



**A Guide to Best
Practices for
Purchase and Travel
Charge Card
Program Management**

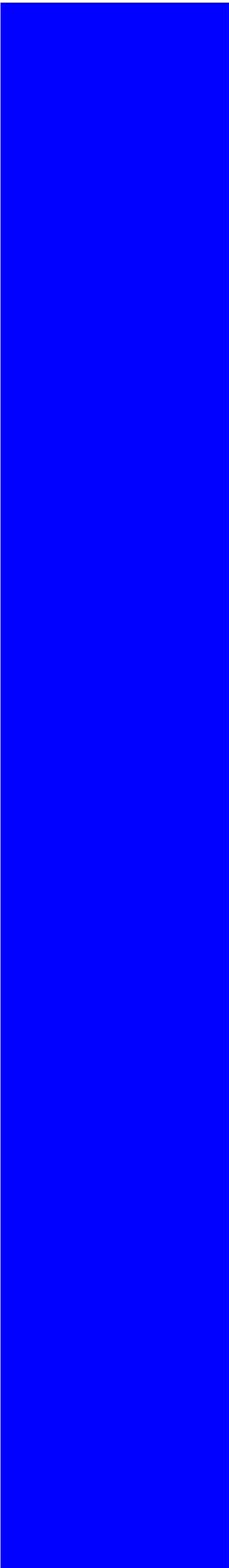


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Dear GSA SmartPay® Program Manager:

In fiscal year 2003, the U.S. Government spent over \$16 billion on 26 million purchase card transactions through the GSA SmartPay® program, and realized nearly \$1.4 billion in transaction cost savings. With the widespread acceptance of government purchase cards and ease of use in making micro-purchases and payments, the GSA SmartPay® purchase card program enables agencies to focus on meeting their core missions while reducing their administrative costs.

The travel charge card program offers similar benefits. In fiscal year 2003, 1.8 million travel cardholders made 39 million transactions totaling over \$6.2 billion. Agencies and organizations participating in the program received nearly \$106 million in rebates in fiscal year 2003. Additionally, the travel charge card program provides significant administrative savings by replacing imprest funds and cash advance programs.

Certain responsibilities come with all the benefits of the program. Agencies must actively manage their charge card programs by establishing appropriate policies and administrative procedures relating to the charge card program, providing responsible oversight, and ensuring enforcement when there are violations of card use rules by cardholders. The purpose of this guide is to share some of the many excellent practices used by federal agencies participating in the GSA SmartPay® program.

This manual is divided into three distinct sections, which are modeled upon the three broad phases of card program management: pre-issuance; issuance and maintenance; and enforcement. We have also included an appendix that includes a list of online resources for card program managers.

We hope that these best practices will stimulate dialogue within your agency on how you can make the most of this important program. This best practice guide is intended to be a living document that evolves with agencies' program management experiences. If you have a best practice that you would like to include in this guide, please feel free to contact Kristann Montague at kristann.montague@gsa.gov.

Did You Know? ... Basic Facts about the GSA SmartPay® Purchase and Travel Card Program

The GSA SmartPay® program is a charge card program. Because payment is due in full at the end of each billing cycle, the bank charges no periodic finance charges and pays a refund to the agency based on sales volume and speed of payment. If an account becomes delinquent, the bank's costs escalate and the refund rate lowers. Thus, a critical component of the program's success is that all accounts be paid on a timely basis.

According to Federal Acquisition Regulation (FAR) at Part 1.603-3(b), any individual who is delegated micro-purchase authority shall be appointed, in writing, in accordance with agency procedures. Since the purchase card is the government's primary tool to make micro-purchases, any individual who is issued a purchase charge card is required to have a written appointment of authority. The FAR does not specifically describe the contents of the appointment document, but it should include, at a minimum, the maximum spending authority delegated to the cardholder and the term of the cardholder's appointment. When needed, cardholders who possess a Contracting Officer's warrant may obtain cards with higher spend limits than the micro-purchase limit of \$2,500.

Public Law 105-264 and Section 301-51.1 of the Federal Travel Regulation (FTR) require federal travelers to pay for official travel expenses with the government travel charge card (e.g., the GSA SmartPay® travel charge card). However, there are several exemptions to this requirement. For instance, persons designated as infrequent travelers (e.g., those who travel less than five times per year) may be exempt from using the travel card, at the agency's discretion.

New legislation requiring creditworthiness determinations of prospective purchase and travel charge cardholders may have a significant impact on both the purchase and travel card programs, particularly as it pertains to agencies determining which employees will use the GSA SmartPay® charge cards and which will use either restricted cards or alternative methods to pay for official travel-related expenses and purchases.



Every purchase charge card is a Centrally Billed Account (CBA). Additionally, many agencies use centrally billed travel accounts to pay for transportation charges (e.g., plane, train, bus). The government is liable for payment of all CBAs.

Agencies receive rebates on purchase and travel transactions, and most agencies receive more favorable rebate rates when they pay the charges on an expedited basis. Your Chief Financial Offi-

cer's staff may wish to review your agency's GSA SmartPay® task order to determine whether your agency is maximizing rebates consistent with effective financial management guidelines.

The purchase charge card can be used to make payments on contracts exceeding the micro-purchase threshold. Many contractors, especially small businesses, prefer to be paid via charge card because it is faster and more streamlined than the traditional invoice-and-payment system. Since your agency is eligible to receive rebates for all charges made on the purchase card, your agency may significantly benefit by shifting the contract payment process to the purchase card when feasible.



Section One: Pre-Issuance

The pre-issuance phase is the foundation for your card program's success. This stage includes:

- Performing a risk assessment to identify and address the risks the agency faces in managing its charge card program;
- Developing appropriate policies and controls for the charge card program, and disseminating those policies and control procedures to program officials and cardholders in the most effective manner;
- Selecting appropriate personnel to manage and administer the program; and
- Creating and implementing an appropriate training program for program managers and cardholders.



Best Practices for Pre-Issuance:

Know your risks and act to address them. While charge cards offer many benefits, such as ease of use and widespread merchant acceptance, they also carry certain risks. The General Accounting Office's (GAO) audit guide, [Auditing and Investigating the Internal Control of Government Purchase Card Programs](#), cautions agency managers about these risks: "The potential for fraudulent, improper, and abusive purchases in a purchase card program should be viewed by management as a risk of significant financial loss, possibly resulting in operational inefficiency and impairment of mission readiness." Card program managers must be aware of the risks of having a charge card program and must create and implement strategies to mitigate these risks. GAO describes this process as "control activity" and defines it as "the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure that actions are taken to address risks." Although the GAO guide specifically addresses purchase card programs, you should also consider your travel card program in the risk assessment.

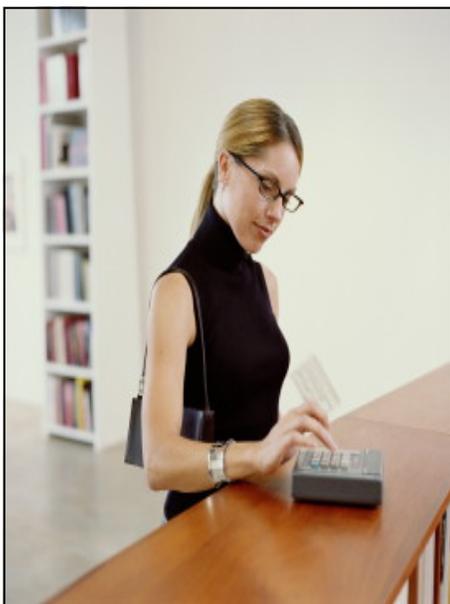
Risk assessments are essential to developing and managing strong charge card programs. A cross-functional team comprised of agency acquisition and travel policy experts, attorneys, personnel specialists, auditors and investigators, and card program managers can ensure that the necessary knowledge, experience, and insight are available to identify, evaluate, and act upon risks associated with your charge card program. Some of the key questions agencies should ask when performing a risk assessment are:

- How can we match spending and transaction limits on charge card accounts to reflect the cardholder's actual spending needs?
- How can we mitigate the risk of cardholders using their cards for unauthorized purchases?
- What is our process for ensuring that cardholders who separate from the agency do not continue to have access to their purchase or travel charge cards?
- How do we ensure that high-risk property purchased with the purchase card, such as laptops, small electronics, and audio-visual equipment, is incorporated into the agency's property control system when necessary?



Be selective when issuing charge cards to employees. Since cardholders are the center of the program, managers must take care when identifying prospective purchase cardholders. Program coordinators should consider the employee's work history, performance, and ability to assume the responsibilities associated with holding a purchase card prior to proceeding with card issuance. Legislation passed in early 2004 also requires agencies to ensure the creditworthiness of all prospective purchase and travel cardholders before cards are issued.

Travel cardholders also must be aware of their responsibilities associated with carrying a U.S. government travel charge card. The Federal Travel Regulation (FTR) at Section 301-51.2 was amended on September 13, 2002, to give agencies the discretion to exempt infrequent travelers from using the government travel charge card for paying official government travel expenses. An infrequent traveler is defined as an employee who travels five times or less per year. You may view the FTR online. The website is listed at the Online Resources section at the end of this document. Here are some examples of how agencies determine who will become a travel charge cardholder:



The Federal Emergency Management Agency (FEMA) only issued cards to those employees who would be expected to travel at least twice per year. The Department of Energy (DoE) performed a review of all travel charge cardholders and cancelled the accounts of those employees with no foreseeable travel plans within the next 12 months.

The Department of Defense (DoD) requires creditworthiness reviews on all travel charge card applicants. Those applicants who have credit problems are issued cards that have lower spend limits than standard DoD travel card spend limits.

Publish agency policies pertaining to the purchase and

travel card on the agency's Internet or Intranet website. Many agencies have internet or intranet sites for their charge card programs. For example, the DoD Purchase Card Program Management Office has a website specifically dedicated to their purchase card program. This web page includes all purchase card policy letters and memoranda, all reports pertaining to the purchase card program; briefings; an electronic discussion forum; points of contact for the purchase card program; program metrics; and links to other relevant websites. The URL for the DoD purchase card website is located in the Online Resources section of this document.

Establish appropriate training requirements for cardholders. At a minimum, both travel and purchase cardholders can take the online training provided by GSA at the GSA Smart-Pay® website, which is listed in the Online Resources section. This no-cost training may be supplemented or replaced by agency-specific cardholder training, or by commercially-available training. Training requirements should reflect the level of responsibility or spending authority the cardholder will have. For example, the Department of Commerce (DoC) requires purchase cardholders with single purchase limits exceeding \$2,500 to take a 40-hour course on Simplified Acquisitions and periodic refresher training.

Require training for all cardholders prior to issuing a charge card. The Social Security Administration (SSA) requires that each prospective purchase cardholder complete acquisition training **before** applying for a charge card. SSA updated their purchase cardholder training and placed the new version on the agency Intranet site in September 2001. All micro-purchasers and Approving Officials were required to complete the new course for refresher training. DoC Agency/Organization Program Coordinators (A/OPCs) will not process a purchase card application without the prospective cardholder's training certificate.



Set clear expectations and set appropriate training requirements for Approving Officials, Certifying Officials, and Agency/Organization Program Coordinators. Approving Officials (AOs) or Certifying Officials have the important responsibility for reviewing the purchase cardholder's monthly statements and verifying that the purchases were compliant with agency policies and federal procurement laws and regulations. If an individual is designated to perform the duties of an AO, that person should, at a minimum, take the same training as the cardholder. GSA recommends that agencies require AOs to receive training in government acquisition or AO responsibilities prior to assuming those responsibilities. As an example, the

Department of Interior (Dol) formally appoints Approving Officials through appointment letter. The appointment letter includes an outline of the AO's basic responsibilities and duties and informs the AO of the requirement to complete a mandatory online training course and pass a test associated with the training. Dol developed a mandatory on-line training program for AOs and can track AO training status through an automated system. This system contains the training module, an electronic exam, and the ability to generate a certificate of completion once the AO finishes the training and passes the exam. Dol managers can monitor the training status of all AOs. Similarly, DoD is developing a specific course for AOs to ensure that AOs understand their responsibilities. SSA has developed a document entitled "AO Roles and Responsibilities" which emphasizes the critical role AOs play and the duties they will be required to perform to ensure successful management of the program.

Agency/Organization Program Coordinators (A/OPCs) likewise play a major role in both purchase and travel charge card program administration. In addition to being familiar with cardholder and AO responsibilities, the A/OPC should also receive training by the GSA SmartPay® contractor bank on using the bank's Electronic Access System (EAS) to manage the program. This training is available online and at the annual GSA SmartPay® conference. The annual GSA SmartPay® conference provides training opportunities to enable A/OPCs to: learn more about the bank's EAS through hands-on training; hear about best practices for managing the program; and network with their colleagues. As there are no registration fees for this conference, it is a cost-effective way for agencies to provide training to their A/OPCs.

Dol has also developed online training for A/OPCs. Similar to its AO training, the Dol A/OPC online training has an exam module, the ability to generate a certificate of completion, and the ability to track the status of A/OPC training. Other features and benefits of the system include the ability to distribute reports and send electronic communications to AOs and A/OPCs as a group.

Additionally, GSA has developed an online training course for purchase card A/OPCs and a manual entitled Blueprint for Success: Purchase Card Oversight. The online training is available through the GSA SmartPay® website and is free of charge. The Blueprint for Success manual can be downloaded from the GSA SmartPay® website or can be ordered in bulk quantity at no charge through the website. As with the cardholder training GSA developed, the online A/OPC training can supplement agency-specific training.



GSA is currently developing an online training course for travel card A/OPCs. This course will be available in July 2004. GSA also published a manual for travel card A/OPCs entitled A/OPC Survival Guide. This publication is available for downloading or ordering through the GSA SmartPay® website.



Centralize collection of cardholder, Approving Official, and A/OPC training records. The Department of Commerce's Bankcard Center (CBC) collects copies of all training certificates and posts this information as a permanent record in each cardholder's and Approving Official's master file. DoI also electronically collects and manages training records.

Create and maintain a centralized list of all cardholder and program coordinator email addresses. When changes to agency purchase or travel card policies are made, send a broadcast email to the appropriate audience with hyperlinks or attachments to the new/updated policy. This practice ensures that information reaches its intended audience as quickly and efficiently as possible.

Span of Control: Ensure that the Approving Official/cardholder ratio is manageable. Each AO should have a manageable cardholder caseload. GSA recommends that the ratio of AOs to cardholders is not more than 1:7 (assuming an average of six or seven transactions per cardholder each month). An alternate ratio is the ratio of AOs to the number of monthly transactions, which would be no more than 1:50. Whenever possible, the cardholder should have an AO to consistently review purchases. Additionally, GSA recommends that the AO should not be a subordinate of any cardholder under his/her span of control.

Use the program to achieve maximum strategic leverage. The Department of Interior (DoI) selected an integrated charge card program rather than separate purchase, travel, and fleet card programs. The creation of "diversion accounts" gives Interior the ability to integrate billing for centrally billed accounts (where Interior pays the bill directly to the bank) with individually billed accounts (where the employee pays the bill directly to the bank, and is reimbursed for all authorized expenses by the agency) on a single statement. The integrated approach afforded DoI the opportunity to make important strategic decisions related to its business practices. For example, DoI decided to adopt central billing of car rental charges incurred by employees on official travel. Besides reducing paperwork and payment delays, this change has made some of the transactions exempt from state taxes. This alone will save DoI over \$1 million a year. Additionally, for the travel card line there is no need for Travel Management Contractor (TMC) reconciliation, since all transactions post to the cardholder's account and the cardholder manages the reconciliation. DoI is currently piloting centrally-billed lodging at one of its Bureaus. Under this pilot, all lodging costs are billed to centrally billed accounts. The travel charge card holder is only responsible for paying meals and incidental expenses (M&IE). The pilot office has the lowest delinquency rate of all DoI Bureaus and a very



high level of employee satisfaction with the pilot program.

Create policies and procedures to ensure high-risk property is included in the agency's property control system. Auditors have repeatedly noted that agencies often lose track of high-risk property acquired with the purchase card, such as laptop computers, PDAs and audio-visual equipment. When feasible and economically efficient, agencies should incorporate such items into the property control system.



Section Two: Issuance and Maintenance

A strong control environment is the basis for an effective charge card program. Some key activities agencies can pursue to effectively manage their programs include:

- Using available authorization controls to mitigate risk of misuse or fraud;
- Generating reports through the bank's Electronic Access System (EAS) to review cardholder activity and manage program data; and
- Conducting periodic reviews of cardholder records.



Best Practices for Issuance and Maintenance:

Require A/OPCs to set appropriate authorization controls when establishing every cardholder account. Here are some of the key authorization controls agencies can use when setting up a cardholder's account:

- **Dollars per transaction or dollars per month limits.** This ensures that no single purchase can be made that exceeds the cardholder's authorized single purchase limit or monthly purchase limit. Any attempted purchase that exceeds this limit will be declined at the time the transaction is processed. For purchase cardholders who only have micro-purchase authority, the dollars per transaction limit would be set at a maximum of \$2,500 in order to prevent the cardholder from inadvertently exceeding his/her authority.
- **Transaction limits.** This control limits the number of transactions that can be processed in any specific time period, ranging anywhere from one day to one month.
- **Merchant Category Code (MCC) restrictions.** Every merchant who accepts Visa and MasterCard must designate its type of business by selecting the most appropriate Merchant Category Code (MCC) from a pre-established list of MCCs. The A/OPC can block transactions with any merchant that falls under a specific MCC. Commonly blocked MCCs are pawn shops, liquor stores, jewelry stores, and casinos. The GSA SmartPay® contractor bank may also be able to assist A/OPCs with creating templates of MCC blocks. For example, there usually is one template for purchase cards and another for travel cards.

A complete listing of authorization controls available to agencies to manage the program is included in Section C.30 of the GSA SmartPay® Master Contract located on the GSA SmartPay® website, which is listed in the Online Resources section. Your bank provider can also provide this information.

Work with your GSA SmartPay® contractor bank to set reasonable travel spend limits. Many agencies set the monthly spend limit at a dollar threshold that is far higher than actually

needed. The bank can generate historic spending reports that show the average monthly spending for cardholders in the agency. Program managers can use this information to set monthly spend and transaction limits to be closely aligned to the actual needs of the average cardholder. Persons identified as frequent travelers (e.g., those who travel more than once per month) can have higher monthly spend/transactions limits set than infrequent travelers.

Perform regular reviews of travel and purchase cardholders to ascertain if card is needed. The Department of Energy (DOE) cancelled all travel accounts where no travel was anticipated within the next 12 month period. FEMA limits the number of purchase cardholders in any office; generally no office is permitted to have more than two purchase cardholders.



Deactivate cards that are used infrequently. Since A/OPCs can activate and deactivate both purchase and travel cards very quickly and easily, this is one of the most effective risk mitigation tools available to agencies. The most common method of deactivation is decreasing the spend limit to \$1; any charges that are attempted are declined at the point of sale. FEMA has performed a global deactivation of travel charge cards for the entire month of December. When travel was required, the A/OPC activated the employee's card for the period of travel and deactivated it again upon the employee's return from travel status.

Use electronic access reports to monitor account activity. The GSA SmartPay® contractors have developed an extensive array of reports that agencies can use to monitor cardholder data. These reports enable A/OPCs and agency managers to identify questionable transactions and monitor account delinquency. DoE generates the following reports on a monthly basis:

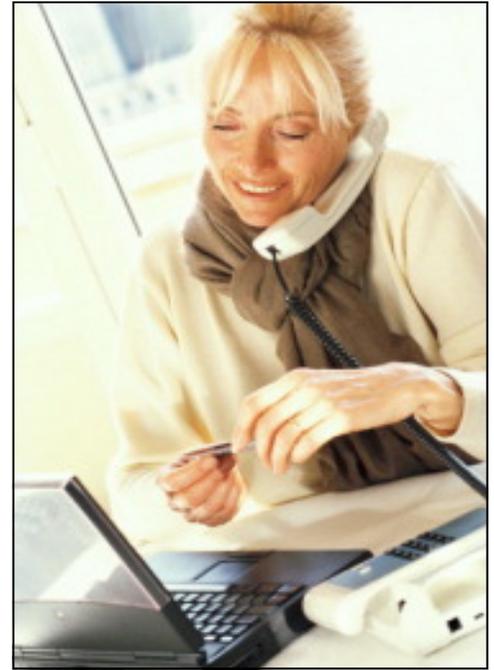
- Account Activity (shows all charges made for each active account)
- Delinquency (shows all accounts that are past due, categorized by length of delinquency, such as 30 days past due, 45 days past due, 60 days past due, 90 days past due, etc.)
- ATM Cash Advances (enables A/OPC to check whether any other travel-related charges were made in the same timeframe as an ATM withdrawal)
- Returned checks (shows all checks returned by bank due to non-sufficient funds).

These reports, and many others, are available to agencies through the bank's EAS.

DoI worked with its bank provider to develop 10 new management reports aimed at identifying and preventing misuse. These reports were also made available to all of the bank's client agencies. Examples of the reports include:

- Convenience checks issued
- Non-travel-related activity on travel charge cards
- Weekend/holiday activity on government cards

Commercially-available data mining software can assist agency managers in detecting questionable transactions. DoD has used data mining to assist auditors and investigators in performing their duties. Although the vast majority of questionable transactions found through data mining resulted in a finding of no wrongdoing by the cardholder, DoD has pursued a number of cases where abusive or fraudulent use of the card was identified through data mining.



Implement split disbursement through your travel management system. Split disbursement enables the cardholder to route some or all of his/her travel voucher directly to the bank. Split disbursement benefits all parties: it benefits the traveler because it is a quicker and more convenient way to pay the bank the travel charges owed; it benefits the agency through improved rebates and lower overall delinquency rates; and it benefits the contractor bank through timely payment.

Include charge card do's and don'ts as a core part of annual agency ethics training. Many agencies take advantage of annual ethics training to remind cardholders of their responsibilities for managing their purchase and travel charge cards. GSA has developed a brochure entitled "But I Didn't Know..." which covers this topic for travel cardholders. This brochure can be downloaded or ordered in bulk at no cost to the agency through the GSA SmartPay® website. Agency program managers often distribute this brochure at annual ethics training sessions as a reinforcement and reference to employees after the training is completed.

Use data warehousing to identify purchasing trends. The DoC Bankcard Center (CBC) uses an Oracle 8i database to house card history files from 1994 to the present. This data is analyzed to identify DoC purchasing trends.

Section Three: Enforcement

One of the realities virtually all charge card managers have to deal with is misuse (whether inadvertent or deliberate) of the charge card. Despite the many tools available for agencies to prevent and mitigate risk of misuse of government charge cards, incidents of misuse do occur. Once misuse is identified, agencies need to focus on enforcement of program policies.

Best Practices for Enforcement:

Involve agency managers and supervisors when problems arise. For example, SSA takes the following steps to manage travel card delinquency:

- E-mail notices are sent to delinquent cardholders at 45 days past due by Headquarters Division of Travel Management.
- Formal letters are sent to upper management, travel authorizing officials and cardholders at 60, 90 and 120 days past due. A copy of the letter is filed in the employee's personnel file and disciplinary action is taken, as appropriate.
- Accounts that are 90 days past due will soon be referred to SSA's Office of Labor Management and Employee Relations for taking faster disciplinary action through coordination with the travel authorizing official.
- In the near future, the Agency will also take steps to terminate newly hired employees during their probationary period for travel card abuse/delinquency.

Deactivate, suspend, or cancel accounts that are under review for questionable activity. If it appears that a cardholder is misusing his/her charge card, the A/OPC can deactivate the account until the situation is resolved, thus minimizing the risk of further misuse. The agency can also request the bank to suspend or cancel an account if suspicious activity has occurred.

Implement Salary Offset on Written-Off Accounts. When a travel cardholder fails to pay his/her account balance within 180 days of the billing due date, the bank has the authority to cancel the account due to non-payment. After the account is cancelled, the bank may still attempt to collect the funds owed. Agencies can participate in this process by implementing salary offset procedures, a process whereby the agency withholds up to 15% of the employee's net pay each pay period to pay the debt owed until the debt is paid in full. The agency directs the withheld amount to the contractor bank.



Dol was one of the first agencies to implement salary offset in conjunction with sustained efforts to intercept delinquent accounts before they reached charge-off status. Dol has seen a number of positive effects on its travel charge card program, including:

- The average delinquency rate for individually billed account balances dropped by nearly 50%.
- The rate of dollars charged off decreased by nearly 75%.
- Over \$660,000 that had been charged off has been recovered since implementing salary offset.
- To date, nearly 53% of all the accounts that had been charged off have been recovered in full.

Other agencies have experienced similar benefits. Since SSA implemented salary offset, the agency has collected over \$48,000 from 49 offset accounts.

Work with agency Office of Inspector General to Investigate Questionable Activity.

Many agency program managers have developed an excellent working relationship with their Office of Inspector General (OIG) staff. Questionable or suspicious activity is promptly referred to the OIG for investigation and necessary action.

Publicize enforcement actions. Many agencies, including DoD and GSA, publicize convictions of former employees for misuse of their charge card. Publicizing enforcement actions lets agency employees know that there are serious consequences for misuse of the card. Often, when such cases are publicized, the agency also reinforces the message by providing links to agency policies regarding the charge card program, or providing references to agency ethics officials if the cardholder has questions about the use of the charge card.



Appendix: Online Resources List of Useful Websites Related to the GSA SmartPay® Program

THE GSA SMARTPAY® WEBSITE:

www.gsa.gov/gsmartpay

THE FEDERAL TRAVEL REGULATION:

www.gsa.gov/ftr

THE DEPARTMENT OF DEFENSE PURCHASE CARD PROGRAM MANAGEMENT OFFICE:

<http://purchasecard.saalt.army.mil/default.htm>

GENERAL ACCOUNTING OFFICE:

www.gao.gov

Access the GAO Audit Guide for Auditing and Investigating the Internal Control of Government Purchase Card Programs by searching for Report GAO-04-87G. GAO also publishes reports of agency charge card program audits.

