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The Honorable Jim Saxton
Chairman, Joint Economic Committee
Congress of the United States

Subject: Credit Cards: Intragovernmental Transfers and Related Concerns

Dear Mr. Chairman:

This letter responds to your request for information on the use of credit cards for intragovernmental transfers[1] and on the General Services Administration's (GSA) new contracts for credit card services. Specifically, you asked for information on (1) how intragovernmental transfers are currently processed using GSA's International Merchant Purchase Authorization Card (IMPAC card) and the Department of the Treasury's Uncle Sam Acquisition card (USA card); (2) issues of concern involving the use of credit cards for intragovernmental transfers and actions being taken to address these issues; and (3) GSA's decision to use multiple contracts to replace the expiring purchase, travel, and fleet credit/charge card contracts.[2]

Federal agencies buy products and services from each other to maintain operations and administer programs. As agencies are stretching to do more on limited budgets and with reduced staff, there is an increased interest in using credit cards for as many purchases as possible, from both private vendors and other agencies. According to various agencies, using the IMPAC card has increased efficiency and

[1]Intragovernmental transfers are purchases or transactions between two agencies.

[2]GSA's contract with American Express Travel Related Services Co., Inc., includes credit and charge cards. Credit cards are revolving accounts that are not required to be paid in full each month. Charge cards are issued for individually billed travel accounts and are payable in full each month.

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service delivery by allowing program offices to make micropurchases[3] directly from vendors rather than making them through a central procurement office.

Historically, GSA and Treasury have had separate roles in contracting for governmentwide credit/charge card use. GSA has traditionally contracted for the issuance of credit/charge cards for agencies to use in making purchases, while Treasury has traditionally had a financial agent agreement for agencies to be able to accept credit cards for payment through its Plastic Card Collections Network (PCCN). However, in July 1997, in addition to contracting for the acceptance of credit cards, Treasury piloted the issuance of the USA card for agencies to use exclusively for intragovernmental transfers. Treasury developed this card to address concerns it had about agencies using GSA's IMPAC card to make intragovernmental transfers. As a result, both GSA and Treasury now contract for the issuance of a governmentwide credit card that agencies can use to make intragovernmental transfers. Congress has raised questions about the need for two agencies to each issue a credit card for intragovernmental transfers.

GSA contracts for governmentwide credit/charge cards that are to be used specifically for purchases, travel expenses, and expenses related to vehicle use (fleet services). Historically, GSA has contracted with a different contractor for each type of credit/charge card use. However, GSA has now awarded six contracts for purchase, travel, and fleet credit/charge cards for use governmentwide, called the GSA SmartPay program. Because the new contracts are scheduled to take effect November 30, 1998, agencies have begun choosing among the six contractors to select the contractor(s) that offers the best mix of prices and services that meet the agencies' credit/charge card needs.

RESULTS IN BRIEF

Intragovernmental transfers made using GSA's contract with US Bank for the IMPAC card are processed commercially as VISA credit card transactions, while those transfers made using Treasury's PCCN agreement with NationsBank for the USA card are processed and settled as accounting transactions within the government. GSA has offered the IMPAC card governmentwide since 1989 for federal agencies to use to purchase products and services. As a commercial credit card, the IMPAC card can be used to make purchases from the private sector as well as from other federal agencies–that is, intragovernmental transfers. Until October 1997, intragovernmental transfers made using the IMPAC card were processed in the same manner as purchases from private vendors, including payment of a discount fee. Discount fees typically ranged from 1.5 to 2 percent of the total purchase price.

In October 1997, GSA and US Bank agreed to modify the IMPAC card contract to pilot test three changes for intragovernmental transfers. These three changes were (1) US Bank became the bank for accepting intragovernmental transfers for GSA; (2) processing fees for intragovernmental transfers would be priced on a transaction-fee basis (i.e., $0.95 per

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[3]The Federal Acquisition Regulation (Part 2.101) defines micropurchases as purchases of supplies or services valued at $2,500 or less.

transaction), instead of a discount-fee basis; and (3) transfers of funds between the government and US Bank would occur, on average, in 45 days. These changes have reduced the government's overall cost of processing intragovernmental transfers.

Before the October 1997 changes, Treasury expressed three concerns with the use of the IMPAC card for intragovernmental transfers: (1) the cost of the discount fee paid for processing the transfers; (2) the fact that money left the government to be transferred from one federal agency's account to another's account, which required more cash to be kept on hand; and (3) the fact that the transfers were not readily identifiable as intragovernmental in accounting records. To address these concerns, in July 1997, Treasury piloted the issuance of a credit card, called the USA card, specifically for intragovernmental transfers.

The USA card, issued by NationsBank, is a private-label card, much like a department store credit card, that can be used only at specific merchants. By issuing a private-label credit card, Treasury and NationsBank jointly set the criteria by which the card was to operate. Federal agencies can only use the USA card for intragovernmental transfers with federal agencies that have agreed to accept the card and have obtained the computer software necessary to process the transfers. The rules require that transfers made with the USA card (1) have a flat processing fee ($0.95 per transaction), (2) eliminate the need for money to leave the government by recording transactions with Treasury as accounting entries, and (3) allow ready identification of intragovernmental transfers in accounting records. In February 1998, the USA card pilot ended and Treasury awarded NationsBank a 5-year financial agent agreement with five 1-year options for various services that included the issuance of the USA card.

In April 1997, the Intragovernmental Transfers Subgroup (IGOTS) was created to develop governmentwide policies and procedures for the use of credit cards for intragovernmental transfers. IGOTS consists of members from the Office of Management and Budget (OMB), GSA, the Department of Defense (DOD), and the Internal Revenue Service (IRS) and Financial Management Service (FMS) within Treasury. The IGOTS team has agreed that any governmentwide polices and procedures must address Treasury's three concerns about the use of the IMPAC card for intragovernmental transfers.

As a separate initiative, GSA is replacing the three expiring contracts for governmentwide (1) purchase (the IMPAC card); (2) travel; and (3) fleet credit/charge cards with six contracts that can each include all three types of credit/charge cards. GSA decided that having multiple contractors for each type of card could lead to competition among contractors for agencies' credit/charge card business. GSA believes that this competition should lead to agencies' obtaining the best mix of services for the lowest price. The new contracts are to become effective November 30, 1998, when the existing credit/charge card contracts expire.

IMPAC CARD INTRAGOVERNMENTAL TRANSFERS ARE PROCESSED COMMERCIALLY BY VISA

GSA first offered the IMPAC card for government purchases in 1989. The IMPAC card, which is a commercial VISA credit card issued by US Bank, was developed to cut costs and streamline the process for federal agencies purchasing supplies and services from the private sector. In addition to private-sector purchases, federal agencies also purchase products and services from other federal agencies–that is, intragovernmental transfers. Given the success and ease of using the IMPAC card for purchases from private vendors, federal agencies began using the card for intragovernmental transfers as well. Since the IMPAC card is a commercial credit card, any agency that has the capability to accept VISA credit cards can also accept the IMPAC card.

Currently, about 1 percent of all dollars charged to the IMPAC card are for intragovernmental transfers. According to the latest information available, dollars charged using the IMPAC card between May and December, 1997, totaled $4.1 billion from 8,740,699 transactions. Of these transactions, intragovernmental transfers using the IMPAC card for the period totaled $52.9 million (1.3 percent of all charges) from 273,026 transactions (3.1 percent of all transactions).

Intragovernmental transfers that are made using the IMPAC card are processed through VISA's processing system. Before October 1997, intragovernmental transfers made using the IMPAC card were processed in the same manner as purchases from private vendors, which required the payment of a discount fee for each transaction. Treasury, which paid the discount fee for processing GSA's intragovernmental transfers, notified GSA that as of October 1997, it would no longer pay the discount fee. In response, GSA and US Bank agreed to pilot test three changes to the IMPAC card contract for intragovernmental transfers to reduce the cost of such transfers. These three changes were (1) US Bank became the bank for accepting intragovernmental transfers for GSA; (2) a flat $0.95 transaction fee was established for processing intragovernmental transfers instead of a discount fee; and (3) funds would be transferred between the government and US Bank for the transfers in 45 days, on average. US Bank made the necessary arrangements with VISA for this pilot test. These changes reduced the government's cost when the IMPAC card is used for intragovernmental transfers from GSA and changed the timing of when GSA received payment.

The five key players involved in the processing of a credit card transaction using the IMPAC card are as follows:

(1) Customer agency–purchaser.
(2) Merchant agency–seller.
(3) Customer's bank–credit card issuer, US Bank.
(4) Merchant's bank–accepter of credit cards for payment.
(5) Bank association–VISA.

Table 1 shows the key steps in the processing of an intragovernmental transfer made using the IMPAC card before October 1997; it also highlights the changes that were made to the process as of October 1997 for the GSA and US Bank pilot test of the IMPAC card.

Table 1: Key Steps in Processing an Intragovernmental Transfer Using the IMPAC Card

IMPAC card: Commercial VISA		
Key steps	**Process before October 1997**	**Process changes for transfers with GSA effective October 1997**
Step 1: IMPAC purchase	Customer agency used IMPAC card to charge a purchase from a merchant agency.	Customer agency uses IMPAC card for purchase from GSA.
Step 2: IMPAC charge recorded	Merchant agency submitted IMPAC charge to its bank. Merchant's bank submitted charge to VISA.	
	VISA received record of charge from merchant's bank and sent charge information to US Bank.	
Step 3: Merchant agency paid	Merchant bank paid the merchant agency the purchase amount within 48 hours of receiving notice of the charge. Treasury paid the discount fee.[a] ***Money entered government account of merchant agency.***	**Step 3:** GSA's merchant bank changes from Mellon Bank to US Bank. US Bank pays GSA 45 days after receiving the charge because the customer agency pays US Bank, on average, 45 days after making the charge (neutral float). Discount fee was eliminated for intragovernmental transfers. Flat fee of $0.95 per transaction is now paid by GSA.
	US Bank paid VISA for charges before it billed the customer agency.	
Step 4: Customer agency billed monthly	US Bank issued a monthly bill that included all charges made by the customer agency within the prior month.	
Step 5: Customer agency pays	Customer agency paid the amount of the credit card bill to US Bank. Money was transferred from the government account of the customer agency to US Bank (outside the government). ***Money left government account of customer agency.***	**Step 5:** Payment by customer agency for purchase coincides, on average, with payment to GSA. (See step 3 above). ***Money leaves government account of customer agency.*** ***Money enters government account of merchant agency.***

[a]The discount fee is based on the merchant agency's volume of charges and typically ranges from 1.5 to 2 percent of total sales. Treasury paid this fee for GSA before October 1997.

Source: GSA.

The most significant change in the processing of intragovernmental transfers made using the IMPAC card in October 1997 was the elimination of the discount fee and the creation of the transaction-based fee (see table 1, step 3). This change also resulted in a change in the timing of when the merchant agency was paid for intragovernmental transfers. The discount fee was intended to compensate the bank and VISA for the risk that they assumed and the costs that they incurred by paying the merchant agency before the customer agency was billed and expected to pay for the purchase. As of October 1997, Treasury stopped paying the discount fee on intragovernmental transfers for GSA as a merchant agency. Due to the low risk of nonpayment for intragovernmental transfers, GSA and US Bank agreed to a flat fee of $0.95 per transaction, which is to be paid by GSA, for intragovernmental transfers instead of a discount fee–which typically ranges from 1.5 to 2 percent of the total purchase price. This means that if a customer agency made a $300 intragovernmental transfer with GSA using the IMPAC card, assuming a 1.5-percent discount rate, before October 1997, the government would have paid $4.50 for the transaction; but as of October 1997, the government would have only paid $0.95–a significant cost savings.

The timing of when GSA is paid for purchases made by a customer agency also had to change since the bank was no longer being compensated for paying GSA before the bank received payment from the customer agency. As of October 1997, GSA and US Bank worked out a payment system called a "neutral float." As shown in table 1 (step 3), US Bank became GSA's merchant bank for intragovernmental transfers using the IMPAC card. Under the neutral float system, US Bank pays GSA 45 days after notification of the purchase, instead of 48 hours, because the customer agency pays US Bank, on average, 45 days after a purchase. Therefore, under this system, on average, GSA does not receive its payment before the customer agency pays US Bank for the purchase.

USA CARD INTRAGOVERNMENTAL TRANSFERS ARE PROCESSED AS ACCOUNTING TRANSACTIONS THAT ARE RECORDED DIRECTLY WITH TREASURY

According to Treasury officials, they began developing a credit card exclusively for intragovernmental transfers in 1996 to address three concerns that Treasury had with the use of the IMPAC card for intragovernmental transfers. Treasury's three concerns were (1) the cost of the discount fee for processing intragovernmental transfers; (2) money left the government to be transferred between two agencies' accounts, which raised cash management issues in that more cash needed to be kept on hand; and (3) transfers were not readily identifiable as being intragovernmental in accounting records; therefore, when the merchant agency received payment it appeared to be new money coming into the government.

In July 1996, Treasury solicited proposals from four banks for the development of a credit card to address these three concerns. Treasury selected, as a pilot, NationsBank's proposal for a private-label credit card and operating system for intragovernmental transfers. A private-label card, much like a department store credit card, can be used only at specific merchants. By issuing a private-label credit card, which became known as the USA card, Treasury and NationsBank jointly set the rules by which the card was to operate. The USA card can only be used for intragovernmental transfers with federal agencies that have agreed to accept the card and that have obtained the NationsBank software needed to process the transfers. The rules require that transfers made with the USA card (1) be priced on a transaction-fee basis ($0.95 per transaction), instead of a discount-fee basis; (2) not result in money leaving the government by recording transfers with Treasury as accounting entries; and (3) be readily identifiable as intragovernmental in accounting records.

The four key players involved in processing intragovernmental transfers made using the USA card are as follows:

(1) Customer agency–purchaser.
(2) Merchant agency–seller with agreement to accept USA card.
(3) NationsBank–credit card issuer (customer bank) and accepter of credit card transfers (merchant bank).
(4) FMS–Treasury entity that acts as the U.S. Government's financial manager, central disburser, and collection agent.

Table 2 shows the key steps in the processing of an intragovernmental transfer using the USA card.

Table 2: Key Steps in Processing an Intragovernmental Transfer Using the USA Card

USA card: Private-label	
Key steps	**Process**
Step 1: USA purchase	Customer agency uses USA card to charge a purchase from a merchant agency.
Step 2: USA charge recorded	Merchant agency enters charge information into a computer using NationsBank's software. Charge information is sent electronically to NationsBank. NationsBank records charge and electronically reports the details of the charge to FMS.
Step 3: Merchant agency paid	FMS, via an electronic accounting transaction, records the charge amount against the customer agency's account and credits it to the merchant agency's account within 3 days of the purchase without the money leaving the government. ***Money stays in government.*** Treasury maintains a balance of funds with NationsBank, in an interest-earning account, from which NationsBank deducts the transaction fee ($0.95).

Source: Treasury.

The USA card, and its operating system, were pilot tested for about 8 months–July 1997 to February 1998. According to a Treasury official, during the USA card pilot, there were about 3,000 intragovernmental transfers made using the card, which totaled about $20 million. These transactions were made almost exclusively within DOD. The DOD components that were involved in the pilot included the following: Air Mobility Command; Defense Logistics Agency; Military Traffic Management Command; Sealift Command; Defense Commissary Agency; several components of the Department of the Army; and Defense Finance and Accounting Service in Columbus, OH, Indianapolis, IN, Omaha, NE, and Washington, D.C., headquarters. In addition to these DOD components, the National Institutes of Health was involved in the USA card pilot. In February 1998, the USA card pilot ended, and Treasury awarded NationsBank a 5-year financial agent agreement with five 1-year options for accepting credit/charge cards and issuance of the USA card.

ISSUES OF CONCERN INVOLVING CREDIT CARD USE FOR INTRAGOVERNMENTAL TRANSFERS AND ACTIONS TO ADDRESS THEM

As previously mentioned, Treasury identified three concerns with the use of the IMPAC card for intragovernmental transfers, which it addressed by issuing the USA card. GSA also addressed the first concern–the cost of the discount fee–through an agreement reached with US Bank that intragovernmental transfers made using the IMPAC card would be processed on a transaction-fee basis. However, the concerns about money leaving the government and transfers being readily identifiable as intragovernmental in account records remain when the IMPAC card is used for intragovernmental transfers. Although the development of Treasury's USA card addressed its three concerns, a fourth concern arose–that is, the need for coordination between multiple agencies to develop a governmentwide approach to intragovernmental transfers.

The President's Management Council created the Electronic Processes Initiatives Committee (EPIC) to provide a forum for senior interagency management groups to come together and discuss electronic process initiatives that have an impact across the government. EPIC, which first met in January 1997, is comprised of members from OMB, GSA, DOD, and Treasury. EPIC members agreed that governmentwide coordination was needed to develop a governmentwide approach to intragovernmental transfers but that the issues were broader than electronic processing. EPIC agreed that OMB would take the lead on coordinating a governmentwide approach to intragovernmental transfers and EPIC would be involved in any electronic processing issues.

In April 1997, OMB, GSA, DOD, and IRS and FMS within Treasury founded IGOTS to develop governmentwide policies and procedures for intragovernmental transfers using credit cards. The IGOTS team agreed that any governmentwide policies and procedures must address the three concerns raised by Treasury about the use of the IMPAC card for intragovernmental transfers. The team agreed to the following three basic requirements for intragovernmental transfers:

(1) processing services are to be priced on a transaction-fee basis,
(2) money is not to leave the government, and
(3) intragovernmental transfers are to be readily identifiable.

The detailed requirements and specific policies and procedures for how intragovernmental transfers made using credit cards will be processed have not been finalized.

GSA and OMB officials said that they believe the ideal situation would be to have one credit card that could be used for both private-sector purchases and intragovernmental transfers that meet the IGOTS team's requirements. As currently structured, neither GSA's IMPAC card nor Treasury's USA card meet GSA's and OMB's ideal situation. The IMPAC card, which is a commercial card, currently results in money leaving the government for intragovernmental transfers and does not enable the ready identification of transfers in accounting records, and the USA card, which is a private-label card, cannot be used to make private-sector purchases. According to Treasury officials, there are no plans to modify the USA card so it could be used to make purchases from private vendors.

The IGOTS team has contracted with PricewaterhouseCoopers, L.L.P., for a study to (1) document the requirements of federal agencies, in their roles as both customers and merchants for intragovernmental transfers; (2) assess the current systems for intragovernmental transfers, including the IMPAC and USA cards; and (3) recommend policies and procedures to resolve issues related to intragovernmental transfers, such as roles, responsibilities, warranties, liabilities, and performance requirements.[4] The study is to evaluate current and potential systems for intragovernmental transfers on the basis of the IGOTS team's three basic requirements.

The IGOTS team has provided for coordination among federal agencies to resolve the issues of concern related to the use of credit cards for intragovernmental transfers. This coordination has led to an agreement on three basic requirements that should ensure that the policies and procedures being developed for intragovernmental transfers will address Treasury's concerns–the cost of the discount fee for processing transfers, money leaving the government during intragovernmental transfers, and ready identification of such transfers in accounting records. IGOTS has completed a needs assessment and EPIC has agreed to a standard configuration for intragovernmental transfer services. IGOTS expects to have the governmentwide policies and procedures for intragovernmental transfers finalized by the end of September 1998. These policies and procedures should also ensure that all credit cards used for intragovernmental transfers–commercial and private-label cards–are processed in the same manner at the point of sale and when the accounts are settled by Treasury.

Both GSA and Treasury plan to continue to offer credit cards that can be used for intragovernmental transfers. In February 1998, Treasury included the USA card in its new agreement for acceptance of credit cards with NationsBank. Also, GSA has a new program

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[4]IGOTS originally contracted with Coopers and Lybrand, which on July 1, 1998, merged with Price Waterhouse to form PricewaterhouseCoopers, L.L.P.

called GSA SmartPay, which is scheduled to take effect November 30, 1998, for issuing credit/charge cards for purchases (including intragovernmental transfers), travel, and fleet use. According to Treasury officials, the USA card agreement will be modified as necessary to incorporate the required data elements developed by IGOTS. GSA officials said that the current IMPAC card contract, which expires November 29, 1998, will not be modified, but the new GSA SmartPay program will incorporate the policies and procedures developed by IGOTS. Therefore, under GSA's credit card program, money will continue to leave the government for intragovernmental transfers and such transfers will not be readily identified in accounting records until GSA SmartPay takes effect. Also, according to GSA and Treasury officials, the cost of both agencies' offering credit cards for intragovernmental transfers is not significant since both of the cards are offered as part of larger credit card contracts or agreements and the cost associated with including intragovernmental transfers is minimal.

GSA ISSUED MULTIPLE CONTRACTS FOR PROVIDING CREDIT/CHARGE CARDS

In addition to the IMPAC card, GSA contracts for governmentwide credit/charge cards for travel and fleet expenses. Traditionally, GSA has had three separate contracts with three different contractors for each type of credit/charge card use–purchase, travel, and fleet. Each of these contracts expires on November 29, 1998. When GSA solicited offers for these expiring contracts, it received only two offers for the travel card contract and only one offer for the purchase card contract. In an effort to improve credit/charge card service to federal agencies and increase competition and flexibility in providing credit/charge cards, on February 10, 1998, GSA awarded contracts to six contractors[5] in which each contractor can offer credit/charge card(s) for purchase, travel, and fleet use. These contracts make up the new GSA SmartPay program that allows agencies to select among the six contractors for the best mix of cost and services that meet the agencies' credit/charge card needs.

GSA's September 1997 solicitation for credit/charge cards generated more interest and competition among contractors than had occurred in the past. GSA received offers from 10 contractors and selected the contractors with the best offers. Agencies now have the option of selecting either one contractor for all types of credit/charge cards available under GSA SmartPay or different contractors for different credit/charge cards. This approach, and advances in technology, will allow agencies to consolidate all credit/charge card uses into one card if they choose and still to tailor individual card holders' ability to use the card only for authorized purchases. Advances in technology allow agencies to program credit/charge cards in many different ways, such as to be accepted only at specific types of merchants, up to certain dollar limits or for a limited number of transactions in a given period of time, which helps agencies limit the use of credit/charge cards to authorized purposes.

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[5]GSA awarded contracts to six contractors: Citibank; NationsBank; Mellon Bank; American Express Travel Related Services Co., Inc.; First Chicago NBD; and US Bank. NationsBank also issues the USA card under Treasury's Financial Agent Agreement. On April 29, 1998, American Express announced that it will not pursue business from federal agencies, but it technically still has a contract with GSA.

GSA chose the multiple contracts approach in an effort to better meet agencies' needs, to ensure that the government had the opportunity to take advantage of the latest technologies available, to increase competition, and to give agencies the opportunity to consolidate their credit/charge cards. In preparation for issuing the new credit/charge card contracts as the current contracts approached expiration, GSA held discussions with customer agencies to determine what they needed in credit/charge card services and what worked and did not work with the current contracts. After discussions with customer agencies, GSA determined that one card with one set of services did not fit all agencies' needs. GSA also determined that having one contractor for each credit/charge card use did not encourage the contractor to make new technology readily available to government agencies, such as multipurpose cards that could also be programmed to provide building access, among other things. GSA decided to issue a solicitation that combined GSA's current purchase, travel, and fleet credit/charge card programs and awarded contracts to six contractors. GSA believes that the competition created by allowing agencies to select among several contractors should enable agencies to obtain the best mix of services that meets their needs at the lowest cost possible. Agencies are currently developing their requirements for credit/charge cards and negotiating with the contractors to determine which contractor can best meet their requirements at the lowest price.

GSA's contracts consist of core requirements that are generally associated with the issuance of the actual credit cards, setting authorization limits, and the billing for these cards. These core requirements also give agencies the ability to use whichever card they select for purchases to make both purchases from private vendors and intragovernmental transfers. Core requirements are generally priced on a refund basis for the government. According to GSA, the refund for intragovernmental transfers may be based on the transaction fee, but this issue has not yet been settled. Contractors were required to provide a minimum refund of 6 basis points of net charge volume for core requirements (a basis point is 1/100th of 1 percent). GSA retains 4 basis points to cover its administrative costs for the program. Agencies are encouraged to negotiate better deals with the contractors, particularly on the basis of volume, use of electronic forms and reports, and timely payment. All refunds above the 4 basis points go to the agency.[6] GSA's fee is to be reevaluated twice a year to determine if it should be adjusted up or down, on the basis of the revenue generated by the fee compared to the cost of administering the program. GSA's fee is capped at 6 basis points of net charge volume for the duration of the contract, which is 5 years with five 1-year options. GSA's contract also includes an array of "value-added" services that are available to agencies at an additional price. Value-added services include ATM use, travelers checks, debit and stored-value cards, and chip technology that can allow building access and other advanced features.

When the GSA SmartPay program was solicited and awarded, contractors were notified that the requirements for intragovernmental transfers were under development and that the contract would be modified to reflect the requirements developed. Once the requirements

[6]An analysis of how the agencies account for any refund amounts that they receive was outside the scope of our review.

are developed, the GSA SmartPay contractors will be required to allow agencies to use the card they select for purchases to make intragovernmental transfers as well as purchases from private vendors. Also, the contractors under the GSA SmartPay program contracts will not operate as merchant banks for the acceptance of credit cards as US Bank has done since October 1997.

While the new GSA SmartPay contracts do not take effect until November 30, 1998, GSA officials already see the benefits of the new contract format. According to a GSA official, the credit/charge card contracts that agencies have negotiated thus far provide the opportunity for them to earn refunds that are substantially greater than the refunds available in the current credit/charge card contracts. Under the GSA SmartPay program, agencies can earn varying levels of refunds on the basis of how quickly the agencies pay their bills, the volume of their transactions, the extent to which they use and accept electronic forms and reports, and the level of losses experienced through nonpayment of accounts and fraud.

CONCLUSION

Both GSA and Treasury offer a credit card that can be used for intragovernmental transfers, but transfers are processed differently with the two cards. GSA currently offers the IMPAC card, a commercial VISA card, that can be used for both intragovernmental transfers and private vendor purchases. Since the IMPAC card is a commercial credit card, when it is used for an intragovernmental transfer, money must leave the government to be transferred via VISA and the banks from one agency's account to another. Under GSA and US Bank's pilot for intragovernmental transfers using the IMPAC card, US Bank pays GSA for the purchase in 45 days because, on average, the customer agency pays US Bank for the purchase in 45 days. Treasury's USA card is a private-label card that can only be used for intragovernmental transfers with those agencies that have agreed to accept the card. To process an intragovernmental transfer made with the USA card, accounting information about the transfer is transmitted to Treasury daily. Treasury then electronically records the transfer as a debit to the customer agency and a credit to the merchant agency within 3 days of the purchase. Therefore, with the USA card, no money leaves the government to be transferred from one agency's account to another. As of October 1997, both the USA card and the IMPAC card pilot have a flat transaction fee of $0.95. Previously, intragovernmental transfers made with the IMPAC card were subject to the generally more costly discount fee, which is typically 1.5 to 2 percent of the purchase price, which applies to private vendors.

There is now a governmentwide approach being developed for intragovernmental transfers using credit cards, which should address the issues of concern raised by Treasury and EPIC--that is, cost of the discount fee for processing transfers, money leaving the government, identification of transfers in accounting records, and coordination among multiple agencies. The creation of IGOTS has provided for coordination among agencies in developing a governmentwide approach to intragovernmental transfers. All credit cards used for intragovernmental transfers will be expected to conform to the governmentwide policies and procedures developed by IGOTS for credit card operations. These policies and procedures should help ensure that for intragovernmental transfers (1) processing services are priced on a transaction-fee basis, (2) money does not leave the government to be transferred between agencies, and (3) intragovernmental transfers are readily identifiable in accounting records. IGOTS expects the policies and procedures for intragovernmental transactions to be finalized by the end of September 1998.

Both GSA and Treasury officials have said that each agency plans to continue to offer a credit card for intragovernmental transfers. Although the incremental contract-related costs to GSA and Treasury associated with intragovernmental transfers may not be substantial, the advantages or disadvantages of having both agencies continue to offer credit cards for intragovernmental transfers are unknown. The advantages or disadvantages will not be known until the policies and procedures being developed by IGOTS are finalized and incorporated into Treasury's agreement for the USA card and the individual credit card contracts under the GSA SmartPay program.

Whether GSA's efforts to improve credit/charge card service to federal agencies and to increase competition and flexibility in providing credit/charge cards by allowing agencies to negotiate and select credit/charge card services from multiple contractors will be successful will not be known until sometime after the contracts take effect on November 30, 1998. Agencies are currently developing their requirements for credit/charge cards and negotiating with the contractors under the GSA SmartPay program to determine which contractor can best meet their requirements at the lowest price. In contrast to the individual contracts approach for credit/charge cards that was used in the past, it appears that the multiple contract approach will enable agencies to tailor their credit/charge card contracts to best meet their needs and negotiate with the six contractors to obtain the best price for these services.

AGENCY COMMENTS AND OUR EVALUATION

On July 16, 1998, we requested comments on a draft of this letter from the Secretary of the Treasury, the Administrator of GSA, and the Acting Director of OMB. We obtained oral comments from the Assistant Commissioner of Federal Finance, Financial Management Services in Treasury, and the Director of the Services Acquisition Center, Federal Supply Service in GSA. We received written comments from the Chief, Federal Financial Systems, OMB. Each official indicated that the draft letter generally presented the facts accurately and provided some technical comments, which were incorporated where appropriate in this letter.

SCOPE AND METHODOLOGY

To provide information on GSA's IMPAC card and Treasury's USA card, we interviewed GSA and Treasury officials about their credit card programs. We also obtained documents from GSA and Treasury that described the credit card programs. To obtain information on the concerns involving credit card use for intragovernmental transfers and the actions being taken to address these concerns, we interviewed officials from OMB, GSA, and Treasury who were also members of IGOTS. We obtained and reviewed the statement of work for the study on intragovernmental transfers by PricewaterhouseCoopers, L.L.P., which was contracted by IGOTS. We also spoke with representatives from NationsBank and US Bank, which currently provide credit card services for intragovernmental transfers.

To obtain information on GSA's decision to use multiple contracts to replace each expiring travel, fleet, and purchase credit/charge card contract, we interviewed GSA officials involved in the contract process. We also attended a GSA kick-off conference for the GSA SmartPay program and obtained and reviewed copies of the contractors' promotional packages that describe their credit/charge card services and prices.

We conducted our review from March 1998 through June 1998 in accordance with generally accepted government auditing standards.

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We are sending copies of this letter to the Committee's Ranking Minority Member, the Administrator of GSA, the Director of OMB, and the Secretary of the Treasury. We will also make copies available to others on request.

Major contributors to this letter were Gerald P. Barnes, Assistant Director; Maria D. Edelstein, Evaluator-in-Charge; and Hazel Bailey, Communications Analyst. Please contact me at (202) 512-8387 if you or your staff have any questions about this letter.

Sincerely yours,

Bernard L Ungar

Bernard L. Ungar
Director, Government Business
Operations Issues

(240295)

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