Cardholders and approving officials receive in-depth training that includes rules and regulations governing small purchases, supply system stock research, receipt control procedures, billing reconciliation, and financial management (budgeting). Upon completion of the training, cardholders and approving officials are certified by the command's Commanding Officer as having been successfully indoctrinated in the bankcard procedures and are subject to the same rules and regulations as purchasing agents. The bankcard program streamlines the procurement process for the cardholder, but it does not relieve cardholders of the responsibility of following the Federal Acquisition Regulation.

Encompassed in this training are small purchase procedures, the definition of what constitutes a small business, restricted procurements, procurements requiring special approval, a determination of a fair and reasonable price, competition, and vendor selection procedures.

E. MANAGEMENT CONTROLS

The bankcard program can only be as effective as the management controls incorporated in the program. Several of these controls were addressed above including the single purchase limit, the monthly purchase limit, the office limit, verification of merchant type, and telephone and mail

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order limits. Additional controls should include, at a minimum, the cardholder's certification, approving official review, and a finance office review and audit. The cardholder's certification of the bankcard statement is the employee's assurance that the charges listed on the statement are proper (authorized for government use) and correct in amount. The approving official's review and approval of the purchases serves to validate that the purchases were authorized. The finance office audit serves to validate the proper payment amount and further highlight any questionable purchases that may require further investigation.

F. FUTURE OF THE BANKCARD PROGRAM IN THE NAVY

The Department of the Navy is the largest Federal user of the VISA bankcard with over 117,334 purchases valued at $59,715,555, through 1 October 1991 [Ref.: 17]. Unfortunately, the Navy has not developed a standardized program for using the bankcard program at the field contracting level. While authorized to use the bankcard purchase method, commands are left to their own methods to develop and implement internal operating procedures. This has led to delayed implementation at many activities due to the lack of a readily available and easily understood

standardized training package. Internal operating procedures also could be standardized to facilitate simple implementation of the bankcard program at field contracting activities. The current method of having each activity develop and carry out their tailored bankcard procedures is unwieldy, and does not assist Naval Supply Systems Command in oversight and management of this field contracting activity.

III. PRESENTATION OF DATA COLLECTED

This chapter will concentrate on the operation of the existing credit card programs at NWC China Lake, NOS Indian Head, NPS Monterey, and MCB Camp Lejeune. The research will assess management policy for the use of the bank card for procurement at the four sites. The method of data collection consists primarily of interviews with the principal participants in the bank card program at each of the sites. There is also presentation of some statistical data of card usage at each site. Participants interviewed included bankcard administrators, approving officials, bankcard holders, and procurement managers at each of the sites.

A. BANKCARD PROCUREMENT AT NWC CHINA LAKE

The Navy has been the largest user of the GSA sponsored bankcard procurement, and NWC China Lake is the Navy's largest and most active user of the program. Fiscal Year (FY) 1989 purchases were in excess of $10 million dollars as compared to $13 million dollars Navy wide. FY 1990 purchases exceeded $12 million dollars representing 18,423

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procurement actions, and FY 1991 statistics through July top the $10 million dollar threshold with 17,888 purchases accomplished [Ref 7]. The use of the bankcard at NWC has served to streamline procurement and payment procedures, and increased operational support to the laboratories by placing the responsibility for small purchases in the hands of the requiring activity.

How does bankcard procurement work at NWC? The NWC procurement personnel have designed a decentralized program to meet the customer needs for rapid small purchase while adhering to the requirements of the Federal Acquisition Regulation (FAR). The NWC organization of bankcard procurement consists of: a Bankcard Administrator;

NWC China Lake Bankcard Organization

Position	Title
Contracting Officer's Technical Representative	Bankcard Administrator
Purchasing Buyers	Bankcard Representatives
Department Heads	Approving Officials
Customer	Bankcard Holder

Figure 1

Procurement Bankcard Representatives; Approving officials; and the Bankcard holder. Figure 1 presents the traditional organizational position of the participants and the role they fill in the bankcard procurement organization.

The bankcard administrator has overall responsibility for the execution of bankcard procurement at NWC, and is the command's focal point for the resolution of unusual or difficult issues involving bankcard procurement. The bankcard administrator serves as the intermediary between the command and RMBCS, and also serves as a training coordinator.

The procurement department at NWC is a matrix organization with eight divisions providing procurement support to various workcenters (codes) at NWC. These divisions include professional buyers designated to serve as bankcard representatives. These bankcard representatives provide purchasing guidance to the bankcard holders that their procurement division supports.

The approving official resides in the same department as the bankcard holder, and is responsible for reviewing cardholders' statement of accounts (received from RMBCS monthly) to ensure all purchases made were for official business, and that appropriate documentation supporting the statement is included for submission of payment (i.e.,

copies of VISA vouchers, purchase logs, and any other supporting documentation).

The bankcard holder is responsible for safeguarding the VISA card and ensuring all purchases made are for official use only. NWC has, in essence, created a contracting officer at the department level of the organization to execute small purchases for the requesting individual.

Currently, NWC has 190 bankcards in use throughout the base. Prospective bankcard holders and approving officials are nominated to the bankcard procurement division representative either orally or in writing. There presently is no rigid rule for accepting or rejecting prospective cardholders or approving officials [Ref 8]. NWC procurement does not have a requirement that cardholders or approving officials be a certain rank (paygrade) or level of experience. The command policy concentrates on the issue of: Does the department really need an additional cardholder, and is the individual being nominated "responsible?" The bankcard administrator determines if additional cardholders are justified based on the current volume of business being done by the department. This subjective analysis includes an evaluation of the degree to which the requesting department is approaching the dollar threshold of their office limit, and a judgment that the

volume of business (number of transactions) supports the issuance of additional cards. To date there have been no disputes concerning the issuance of additional cards that could not be resolved between the requesting department head and the director of procurement for NWC [Ref. 8].

The bankcard holder receives training prior to the issuance of a contracting warrant. A warrant is a certificate of appointment, issued by heads of procuring activities that delegate authority to the individual to purchase materials and services for the agency [Ref 1: p.35]. At NWC the warrant is issued in writing by the director of procurement. In addition, the cardholder is expected to follow the Federal Acquisition Regulation for small purchases. During the initial implementation of the bankcard program at NWC, training consisted of a one day seminar presented by procurement personnel. This seminar covered the contents of a hardcopy Bankcard Holder Handbook. Topics covered included:

1. Duties of the cardholder.
2. Documentation required by accounting and procurement personnel.
3. Use of small business.
4. Initiating and executing a purchase.
5. Restriction on "splitting" of purchase orders.
6. Price Reasonableness.
7. Bankcard restrictions (Don't buy list).
8. Items requiring special approval.
9. Required Government sources of supply.

10. Repairs.
          11. Buy American Act.
          12. Procurement of Hazardous Materials.
          13. Procurement Integrity (Standards of Conduct).
          [Ref 9]

In addition, the bankcard holder receives one-on-one
training with the departmental bankcard representative
(procurement personnel). This additional training covers
primarily the same topics as above and answers any
additional questions the bankcard holder may have. The
prospective bankcard holder is then given a purchasing
scenario and is asked to demonstrate the actions taken to
execute a buy using the bankcard. This additional training
takes approximately four hours. The one day training
seminar has subsequently been taped on video, and is
available as either "Bankcard Training for Bankcard Holders"
or "Bankcard Training for Approving Officials." Each video
takes approximately two hours to view. The requirement
described above for one-on-one training with procurement
personnel remains in place. Again, there are no set
criteria for "passing" the training course. There is no
standard such as a written test to be passed, but rather a
subjective evaluation by the procurement personnel that the
prospective cardholder has demonstrated an understanding of
procurement concepts and objectives of the bankcard program
[Ref 8].

Upon completion of the training, the procurement representative initiates the documentation to RMBCS to issue the VISA card, and simultaneously initiates contracting officer documentation through the chain of command to issue a contracting officer warrant. Each cardholder and approving official is required to undergo annual refresher training.

The terms of the GSA bankcard contract require NWC to establish purchase limitations for each cardholder. Single purchasing limits at NWC are currently set at $2,500 per transaction (which may include more than one line item), and $25,000 per month (monthly limit) for a single cardholder. The monthly office limit for a department is the sum of the number of cardholders in the department times $25,000. The $2,500 threshold was chosen by NWC in order to keep the bankcard procurement process relatively simple [Ref 8]. Above this dollar value, the competition requirements set forth in the FAR must be followed. The $25,000 monthly limit is established by NWC, but this figure can be increased or decreased as conditions warrant. Attempted transactions that exceed any of the three purchase limits will be denied by RMBCS. The bankcard holders are responsible for maintaining purchase logs of all orders placed. The purchase log is a four part log that is

distributed as follows: copy #1 is forwarded to cost accounting to record obligations; copy #2 is used to reconcile purchase transactions against the monthly statement of account received from RMBCS; copy #3 goes to plant accounting; and copy #4 is retained by the cardholder for personal records. This system has proven to be very paper intensive and NWC is currently in the process of implementing an automated system to record obligations, material receipt, reconcile statement of accounts, and provide additional online reports and query capability to bankcard holders, approving officials, and NWC accounting personnel. The automated bankcard system is scheduled to be tested by 20 bankcard holders and their respective approving officials in August 1991, and be in use for all cardholders in the October/November 1991 timeframe [Ref 8].

Bankcard representatives are responsible for conducting monthly audits of the bankcard holders supported. The procurement division conducts the audit using a standard audit check list. This audit check list includes a general guideline of issues to be reviewed including:

1. Do the purchase logs contain the required signatures?
2. Requisition numbers complete. Description of the purchase complete.
3. Does the purchase appear to be splitting requirements to circumvent the single purchase limit of $2,500?
4. Are special approvals obtained?

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5. Are Buy American and Small Business set aside waivers obtained if required?
6. Is there an equitable distribution of buys among different vendors?
7. Is purchase documentation adequate? Are required invoices, packing slips, memos of explanation attached?
8. Are prices paid reasonable? If no, is supporting documentation for increased prices paid attached?
9. Is there separation of the procurement/receiving function? Has someone other than the cardholder signed receiving the material or service? [Ref 10.]

The bankcard representative will issue a report to the contracting officer's technical representative (COTR) listing a summary of findings including any unusual or problem areas noted. The report also will include solutions or recommendations to the problem areas and a description of follow-up actions to be accomplished. All bankcard representatives are to ensure that both the cardholder and approving official are aware of the audit findings and corrective action or additional training that is required.

Generally, customer reaction to the bankcard program at NWC was extremely positive. The prevailing response from customers interviewed was that while "routine" procurements were taking one month before the implementation of the bankcard program, use of the bankcard made procurement almost instantaneous. Not only did the use of the bankcard satisfy the customers' immediate needs, it afforded

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procurement personnel the opportunity to prioritize and execute the "difficult" procurements [Ref 11]. The end result was that there was a compound effect of emergent needs being satisfied, coupled with the lead time on normal procurements being reduced. One might argue that procurement had moved their workload to the end user (requirements generator), but customer reaction to this view was to the contrary. Some work centers (labs) already possessed individuals assigned to executing and tracking procurements issued by the department on a full time basis, so these individuals' focus shifted from following up with base procurement to actually executing buys [Ref 11]. In other instances, bankcard holders may only invest twenty minutes a week in executing buys and preparing procurement documentation because they require the requesting individual to research the proposed purchase and fill out the procurement log prior to bringing the requirement to the bankcard holder. So, the bankcard holder essentially "administers" the bankcard buys for his department [Ref 12].

Another concern with the use of the bankcard was departmental internal control of the expenditure of funds. Again, the methods of control of departmental budgets were varied from department to department at NWC. The only financial constraint (internal to NWC personnel) on a

bankcard holder from executing a procurement is that the cardholder must have a valid job order (work order) prior to initiation of a purchase. However, some departments require the cardholder to notify the department Business Financial Manager (BFM) prior to executing any bankcard procurement to control expenditure of funds. In other instances, bankcard holders are given a departmental budget for expenditure and told not to exceed this budget figure. One BFM gives bankcard holders an initial budget for the fiscal year of $1-2 million dollars. Bankcard holders are given freedom to buy what the department needs. The BFM maintains management control of expenditures by receiving a weekly report from accounting on what his bankcard holders have expended [Ref 13].

The bankcard program is relatively new, and it has not been without some problems. Naturally, when procurement is shifted from professional procurement specialists to individuals who are not professionals in the procurement field, there is some inherent risk. There is risk that the cardholder will abuse the card to buy material for personal use or buy unauthorized material, and there is the risk of payoffs from vendors. According to Mr. Leo Lamont of the Naval Investigative Service, there are no past cases or active investigations of fraud involving bankcard

procurement at NWC [Ref 14]. Out of the 190 cards issued to NWC personnel two have subsequently been rescinded for violation of procurement regulations [Ref 7]. In one instance, a cardholder was "splitting" purchase orders to the same vendor in order to procure several personal computer systems for the department. The FAR[5] precludes "splitting" a large buy into smaller buys in order to avoid competition. In the second case, a cardholder procured computer games. The games were only identified as software, and a gullible cardholder unknowingly purchased the games. In both instances, the violations were detected through monthly audits of bankcard holders' statement of accounts by procurement personnel.

Disadvantages of the bankcard program have been primarily administrative. There have been some instances where the vendor has charged state sales tax to the Government, and RMBCS has paid the vendor the full amount of the purchase (including tax). NWC has subsequently had to ask the vendor to issue a credit for the tax amount (which may be a very insignificant dollar value for one item purchased). Presently, the GSA contract does not require RMBCS to recover paid taxes from the vendor. In instances where tax was not recovered from the vendor the Government

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[5] Federal Acquisition Regulation, paragraph 13.103B.

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has had no choice but to pay the tax. There have also been some instances of "unauthorized commitments," where a new business anticipated that they would be a VISA dealer based on their application to VISA, and were subsequently denied the use of VISA collection services. The business indicated to the bankcard holder that they were authorized to accept VISA cards. The Government has received the material and the vendor subsequently demands payment. In these instances NWC has taken the position that there is no recourse but to pay the vendor and then remove them from their list of authorized vendors [Ref. 8]. Another administrative problem is the failure of the vendor to issue a copy of the invoice to the bankcard holder for telephone transactions, resulting in the cardholder having to request a copy of the invoice from the vendor. Internally, a job order has sometimes become a "blank check" for a cardholder to charge additional supplies against the incorrect work center or program. This has resulted in additional administrative work for accounting personnel [Ref 15]. The supplies or services must be identified to the correct workcenter and the charge has to be transferred to the correct program or work order.

Considering the volume of business accomplished with the bankcard at NWC, both in dollar value and the large number of transactions, the disadvantages of the program appear to

be minimal. The wide acceptance of the program and effective use of bankcard procurement can be attributed to an excellent training program, and active audits of bankcard buys by trained procurement personnel. The bankcard program at NWC is extremely effective, in part, because it is simple to execute, holds bankcard holders accountable for following the acquisition guidelines outlined in the FAR, allows the departments the flexibility to manage their funds through the use of bankcard buys, and frees procurement personnel from executing mundane purchases.

B. BANKCARD PROCUREMENT AT NOS INDIAN HEAD

The Naval Ordnance Station at Indian Head currently has 240 bankcards in use at the base. The 240 bankcards are charging $451,599 a month (average for April-August 1991) representing 870 transactions per month [Ref 16]. The bankcard program at NOS Indian Head is very similar to the program at NWC China Lake. This is not surprising since the individual that implemented the program at NOS Indian Head was also involved with the implementation of the bankcard program at NWC China Lake during the pilot phase of the program [Ref 17].

Like NWC China Lake, the use of the bankcard at NOS Indian Head is decentralized. Bankcards are being used at

the end user (requiring department) level. NOS has written and issued a comprehensive Bankcard Users Manual that addresses all aspects of the use and administration of the bankcard at the ordnance station. Figure 2 presents the bankcard organization at NOS Indian Head. The functional organization of the bankcard program consists of: a bankcard administrator, assistant bankcard administrators, approving officials, and cardholders. The duties and responsibilities of these individuals are described in detail in the Bankcard User's Manual. These position descriptions and responsibilities are essentially the same as those described earlier for NWC China Lake. One difference is the position of assistant bankcard administrator, but assistant bankcard administrators are procurement specialists and function in the same capacity as Bankcard Representatives at NWC China Lake. Use of the bankcard places the responsibility for procurement with the end user. Again, the criteria for selecting bankcard holders are not precise. Assignment as a bankcard holder rests on a subjective determination that the cardholder is a "responsible" individual. Assignment as a cardholder also could be contingent upon an individual's position as a material expeditor for the department. There is no requirement that a cardholder be of a certain paygrade or status within the department [Ref 16].

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+------------------------------------------------------------+
|             NOS Indian Head Bankcard Organization          |
|                                                            |
|     Position                          Title                |
|                                                            |
|     Contracting Officer's             Bankcard Administrator|
|     Technical Representative                               |
|                                                            |
|     Purchasing Buyers                 Assistant Bankcard    |
|                                       Administrators        |
|                                                            |
|     Department Heads                  Approving Officials   |
|                                                            |
|     Customer                          Bankcard Holders      |
+------------------------------------------------------------+
```

Figure 2

The bankcard holder receives a two day training course
taught by NOS procurement personnel prior to being issued a
warrant. Approving officials receive a condensed version of
the same training material in a one day course. Like NWC
China Lake, the training again covers the contents of a
hardcopy Bankcard User's Manual. Topics covered include:

1. Introduction to the U.S. Government Bankcard.
2. Purchase Procedures.
3. Delivery and Receipt Procedures.
4. Bankcard Reconciliation Procedures.
5. Cardholder refunds and credits [Ref 19].

The above listed topic areas are very broad, but the actual
details supporting these chapters in the Bankcard User's
Manual are very specific concerning the items that can be

purchased, and the description of the actions to be taken by the cardholder in executing the purchase.

NOS Indian Head has established $2,500 as the single purchase limit for cardholders, to preclude the requirement for competition. The monthly dollar limit for each cardholder is decided by the Department Head based on budget considerations, and may vary from cardholder to cardholder based on the number of transactions and the dollar size of those transactions being executed. The office limit is the sum of the cardholder limits under the Approving Official's cognizance.

Currently, NOS Indian Head is more advanced than NWC China Lake in the process of using an automated database to interface with base accounting. The requisition and receipt process for bankcard procurement is in place through use of Integrated Logistic Supply Management Interface System (ILSMIS). While the Bankcard holder is still responsible for keeping a hard copy purchase log to submit with the monthly statement of account reconciliation, the cardholder is able to record obligations and receipts through ILSMIS. This alleviates the paper intensive process of distributing copies of purchase logs that is being used at NWC China Lake.

The bankcard administrator and assistant bankcard administrators conduct monthly audits of the bankcard holders. This currently consists of four people auditing 240 cardholder statements of account monthly. Auditors bring questionable purchases to the attention of the Approving Official, Bankcard Administrator, and Supply Officer for resolution. To date, there are no known cases of fraud [Ref. 18]. No actions have been taken against cardholders for purchasing abuses, although the Supply Officer was considering removing one individual as a cardholder for repeated "splitting" of purchase orders [Ref 18].

Again, customer reaction to the bankcard program was extremely positive. The researcher interviewed bankcard holders and approving officials and complaints about the program were minimal. Questions asked of the interviewees included:

1. Are there criteria in y .., department for being issued a card (i.e., paygrade/position)?
2. Internally, how is spending with the bankcard controlled in your department?
3. How much more of your time is taken up due to use of the bankcard than before you had the card?
4. Is procurement through Base Supply better or worse as a result of the use of the bankcard?
5. How would you improve the program?

There was no criteria for being issued a bankcard other than being evaluated by a supervisor/department head as a

responsible individual. Control of expenditure was generally accomplished "after the fact" by department head review of weekly budget reports issued by the accounting department. The cardholder was only limited by the expenditure limits of the card and the requirement for a valid job order to charge the purchase against. One cardholder stated there was no restriction in buying provided the purchase request contained a valid job order, but that requirements requestors were required to enter the dollar value of obligations into a departmental budget designed in LOTUS[6] prior to proceeding with any bankcard buy [Ref 20]. Most of the bankcard holders were spending minimal time in actually executing their procurements, so procurement as a function was not significantly affecting time spent on the performance of their other duties. However, monthly reconciliation of their bankcard statement of account ranged from two hours a month to a full day depending on the number of transactions executed by a cardholder. Some recommendations for improvement included the need for a less time consuming method of monthly reconciliation of statements of account, and the use of

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[6]   LOTUS 1-2-3 is a financial ledger spreadsheet, graphics, and information management computer program. LOTUS 1-2-3 is a registered trademark of LOTUS Development Corporation, Cambridge, MA.

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electronic mail for obtaining required special approvals for restricted purchase items [Ref 21] [Ref 22].

Disadvantages of the bankcard program at NOS are minimal. Like NWC, NOS Indian Head has had some instances where the vendor charged state sales tax to the Federal Government. Centralized receiving of material has caused some problem at NOS when the vendor fails adequately to identify the cardholder on the exterior of the packing material [Ref 23]. If the cardholder is not adequately identified and the material is shipped to central receiving, as opposed to directly to the cardholder, receipt of material has been delayed while the cardholder traces the shipment from the vendor to base central receiving.

In general, the bankcard program at NOS has been remarkably successful. Customer response was overwhelmingly in favor of the program. The use of the bankcard has saved both paperwork and time, and that translates into saving the Government money. The use of the bankcard covers those difficult situations where the requirement needs to be filled now.

C. BANKCARD PROCUREMENT AT NAVAL POSTGRADUATE SCHOOL, MONTEREY, CA

The Naval Postgraduate School (NPS) currently has eighteen credit cards in use throughout the base. Unlike NWC China Lake and NOS Indian Head, these credit card holders are professional procurement personnel. Consequently, these procurement professionals are more familiar with the procurement regulations of the FAR by the very character of their positions. These cards are issued to de-centralized buyers for use in executing purchases up to the limit of the buyer's warrant. The main objective of the use of the credit card at NPS was to eliminate the use of the imprest fund [Ref 24].

The bankcard buying organization titles at NPS are very similar to NWC China Lake and NOS Indian Head, except that all participants in the program are procurement clerks. Figure 3 presents the bankcard organization at NPS Monterey.

The Base Supply Officer has overall responsibility for the execution of the credit card program and is responsible for designating cardholders and approving officials and establishing spending limits for the cardholders. The credit card administrator serves in the same capacity as the bankcard administrator at NWC and NOS, and is the primary liaison between NPS and RMBCS. The credit card administrator also establishes accounts for cardholders and administers training for the cardholders and approving

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+-------------------------------------------------------------------+
|                                                                   |
|              NPS Monterey Bankcard Organization                   |
|                                                                   |
|     Position                          Title                       |
|                                                                   |
|     Supply Officer                    Supply Officer              |
|                                                                   |
|     Contracting Officer's Technical   Bankcard Administrator       |
|     Representative                                                |
|                                                                   |
|     Procurement Branch Supervisor     Approving Officials          |
|     Deputy Procurement                                            |
|     Branch Supervisor                                             |
|                                                                   |
|     Procurement Clerks                Bankcard Holders             |
+-------------------------------------------------------------------+
```
Figure 3

officials. At NPS there are two approving officials that
work in the procurement branch of Base Supply. These
approving officials are responsible for reviewing and
certifying monthly bankcard statements, and submitting a
monthly report to the Supply Officer, that includes the
number of credit card transactions and dollar value of those
transactions. As of October 15, statistics for the use of
the bankcard were as follows[7]

Month	Bankcard Purchases		All Purchases	
	Dollar Value	Number	Dollar Value	Number
July	$61,718	162	$1,032,963	783
August	47,823	115	1,297,191	1,181
[Ref 25]				

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[7] Note: Statistics prior to July 1991 were not
available.

The single purchase limit set by the Supply Officer is $2,500. Monthly purchase limits vary from cardholder to cardholder depending on the dollar volume of business being accomplished by the buyer, and may be as high as $99,000 [Ref 24]. Training for Bankcard Holders consists of a one week Defense Small Purchase Course administered by the Naval Supply Center, Oakland. The Bankcard Procedures Manual issued by the base is very general and highlights the duties and responsibilities of the bankcard participants, as opposed to the "do's and don'ts" of executing a bankcard buy. This is what one would expect, since these are procurement professionals involved in the actual execution of bankcard buys.

The credit card program at NPS has been slow to develop. The objective of eliminating the imprest fund has not been realized. The imprest fund has continued in use, in part, because some buyers are reluctant to use their credit card [Ref 24]. The buyers are hesitant to use the card because, unlike NWC and NOS, the buyers are also tasked with the administrative paperwork documenting the bankcard buy. While executing a buy with the card is relatively simple, the documentation associated with the buy and reconciliation of the monthly statement of account is perceived as more cumbersome than executing an existing blanket purchase order agreement (BPA) or issuing a purchase order [Ref. 25] [Ref. 26]. While the credit card has offered some flexibility to

NPS, many vendors in the local Monterey area do not accept the VISA card for purchases because the business is not an authorized VISA vendor. This problem has been most prevalent in the Public Works Department where vendors of maintenance type supplies (i.e., plumbing fixtures, welding supplies, lumber, etc.) have been unable to accept the credit card [Ref 26]. Another problem encountered is shipment of material from a source other than the original vendor. A credit card order is placed with a vendor, who functions as the middleman in the transaction. The material is received at central receiving at NPS with no identification of what department the material is for, and it then becomes a time-consuming process to trace the material back to the original vendor for subsequent identification of the requiring department at NPS. Like the other sites, NPS has experienced the charging of sales tax to some Government orders. This problem usually is easily resolved with the vendor, but it places more of an administrative burden on the command. Finally, the use of the bankcard has created the need for a full-time position to audit bankcard holders, reconcile statements of account, and track receipt control. This attention is required to manage the bankcard program, but NPS has not found it easy to fill this requirement with the personnel resources

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available. The bankcard administrator was initially assumed to be a collateral duty, but once the credit card program was in place the requirements of the job invariably made this a fulltime position for the COTR.

The use of the bank card for small purchase has not been as effective at NPS as at other locations. The issuance of cards to only the buyer, has proven an ineffective way to enact the program. This is due to the buyer's reluctance to use the credit card. The buyers perceive the usage of the card as an increased administrative burden the program requires them to assume.

D. BANKCARD PROCUREMENT AT MCB CAMP LEJEUNE, NORTH CAROLINA

MCB Camp Lejeune is the Marine Corps' test site for the use of commercial bankcards for small purchase. Camp Lejeune began using Mastercard for small purchase after signing an interagency agreement with the Department of Commerce in January 1989. Camp Lejeune subsequently converted to the I.M.P.A.C. VISA card in October 1989 as mandated by the GSA contract with RMBCS. Camp Lejeune has been notified by Headquarters Marine Corps that the base is no longer in the test phase of the program, but no final decision has been made whether to implement the program Marine Corp-wide [Ref.: 27].

The objective of the bankcard test was to streamline and improve procurement operations, improve cash control, and improve management controls [Ref 28: p. 1]. Currently, there are 41 bankcards in use at Camp Lejeune. Bankcards are only issued to employees that hold a Purchasing Officer's letter of authority signed by the base Commanding General. Like the Navy sites, there are no specific criteria for being issued a card. The cardholder does not have to be of a certain paygrade, but only designated by his supervisor to receive a card. There is no credit check of the individual by either RMBCS or the Government. The single purchase limit for cardholders at Camp Lejeune is $1,000 per transaction. The $1,000 limit was chosen because this is the Marine Corps Headquarters' dollar threshold for blanket purchase order agreements (BPA). The monthly limit is also connected to the Marine Corps Headquarters' BPA order and is set at $25,000. Currently, there are no plans to change these dollar thresholds [Ref:27]. All cardholders and approving officials are required to complete the Defense Small Purchase Course by correspondence or classroom training within four months of receiving the bankcard. The present bankcard instruction manual does not require the cardholder and approving official to complete this training prior to being issued a card, but an upcoming update to the

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program will most likely incorporate this change [Ref.: 29].

In addition, mandatory training is provided to all

cardholders and approving officials by base procurement

personnel. This additional training takes approximately one

hour.

A thirteen page Bankcard Instruction Manual has been

developed to provide employees instruction on the proper use

of the cred¹⁺ card. Topics addressed in the manual include:

1. The authorization process taken by RMBCS
    each time a buy is executed.
2. Conditions for use of the bankcard.
3. U.S. Government sales tax exemption.
4. Cardholder purchasing restrictions and prohibitions.
5. Cardholder liability in use of the bankcard.
6. Store purchases and telephone ordering instructions.
7. Procedures to be executed after the purchase.
8. Lost or stolen cards.
9. Revocation of cardholder authority.
10. Procedures to be executed by approving
    officials. [Ref: 30].

The instruction manual is easy to read and is very

fundamental in its approach to the purchasing process. The

manual addresses the bankcard purchase procedure, but does

not address the bankcard buying organization and in-depth

duties of the procurement personnel and approving officials.

In fact, the bankcard organization is not outlined anywhere

in the manual, but it is implied that one procurement

individual functions as the COTR and approving officials are

generally the cardholder's supervisor. Figure 4 represents

the bankcard organization at Camp Lejeune.

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┌──────────────────────────────────────────────────────────────┐
│                 MCB Camp Lejeune Bankcard Organization         │
│                                                                │
│             Position                    Title                  │
│                                                                │
│     Contracting Officer           Contracting Officer          │
│                                                                │
│     Contracting Officer's         Contracting Officer's        │
│     Technical Representative      Technical Representative      │
│                                                                │
│     Department Heads              Approving Officials          │
│                                                                │
│     Customer                      Bankcard Holders             │
│                                                                │
└──────────────────────────────────────────────────────────────┘
```

Figure 4

Cardholders at Camp Lejeune execute buys in much the same fashion as cardholders at Navy activities. Cardholders are required to validate that the requirement is not available from a mandatory source of supply or base stock prior to placing the order. The cardholder is responsible for validating that funds are available to execute the buy. This is generally accomplished through the verification of a supervisor's signature on the requesting document. Camp Lejeune has developed a microcomputer program to ensure accurate reporting and monitoring of bankcard purchases. This program allows cardholders and approving officials to monitor funds obligated, and generates various hardcopy

reports required by disbursing, contracting, accounting, and receiving personnel. The program is designed using DBASE III[8] and allows for some retrieval capability of vital management information. Unfortunately, this computer program is not connected to a base network to record obligation of funds and create outstanding orders, and hardcopy documents must be provided to base accounting and receiving. The microcomputer program does have the capability to generate these hardcopy documents [Ref: 31]. After executing the buy the cardholder is responsible for completing a NAVCOMPT 2035 in the microcomputer program that identifies the description of the supplies, the source, appropriation chargeable, shipping instructions, and the signature of the authorized requisitioner. The NAVCOMPT 2035 is forwarded to the accounting office weekly to record funds obligated. Accounting personnel are then required to keypunch this hardcopy information to record the obligation of funds. Future plans call for a system that will be networked and have the capability to interface with base accounting. The target date for implementation of this system is March 1992 [Ref: 27]. Failure to submit the NAVCOMPT 2035 to accounting is grounds for termination of

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[8]   DBASE III is a data base management software. The software facilitates data manipulation.

the cardholder's bankcard, but this has not been a
significant problem at Camp Lejeune [Ref: 29]. In addition,
approving officials are responsible for ensuring that base
property items purchased are reported to the appropriate
property control officer to enable accounting for the items
on base property control records.

How well has the bankcard program worked at Camp
Lejeune? The following statistics highlight the success of
the program:

- The average time for placing an order to receiving
  material decreased from 33.7 work days for non-bankcard
  purchases to 8.2 workdays for bankcard purchases.
- The average overhead cost of processing a requisition
  decreased from the $100-$120 range to approximately $35
  for bankcard purchases.
- The bankcard saved seven workyears and eliminated year
  end overtime in the base contracting division.
- There was no increase in the average cost of goods
  purchased with the bankcard.
- Use of the bankcard allowed Camp Lejeune to eliminate
  the base imprest fund.
- Local vendors preferred bankcard buys because of
  immediate payment for goods sold.
- Managers liked the bankcard because it increased
  management control through the ease of audit of small
  purchase transactions.
- Bankcard users were tremendously satisfied with the ease
  of use of the card and fast receipt of merchandise. [Ref
  28: p.2].

Comments from cardholders and approving officials
interviewed were generally positive. Indeed, one cardholder
remarked when asked about the bankcard program, "we only
wished we could use it more." [Ref: 32].

Disadvantages to the program at Camp Lejeune include the low dollar limit per transaction, time consuming administration associated with the program, and some instances of "splitting" of purchase orders and abuse of the card. The dollar limit of $1,000 per buy has hindered some cardholders, particularly when trying to execute emergent buys. One approving official stated that she was unable to procure a badly needed compressor to effect emergency repairs to an air conditioning system on the weekend because the cost of the compressor exceeded the $1,000 limitation assigned to her card [Ref: 33]. While this may not seem like an unusual situation, it is exactly the instance where the use of the card could be most effective. A higher dollar threshold of $2,500 may have given the flexibility to execute this buy without the requirement for competition. Another problem encountered was the low monthly purchase limits on bankcards. One cardholder stated that the dollar threshold of $25,000 was invariably reached during the course of the month (monthly limit) causing the cardholder to resort to other means of procurement to satisfy requirements [Ref: 34]. While it would seem easy enough to raise the cardholders monthly purchase limit, this has not occurred, and there are no plans to raise the monthly limit

above $25,000 because this is the dollar threshold established by Marine Corps Headquarters [Ref: 27].

Administration associated with the bankcard program seemed to pervade comments of all participants in the program [Ref: 29], [Ref: 32], [Ref: 35]. The reports generated by the microcomputer program make Camp Lejeune slightly more sophisticated than NWC China Lake in the administration of the bankcard program, but there is a real need for an automated program that interfaces with base accounting and base receiving. Another problem noted in the administration of the bankcard program is the failure of the supplying vendor to record the Government purchase order number on the sales voucher, or RMBCS's failure (or inability) to record purchase order numbers on the monthly statement of account. The missing Government purchase order number on the monthly statement of account provided by RMBCS hinders the ability to reconcile the command purchase logs with the statement of account [Ref: 28]. The only way to verify a purchase transaction on the monthly statement of account against the command purchase log is by vendor name, transaction date, or dollar amount. If any of these three items does not match with the command purchase log, the cardholder must contact the vendor to verify the transaction. This can be quite time consuming if the

cardholder is accomplishing a large volume of transactions monthly.

Audit of command cardholders occurs primarily through the use of a vendor usage report provided to Camp Lejeune by RMBCS. Procurement personnel review this report monthly to ensure prohibited supplies are not being purchased, cardholders are rotating buys among vendors, and that "splitting" of purchase orders is not occurring. Problems noted during review are then reported to the base contracting officer and cognizant approving official for further action and resolution. There have been some instances of "splitting," and one cardholder had the bankcard revoked for six months for buying household furniture to furnish guest quarters for a British Marine [Ref: 29].

The bankcard program at Camp Lejeune provides an efficient method for purchasing items that cost under $1,000. The use of the bankcard has reduced procurement lead time and overhead costs associated with processing requisitions. The bankcard program at Camp Lejeune is easy to execute, non-procurement personnel can be quickly indoctrinated into the use of the bankcard, and can begin making purchases with a minimum of training.

IV. ANALYSIS OF THE BANKCARD PROGRAM

This chapter will concentrate on the analysis of the
data presented in Chapter III. The study will focus on the
barriers or possible difficulties that would be encountered
if the credit card program were to be expanded to other
field contracting activities. The research will evaluate
what limitations in command resources presently exist at the
four sites, and what limitations in resources are likely to
be in encountered if the bankcard program is expanded to
other field contracting activities.

The analysis also will consider what standard management
controls would need to be in place to promote greater
efficiency and prevent fraud in the use of the bankcard as a
small purchase method. The examination of management
controls will emphasize the administrative controls of the
bankcard program, the present bankcard organizations, and
command training that is currently in place at the four
sites.

A. MANAGEMENT CONTROLS

Management control is the process of assuring that
actual activities conform to planned activities [Ref 36:

p.556]. The evaluation of management controls will concentrate on what needs to be incorporated into the bankcard program to support a more productive use of the VISA card, and what controls need to be achieved to discourage abuses of the bankcard as a small purchase method. First, it should be noted that of the four sites visited, none of the sites had identical resources or abilities available to implement or manage the bankcard program. The expanse of Navy field contracting offices and associated shore installations is immense. No two sites have the same accounting system, computer resources, or organizational structures. Each site has been required to develop and implement their own management controls, and the requirement to develop field contracting activity specific controls probably will not change in the future. There is too much diversity among the contracting offices for it to be otherwise. However, the thrust of this research is to evaluate the present system and to make recommendations for improvement. The discussion will highlight the positive and negative aspects of the four sites management controls.

1. The Bankcard Organizations

Control as a function of management was defined above. Control as a management function involves the issues of authority, responsibility, and delegation. The stated

objective of the bankcard program is to provide an alternative method of procurement other than the Standard Form (SF) 44 and the imprest fund. The Navy has taken bankcard procurement a step further and placed procurement authority in the hands of the customer. In issuing the card to Federal employees for use in small purchase the Contracting Officer is, essentially, delegating his authority to the employee to execute purchases for the Federal Government. There is nothing inherently wrong in this action. Procurement authority is, and should be, delegated to promote efficiency of the buying organization. Contracting officers routinely delegate their procurement authority to procurement and contract specialists through the issuance of a warrant. Through the delegation of this authority the organization becomes more decentralized. Decentralization has the advantage of unburdening top management. improving morale. increasing command training, speeding up response to user's needs, and increasing initiative at lower levels of the organization. Decentralization also has the disadvantage of lack of leadership and direction for the organization [Ref 37: pp.103-106]. However, with this delegation of authority, there is the additional responsibility of being accountable. Cardholders must be held accountable for following the

requirements of the FAR, and displaying reasonable judgement as purchasing agents for the Government.

Three of the four sites visited had decentralized bankcard organizations. Bankcards were issued to personnel that previously were the procurement organizations customers. Only NPS Monterey chose to retain the use of bankcards with professional buyers, and not issue bankcards to customers. The decision of NWC China Lake, NOS Indian Head, and MCB Camp Lejeune to decentralize the procurement function demonstrated all the advantages described above and very few of the disadvantages. Morale of both bankcard holders and procurement personnel was high because of the flexibility offered by the bankcard. Procurement personnel were freed from making emergent procurements that had previously been disruptive of scheduled work. Cardholders were now empowered to execute emergent purchases in a rapid and easy fashion.

2. Administrative Controls of the Bankcard Program

What management controls need to be in place to discourage fraud and abuse? From a Government perspective, the bankcard program is management by exception. Management by exception is the principle that the controlling manager is informed about operation progress only when there is a significant deviation from a plan or standard [Ref 36: p.

566]. This is the case with the bankcard program. The bankcard program is self-operating with some oversight and guidance provided by the command bankcard administrator (COTR). Only when significant problems are highlighted through command audit, contractor (RMBCS) discovery, or employee disclosure, does top procurement management take on an active role in correcting the identified problem. This is because the controls on the bankcard are designed into the contract and the bankcard authorization process itself. The contract requires that the Government set single purchase limits, monthly purchase limits, and monthly office limits for each cardholder. These limits serve to restrict the amount of purchases a cardholder can initiate and restrict the amount of funds that can be obligated. The card also identifies the types of merchants the cardholder may purchase from. If any of the cardholder's limits are exceeded or the merchant is not of an authorized type, the bank will reject the purchase transaction at the point of sale.

Are these designed-in controls of the GSA contract sufficient to discourage fraud and abuse of the card? Quite simply, the answer is no. There was evidence of misuse of the card at three of the four sites visited, and examples of abuses of the card at other Federal Government activities

were provided by RMBCS and the GSA Contracting Officer.[9] These dollar limitation controls built into the card are generally effective provided the vendor executes a verification check of the card. However, the I.M.P.A.C. VISA card is similar to any other bankcard, and if the vendor accepts the card and chooses not to initiate a verification, the card purchase will be honored without transitioning through the verification process. So, there is inherent risk in issuing bankcards to non-procurement personnel, and each command must make its own evaluation that it is willing to accept this increased risk in the procurement process.

While all four of the sites visited have issued a user's bankcard manual or instruction, the researcher found these instructions lacking in the description of duties in the bankcard organization. The authority, responsibilities, and accountability of the bankcard organization participants needs to be stated. Generally, the duties of the bankcard holder were defined, but the responsibilities and authority of the other participants in the program were not explicitly stated. NPS Monterey had the only instruction that clearly

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[9]   Examples of misuse of the bankcard were previously provided in Chapter III of this research paper.

defined the duties and responsibilities of the all the participants in the bankcard organization.

The user's manual was also deficient in identifying administrative actions that could be taken against the cardholder for misuse or abuse of the card. Some manuals say that the cardholder may be liable to the Government for the amount of any unauthorized purchase and possible subjection to a fine of $10,000 or imprisonment for five (5) years. While this statement addresses the most severe action that can be taken, lesser punishment is not addressed. A description of administrative actions to be taken for various lesser offenses needs to be stated either in the bankcard user's manual or a separate instruction. A few examples of the abuse of the card include: the "splitting" of purchase orders, purchase of unauthorized materials, and failure to obtain special approvals (particularly command required approvals for the procurement of automated data processing equipment). These abuses of the bankcard small purchase method were prevalent at three of the four sites visited. While the above examples of misuse of the card are generally not criminal in nature, these abuses fall into an ambiguous area that needs to be addressed by management.

While these requirements for administrative detail seem minor, these issues need to be addressed. Defining the legal responsibilities of the bankcard program participants and the possible disciplinary actions that can be taken for abuses of the card serves to forewarn the employee in writing that abuses of the VISA card will not be tolerated. This protects the Government's interest in the case of suspected fraud, or if legal action is subsequently taken by an administratively disciplined employee. Where the ground rules are written and clear, neither party can claim lack of knowledge of the requirements of the program.

3. Training Programs

Individual commands are granted autonomy in establishing training programs in the same fashion that the command is free to establish its own procedures for use of the card. Training programs at the four sites were varied. Both NWC China Lake and NOS Indian Head have established their own training courses to train prospective bankcard holders. MCB Camp Lejeune and NPS Monterey require their bankcard holders to attend the Defense Small Purchase Course taught at Army Logistics Management College, FT Lee, Virginia or Naval Supply Center, Oakland, CA, respectively.

While the Defense Small Purchase Course is an effective tool to teach non-procurement personnel the small purchase method, this course does not address the unique aspects of the bankcard program. Personnel at MCB Camp Lejeune then received additional training from procurement personnel at the base. NPS Monterey personnel received some additional training on the unique aspects of the bankcard program, but since these cardholders are professional buyers, in-depth training is generally not as significant.

NWC China Lake and NOS Indian Head had both established their own training program that was designed specifically for training prospective bankcard holders about the bankcard program. Content of the two training programs were very similar, and addressed pertinent issues and requirements for bankcard holders[10]. The researcher considered NWC China Lake to have the best training program of the four sites, in part, because the command had videotaped the bankcard training program. The availability of the videotape allowed prospective cardholders to arrange training at a convenient time, and caused less disruption of both the cardholder's and procurement personnel's schedule. A one-on-one session with a bankcard representative to validate the cardholder's

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[10] Training programs for the two sites was previously discussed in Chapter III of the research.

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understanding of the program allowed the training to be completed in four to six hours.

There should be a requirement for a training program that is specific to the bankcard program. Possibly a bankcard module could be developed for instruction at Naval Supply Centers or Navy Regional Contracting Centers, but there will still be a requirement for some training at the field contracting office because of the uniqueness of the command's accounting and requisitioning system. The use of a videotape and a follow-on session with a professional buyer appeared to be the most effective and efficient way to train cardholders. Training conducted by lecture to large audiences, while effective, requires command coordination to schedule. Training conducted at Defense Small Purchase Courses at remote sites poses both scheduling and funding constraints.

B. BARRIERS TO IMPLEMENTING THE CREDIT CARD PROGRAM AT FIELD CONTRACTING ACTIVITIES

While the bankcard program has proven to be an effective and flexible method of executing small purchases, the program is still in its infancy, and there are difficulties to overcome in carrying out the program. Dominant in the complaints about the bankcard program from all participants at all four sites, was the administrative burden of the

bankcard program. Lack of sufficient personnel resources to oversee the program was also a concern at all the sites visited. Additional issues affecting the success of the bankcard program included cash management and prompt payment.

1. Automated Data Processing Capability

A primary concern among the sites visited was the excessive amount of paperwork required in executing the bankcard program. Two factors are the cause of the large volume of paperwork associated with the bankcard: the ability of the four sites to interface with their existing automated requisitioning and accounting systems, and a monthly reconciliation, performed by the cardholder, of the statement of accounts received from RMBCS. While all four sites are working to resolve the need for a bankcard interface, the use of bankcards continues. The use of the card requires that a requisition be established in the computer database, and funds be obligated against that requisition. The inability to interface with the base requisitioning and accounting systems requires that purchasing information be recorded on paper logs and be forwarded to the appropriate activity to be keypunched into the automated database. In essence, the bankcard purchase method is working well, but administrative support to

document and execute the purchase in the base requisitioning and accounting systems is not functioning efficiently.

In addition, the receipt of hardcopy statement of accounts on a monthly basis from RMBCS requires cardholders to reconcile manually the statement with the VISA vouchers held, and forward this information to base accounting for payment. Base accounting must verify the statement of account again to ensure the financial obligation has in fact been incurred and the material actually received prior to payment of the invoice.

The degree to which the four sites have resolved this inefficiency of interface with the base computer systems varied from site to site. NOS Indian Head and NWC China Lake both had automated requisitioning systems that are networked with remote terminals residing in the same location as the bankcard holders. The bankcard holders could input the requisition and execute the buy, and base receiving had the ability to effect the receipt in the automated requisitioning system. In addition, NOS Indian Head also had the ability to input this information to the base accounting system. This occurred by tape transfer every evening during non-working hours. So, NOS Indian Head was in-fact interfacing with base accounting, but reconciliation of the monthly statement of accounts received

from RMBCS was still accomplished manually. The base payment office would have to verify that the obligation had transitioned from the automated requisition system to the accounting system before payment of the invoice could occur.

When the bankcard first came into use at Indian Head, a special computer programming effort was made to develop a module for bankcard requisitioning, and to incorporate this module into ILSMIS[11] . Indian Head was due to receive an updated version of ILSMIS, but the Base Supply Officer was not willing to accept the updated version of ILSMIS from NAVSEA because the latest module did not incorporate the ability to input bankcard requisitions (uniquely identified in the requisitioning system) into the automated system [Ref 18]. This situation highlights the primary underlying problem of computer capability. NOS Indian Head, like many other Navy activities, was dependent upon outside activities or organizations to develop and implement changes to the automated requisitioning system.

While NOS Indian Head had the most sophisticated automated system observed by the researcher with respect to the requisitioning/accounting interface, NWC China Lake will soon surpass Indian Head in automated capability when the

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[11] ILSMIS was previously described in Chapter III of the research.

automated bankcard system is placed on-line in November 1991. China Lake has a networked system that will facilitate automated requisitioning and interface with base accounting on a nightly basis to update obligations. However, the NWC China Lake system will take the bankcard one step further and allow the bankcard holder to maintain his purchase logs, and accomplish monthly reconciliation of statement of accounts in an automated fashion. The automated bankcard system also will offer some ad hoc retrieval capability. While the basic bankcard procurement procedures remain unchanged, and copies of VISA vouchers will still be required to support purchase transactions, the new system will definitely be less paper intense. The difference at NWC China Lake is that the procurement branch has on-site computer programmers that are assigned to work for the procurement division. This makes the ability to develop and incorporate changes to the computer system much quicker.

MCB Camp Lejeune and NPS Monterey have stand alone microcomputer programs for requisitioning purposes. Neither of these systems are networked throughout the base, and neither of these systems interface with base accounting. Camp Lejeune's system is only slightly superior to the present manual system in existence at NWC China Lake. The

microcomputer program allows the bankcard holder to build a requisition into a computer and then generate and print hardcopy reports to forward to disbursing, contracting, and receiving. These reports have to be keypunched by contracting into the requisitioning system, and keypunched by base disbursing to record the financial obligation. The present system is still highly paper intensive. Camp Lejeune does have an on-site management information systems division, and future plans call for a networked requisitioning system that will interface with the base accounting system [Ref: 28]. This system will be very similar in function to the system at NOS Indian Head, with reconciliation still being accomplished in a manual fashion.

NPS Monterey's requisitioning system resides in the procurement branch. All bankcard buys must be keypunched into both the requisitioning system and the base accounting system. NPS is presently faced with two critical problems in the administration of the bankcard program: the present ADP requisitioning system does not readily allow the creation of bankcard requisitions, and the lack of a networked system that would allow potential cardholders to enter requisitions from remote terminals throughout the base. These issues are the essence of NPS's reluctance to develop the bankcard program and distribute bankcards to the

end user. The current requisitioning system does not readily accept the creation of a requisition that can be associated with a bankcard purchase. NPS has developed a unique bankcard identifier that must be manually built into the system identifying the purchase as a bankcard buy. Like NOS Indian Head, NPS is faced with relying on an outside organization to update it's requisitioning system; however, NPS's problem is compounded because the present software for the requisitioning system was developed by a civilian contractor. Developing and implementing changes to the requisitioning system is both costly and slow to occur.

The second issue, concerning not possessing a networked system, has made NPS's procurement personnel reluctant to issue bankcards to the customer because the use of cards would not disengage the procurement personnel. Since the requisitioning terminals are not remote, procurement personnel would have to keypunch the bankcard buys for all cardholders, not just procurement cardholders.

The lack of automated data processing resources is a definite barrier to the implementation of the bankcard program. Without some automated reporting capability, the paper documentation required by the bankcard system can be cumbersome. While NWC China Lake appears to be moving to the forefront of automating the bankcard system, one can

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understand NPS Monterey's reluctance in expanding the program further without the necessary automated resources in place. In essence, the bankcard program is often set in place before the tools to manage the program more effectively have been developed.

2. Personnel Constraints

All of the sites visited expressed concern about the amount of time required to develop and implement the bankcard program, and the time required for subsequent training and oversight of the program. Use of the bankcard requires increased time to train non-procurement personnel. Initial training required between four hours (NWC China Lake) and one week (MCB Camp Lejeune) at the various sites, but it was actually more time consuming. Although, most contracting officers technical representatives (COTRS) were assigned the position as bankcard administrator as a collateral duty to oversee the command bankcard program, it rapidly evolved into a full-time position. This is because the bankcard program is still a developing program at most sites. Even though the actual use of bankcards is beyond implementation stage, training of cardholders, resolving issues with RMBCS, interfacing with local vendors, and initiating programs to incorporate the bankcard into the commands existing accounting and requisitioning systems has

required full-time attention by at least one individual at all four sites.

Another constraint on personnel time was the auditing of the monthly statement of accounts submitted by the bankcard holders. The three Navy sites visited required the monthly statement of accounts submitted by each of the cardholders to be audited by procurement personnel. At NOS Indian Head this represents 240 statement of accounts audited by four procurement personnel. At NWC there are 190 statement of accounts being audited by eight procurement personnel. At MCB Camp Lejeune, audit occurred primarily through the review of a customer verification report provided to base procurement by RMBCS. The report allows the auditor to verify that the cardholder is rotating his purchases, not "splitting" purchase orders, and procuring only authorized material from small businesses. MCB Camp Lejeune has physically audited all cardholders only once since inception of the program.

The above methods of audit are not efficient. On the one hand, the audit procedures at the Navy activities seemed to be exorbitant, while the audit at Camp Lejeune did not seem to go far enough in reviewing the purchase transactions of cardholders. Perhaps the solution is a more balanced strategy between auditing every cardholder transaction

monthly, and only periodic review of the cardholder's documentation. Auditing some cardholders monthly would make the administrative requirements for audit less time consuming while still leaving the impression with the cardholder that purchases will be periodically reviewed in-depth. For example, the command may choose to audit twenty percent of its cardholders on a monthly basis. The audit might be announced or a surprise audit. The twenty percent audit figure would allow all cardholders to be audited at least twice a year, but other percentages could be used at the command's discretion.

C. ADDITIONAL CONSIDERATIONS IN MAKING THE BANKCARD PROGRAM MORE EFFICIENT

What additional actions could be taken to make the bankcard program more efficient? Cash management is one of the primary areas where additional savings to the Government could be realized while using the bankcard small purchase method. The Government is not taking full advantage of the reduced administrative fee available for making payment to RMBCS by electronic funds transfer (EFT). RMBCS receives approximately 1225 payments a month from the Government. Twenty six occur by EFT, the balance are paid by U.S. Treasury checks [Ref: 6]. Payment to the contractor by

check has contributed to increased float[12] for RMBCS [Ref: 6]. Coupled with increased float has been the problem of prompt payment[13] by the Government. The Government paid $125,000 to RMBCS in late fee penalties and interest in 1990, for failure to pay promptly. As of October 1991, the Government had $80,000 that was past due to the contractor more than five months [Ref: 6]. The issues of increased collection time and failure to pay promptly could lead to the negotiation of higher administrative fees in future bankcard contracts.

How could Navy field contracting activities take advantage of the lower administrative fee? Centralizing the payment function and paying the contractor by EFT could be the possible solution. The Fleet Accounting and Disbursing Centers (FAADCs) function as a centralized paying activity

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[12] The use of float is a cash management technique. Float is defined as the firm's ability to speed up collections on checks received and to slow down collections on checks written. Efficient firms attempt to speed up the processing of incoming checks, putting the funds to work faster, while simultaneously attempting to delay their own payments as long as possible.

[13] For a discussion of prompt payment refer to the Prompt Payment Act of 1982. The act defines specific timetables for payment of contractors/vendors after Government receipt of invoice. The act also sets forth penalty payments for failure to meet the payment timeframes.

for Navy ships. Invoices are submitted to the FAADC's by
vendors when material is forwarded to the ship. and payment
is accomplished prior to receiving verification from the
ship that the material is in fact received. The problem
faced by the bankcard program with a centralized paying
activity would be the reconciliation process. However, the
Coast Guard uses the I.M.P.A.C. VISA card, and has
established central payment by EFT at the Coast Guard
Finance Center [Ref: 38]. The Coast Guard is invoiced
electronically and makes payment electronically to RMBCS.
The Coast Guard Finance Center also reconciles monthly
statement of accounts with remote activities by electronic
means. Those activities that do not have the capability to
communicate electronically with the Finance Center receive a
hard copy statement of account that can be annotated and
returned to the Finance Center to accomplish reconciliation
[Ref: 38]. The Finance Center is responsible for resolving
disputed items with the contractor based on field activity
input. All activities are required to forward their
hardcopy documentation to the finance center as support for
payment. The other key difference in the Coast Guard
program is that each bankcard has a specific line of
accounting data (appropriation) associated with the card, so
a specific cardholder can only make purchases for specific

activities. Another advantage of the electronic system is the ability to accomplish on-line audit of cardholders by merely looking at a computer screen. Could the Navy centralize its payment function for bankcards? Maybe not at one location, but even the establishment of regional payment centers might be a step toward a more efficient use of the bankcard program. Centralizing the payment function, and using electronic invoicing, payment, and reconciliation would be a viable solution to realizing increased savings and efficiency for the bankcard system.

D. SUMMARY

This chapter examined the present bankcard system in use at the four sites visited. Specific deficiencies in the program were noted and the review also highlighted possible barriers to executing the bankcard program. Principal among the management control problems noted, and barriers to implementation of the program are:

1. Lack of automated data processing resources is an obstacle to implementing the bankcard program. This lack of ADP resources can make the bankcard program administratively burdensome.
2. Administrative m̲ ̲ment control of the bankcard program needs to be s̲ ̲ engthened.
3. The inefficiency of cash management in the current system was noted.
4. Inability of the Government to pay RMBCS in a timely fashion in accordance with the Prompt Payment Act has lead to additional cost of the bankcard program.

5. Lack of personnel resources for oversight of the program.

Automated data processing resources are essential to promote a coordinated effort among the accounting department and base contracting in executing the bankcard system as a small purchase method. While the actual purchasing of material is working well, the administrative burden in documenting the buy and obligating funds is great. The current management controls that are in place for the bankcard program are weak, the analysis emphasized specific administrative controls and training requirements that need to be set in motion to strengthen the bankcard program. Strong consideration for centralizing the payment function and using EFT as a payment method should be considered. This would reduce the overall cost of the bankcard program by allowing the Government to take advantage of the lower administrative fee offered by RMBCS, and avoid late payment fees and interest penalties.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The use of the I.M.P.A.C. credit card at the Navy
(Marine Corps) field contracting sites is generally
successful. The credit card program worked well at three of
the four sites visited. The credit card program is the fast
solution to those troublesome situations where the
requirement needs to be filled now. These relatively small
purchases were previously accomplished by imprest fund. The
use of the credit card saves paperwork and time "up front"
in the procurement process. The small administrative fee
associated with using the card[14] is offset by the estimated
savings of $40 realized by not having to prepare a SF 44
[Ref: 39]. The card users liked the program because of the
relative ease with which purchases can be made. Depart-
mental managers at the sites visited, prefered the bankcard
program because only minimal ma..agement oversight of
purchasing activity was required. The use of single
purchase limits and monthly purchase limits allows managers

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[14] $5.82 per transaction, previously noted in Chapter
II of this research.

to authorize cardholders to execute buys while still maintaining cost control and budgetary management of financial resources. Professional buyers liked the program because, freed from emergency purchases, the buyer could now effectively direct their workload and focus on administering the more difficult procurements. Vendors prefered the program because they no longer had to prepare Government paperwork to get paid, and payment was much quicker through the VISA bankcard system.

While the bankcard program is an effective method of small purchase the program is not without its disadvantages. It is anticipated the following problem areas will be experienced by field contracting activities if the bankcard program were to be expanded. Each command has to design and implement its own method for executing the bankcard program. While the actual purchase of materials and services is quite simple, the administration of the bankcard program can be quite cumbersome. The lack of automated data processing resources, and the inability of field contracting sites to design and use automated systems to obligate funds for bankcard purchases, and reconcile monthly statements of account from RMBCS were chief among the obstacles to the bankcard system.

Administrative control of the program was another area of concern. Although the commands visited had issued a comprehensive instruction of how the bankcard program was to work, the chain of command of the bankcard organization and accountability of each employee to the Government needs to be more clearly defined. Cardholders were "responsible" Government employees and generally did not abuse the use of the bankcard because they did not want to jeopardize the flexibility that the card offered them in executing buys Still, there was evidence of some willful abuse of the card. Procurement managers wrestled with the course of action to be taken against violators, in part, because the command instruction did not address what administrative actions would be taken for violations that were not of a criminal nature.

Other problems of a lesser nature noted include taxes on sales transactions, failure of the vendor to identify clearly the receiving department at the base, and failure of the vendor to place the Government purchase order number on the VISA voucher submitted to the cardholder. The Government-wide bankcard system is relatively new and while these less important problems are administratively burdensome, they will most likely be resolved through

negotiation with the contractor (RMBCS) as the program matures.

B. RECOMMENDATIONS

Recommendation 1. The Naval Supply Systems Command should take a more active role in the bankcard program. Naval Supply Systems Command has issued one procedural letter on the program in conjunction with the Navy Accounting and Finance Center[15]. This letter was very general in its outline of the mandatory procedures. Currently, each field contracting activity is developing its own bankcard user's manual and training. While it is recognized that each activity may establish additional procedures, limitations or prohibitions on their credit card program, Naval Supply Systems Command should design and disseminate model procedures for use of the card. The model procedures should include a summary of duties, responsibilities, and authority of the bankcard participants. In addition, Naval Supply Systems Command should develop a specific training package for use of the bankcard. Training at the sites visited ranged from very bankcard program specific to almost non-existent (those

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[15] Commander, Navy Accounting and Finance Center, Ser 7000/20, Code NAFC-54A, dated 22 Dec 89.

commands that send their cardholders to the Small Defense
Purchase Course).[16] The creation of a training video for
both approving officials and cardholders, similar to the
video developed by NWC China Lake, is an effective way to
provide basic bankcard training to field contracting
activities. It is strongly recommended that a video
training tape be developed by Naval Supply Systems Command
for distribution to new bankcard user contracting
activities.

Recommendation 2. It is recommended that negotiated follow-
on options to the Government-wide bankcard program contract
include clauses concerning taxation and unauthorized
procurement. Currently, the terms of the contract define
"unauthorized use" of the card as the use of a credit card
by a person other than the cardholder[17]. This fraudulent
use of the card was not the problem noted with Navy field
contracting sites when using the bankcard for Government
purchases. The problem with field contracting activities

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[16]   While the Defense Small Purchase course is
recognized as an effective tool for training potential
cardholders in the requirements of small purchase, the
course does not cover the specific requirements for use of
the VISA card.

[17]   Federal Supply Schedule OOSC 6150, page 7.

occurred when the material purchased or merchant type is not allowed under Federal procurement regulations. Although VISA requires verification of any purchase transaction over $50, there were instances where the vendor did not perform this verification and RMBCS honored the transaction, even though the purchased material was unauthorized for Government purchase or not from an authorized vendor (small business). The financial burden for these purchase transactions became the Government's. RMBCS should be charged with the responsibility of denying payment to the vendor, and following up with the Government to ensure return of the unauthorized material. While the Government should continue to be diligent in training cardholders to avoid these unauthorized procurements, the contractor (RMBCS) is the last control mechanism in stopping the unauthorized buy.

Taxation is also another issue that needs to be addressed. The contract states that all purchases shall be exempt from state and local taxes[18]. However, the contractor has claimed that the terms of the contract do not require RMBCS to recoup taxes charged by the vendor. The responsibility for accomplishing the recovery of taxes has

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[18] Federal Supply Schedule OOSC 6150, page 4.

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been placed on the Government. This has resulted in an additional administrative burden on the Government to contact the vendor requesting a credit for small sums of money. Again, RMBCS is the last checkpoint in the procurement process, and the contractor should be held responsible for denying the payment of taxes to the vendor. While taxation is a small portion of the purchase total, the aggregate sum of these charges can represent a significant amount of money that the Government is currently tasked with recovering. The bankcard is embossed with the statement "U.S. Govt Tax Exempt," consequently, the responsibility for ensuring tax is not charged to the Government should be RMBCS's and the vendor's.

Recommendation 3. The development of automated systems to track bankcard procurement, and effect interface between requisitioning systems and base accounting systems continues to be a problem with bankcard procurement. The use of bankcards was in place before the design of the system to trace requisitions and incur obligations was developed. This inability to identify bankcard requisitions and obligate funds has often created a large administrative burden for commands using the bankcard system. While the actual buying of material is accomplished quickly, the

administrative process of documenting the purchase can be quite labor intensive. It is recommended that Government activities desiring to implement the use of bankcard small purchase method be required to develop a command specific method for managing the administrative process of documenting the buy. In most instances, this will require the implementing activity to allow bankcard holders to develop requisitions and incur obligations. Some requisitioning systems were networked, others were not, but a relatively easy system would be to develop a software program that will work on a "stand alone" microcomputer to track bankcard requisitions. (MCB Camp Lejeune had developed such a system.) The requisitioning information could subsequently be "downloaded" to a floppy disk or tape, forwarded to base accounting, and "uploaded" to the base accounting system. While it would be easy to assign development of a such a program to one activity, as previously discussed, there are many differences among the hardware and software configurations at the field contracting activities. The development of this common program most likely would not be useful to individual contracting activities because of the differences in hardware and software configurations noted. Still, the present system of keeping paper logs and forwarding copies

to accounting and receiving is inefficient and time consuming. Although commands are gradually moving away from the paper logs and the keypunching of information, it is much more practical to have the automated system in place prior to using the bankcard purchase method.

Recommendation 4.   It is recommended that the Navy and Marine Corps consider the feasibility of centralized payment of bankcard purchases. This would effectively eliminate the need for recommendation 3. The use of centralized paying activities is not new to the Navy. Both the FAADC's and the Defense Finance and Accounting Center[19] have functioned as central paying agents for the Navy. The Coast Guard Finance Center located in Chesapeake, Virginia is currently paying all credit card bills for the U.S. Coast Guard by electronic means. The use of EFT speeds up payment to the RMBCS, and eliminates interest charges and penalty payments. The use of EFT also reduces the amount of the administrative surcharge that RMBCS charges to the Government under the terms of the contract. Centralizing the payment function would lead to increased savings for the Government, and

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[19]   Formerly the Navy Accounting and Finance Center.

possibly further reduce the administrative workload for field contracting activities.

Recommendation 5. It is recommended that Navy Field contracting activities be required to document the existence of stringent controls to ensure prompt payment. It is further recommended that Navy Field Contracting Procurement Management Review Divisions and Detachments make note of compliance with these controls during procurement management reviews.

C. ANSWERS TO RESEARCH QUESTIONS

Responses to the research questions will be addressed starting with the principal research question.

Primary Research Question. How successful is the use of the bank credit cards at NWC China Lake, NOS Indian Head, NPS Monterey, and MCB Camp Lejeune, and is it advisable to expand the use of credit cards to other field contracting activities? The bank credit card program was generally successful, and expanding the use of the card at other field contracting activities should be strongly considered. The bankcard program worked well at three of the four sites visited. Chapter III of this research highlighted the benefits of the bankcard program. The use of the credit card has simplified many small purchases, resulted in

increased customer support, and decreased procurement administrative lead time (PALT). Savings realized from using the card are difficult to measure. All of the commands claimed increased savings by using the card, but the field contracting activities visited had not completed a thorough examination of the use of the credit card against other methods of purchase and payment. The program displayed some liabilities that need to be considered prior to implementing bankcard procurement at any field contracting activity. There is increased risk in the procurement function by delegating purchasing authority to customers, and each command must judge if it is willing to assume this increased risk. Chapter IV addressed possible barriers and disadvantages of the bankcard program.

Subsidiary Research Question 1. What is the Bankcard Program? The bankcard program was described in Chapter II of this paper. The bankcard program is an internationally accepted commercial credit card available to Government civil service and military employees for making small purchases for official Government use. The objectives of the program include simplifying procurement, improving productivity by reducing PALT, strengthening internal management controls, enhancing cash management, and

improving customer support. The bankcard program was designed to replace the Standard Form (SF) 44 and the imprest fund in the small purchase process.

Subsidiary Research Question 2. How has the bank credit card program worked from its implementation to date at NOS Indian Head, MD, NWC China Lake, CA, MCB Camp Lejeune, NC and NPS Monterey, CA? Chapter III of this research presented a summary of the bankcard program at each of the four field contacting activities. The program has worked very well at three of the four sites. Only NPS Monterey voiced displeasure with the program, and it was not using the card in the same fashion as the other sites since the card was retained by professional buyers. The bankcard is relatively easy to use and cardholders can start using the card immediately after receiving the bankcard from RMBCS. A strong COTR coupled with user friendly procedures, a command user handbook, and command training in the requirements of the FAR for small purchase, is the key to a successful program.

Subsidiary Research Question 3. What are the barriers or possible difficulties that would be encountered if the credit card program were to be expanded to other field contracting activities? Barriers and difficulties in expanding the bankcard program to other field contracting

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activities were discussed in Chapter IV of this article. Difficulties to expanding the credit card program included the lack of ADP capability and personnel constraints. The inability of commands to integrate bankcard purchases into their automated requisitioning and accounting systems is a significant problem. This inability to incorporate bankcard purchases into the automated systems created a significant administrative burden for the commands to document bankcard buys. Personnel constraints also proved to be a difficulty encountered for many of the sites visited. The bankcard system is still in its infancy, but the creation of the system has required a significant investment of procedural oversight by at least one individual at the command (usually the COTR), and sometimes includes the use of additional procurement personnel. The position of bankcard administrator is often assigned to a professional buyer as a collateral position, but liaison with RMBCS, bankcard holders, approving officials, and the audit requirements of cardholders' statement of accounts, and training requirements often push this position into a full time job.

Subsidiary Research Question 4. If the credit card program were to be expanded to other field contracting activities, what standard management controls would need to be in place to promote greater efficiency and prevent fraud? Standard

management controls required for the bankcard program were analyzed in Chapter IV, and recommendations for strengthening these controls were made in Chapter V. The bankcard program requires minimal oversight by procurement managers. The controls of the bankcard program are designed into the card itself by establishing purchase limitations on each individual cardholder. The commands visited had developed a bankcard user's manual that was user friendly and addressed the general requirements of executing a bankcard purchase. However, additional attention should be given to the responsibilities of the participants in the bankcard organization, and administrative remedies available to management personnel to discipline those employees that deliberately abuse the card and disregard the requirements of the FAR. Commands also should take more rigorous action to ensure the requirements of prompt payment are disseminated to cardholders and the command's paying activity. Subsidiary Research Question 5. What recommendations could be made to the Naval Supply Systems Command regarding expansion (further implementation) of the credit card program to other field contracting activities? Recommendations for improvement of the program were addressed in Chapter V. Naval Supply Systems Command needs to assume a more active role in the program.

Field contracting activities are designing their own
bankcard procurement systems with minimal guidance and
assistance from the Naval Supply Systems Command. At a
minimum, Naval Supply Systems Command should develop model
procedures and a standardized training package to assist
those commands desiring to implement the program. The
impetus for investigating centralized payment procedures for
the Navy also should come from Naval Supply Systems Command.
This effort may require no more than to prompt the Navy
Accounting and Finance Center to investigate the feasibility
of centralized payment.

D. AREAS FOR FURTHER RESEARCH

In conducting this research additional areas of research
were identified. The following areas could be explored with
respect to the bankcard program.

1. Could the bankcard program be expanded for use in the
fleet? Currently, USS ACADIA and USS VANDERGRIFF are test
platforms for use of the bankcard in the fleet. How is the
program working? What additional advantages, barriers and
potential abuses exist with a fleet application of the
bankcard program?

2. A cost benefit analysis of the bankcard program needs to
be accomplished. The general reaction to the bankcard is

that it saves the Government time and money. It is
difficult to assess the savings associated with using the
small credit card program. While each command has made
their own assessment of the program, what is the cost and
benefit to the program Government-wide?

3.   Is recommendation 4 above feasible?   What problems
would have to be overcome to accomplish centralized payment?

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