



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1828
SESSION 2010–2012**

20 MARCH 2012

Cabinet Office

The Government Procurement Card

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

Cabinet Office

The Government Procurement Card

Ordered by the House of Commons
to be printed on 19 March 2012

Report by the Comptroller and Auditor General

HC 1828 Session 2010–2012
20 March 2012

London: The Stationery Office
£16.00

This report has been
prepared under Section 6
of the National Audit Act
1983 for presentation to
the House of Commons
in accordance with
Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

16 March 2012

The Government Procurement Card was introduced in 1997 as a convenient and cost-effective way to make low-value purchases. The Card was made available to all public sector organisations, including central government departments, local authorities and NHS organisations.

© National Audit Office 2012

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Contents

Key facts **4**

Summary **5**

Part One

How the Government
Procurement Card is used **10**

Part Two

Controls over Government
Procurement Card spending **21**

Part Three

Improving controls **34**

Appendix One

Methodology **44**

The National Audit Office study team consisted of:

Lucy Ballard, Matt Barnes,
Jessica Colville, Leena Mathew and
Scott McMillan under the direction
of Keith Davis.

This report can be found on the
National Audit Office website at
www.nao.org.uk/gpc-2012

For further information about the
National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£322m

was spent using
Government Procurement
Cards in 2010-11

1.75m

card transactions were
made during 2010-11

£184

was spent, on average,
per card transaction in
2010-11

- 74 per cent** of Government Procurement Card spending was within the Ministry of Defence
- 41 per cent** of card spending in 2010-11 was for travel and accommodation
- 23,998** cards are in use, as at 31 October 2011
- 0.75 per cent** of total procurement spending is through Government Procurement Cards
- 5** major card providers to central government

Summary

Background and scope

1 The Government Procurement Card ('the Card') was introduced in 1997 as a convenient and cost-effective way to make low-value purchases. The Card was made available to all public sector organisations, including central government departments, local authorities and NHS organisations. During 2010 and 2011, departments' use of the Government Procurement Card has come under increased public and political scrutiny, following press articles highlighting apparent misuse of the cards. Card misuse risks financial loss and reputational damage for departments.

2 All central government departments operate their own card programmes, setting policies and controls to ensure staff use cards appropriately. The Cabinet Office is responsible for procurement issues overall; part of this responsibility resides within the Government Procurement Service (formerly Buying Solutions). The Government Procurement Service manages the central framework contracts with card providers, and monitors and reports procurement spending. The Cabinet Office has also recently established a Government Procurement Card Steering Group of departmental representatives, to shape how the Card should be used. The Steering Group, jointly chaired by the Cabinet Office and the Ministry of Justice, will also be responsible for ensuring that departments implement a new cross-government policy on the use of the Card which was introduced by the Cabinet Office in November 2011.

3 There were 23,998 cards in central government, as at October 2011. There are different types of card available, and the definition of the Card has not always been consistent. There are other types of payment cards such as travel cards, prepayment cards and declining balance cards. However, arrangements differ to those for the Government Procurement Card, and we have not examined these cards in this review. In this report, the Card refers to two types of card:

- **Purchasing card:** Physical card issued to an individual or team.
- **Lodge card:** Virtual card 'lodged' with one supplier for a particular category of spending. Only purchases of goods or services from that supplier can be charged to the lodge card.

4 Our objective was to carry out a focused assessment of the controls for Government Procurement Cards in central government. This report does not provide an assessment of the value for money of procurement spending using the Government Procurement Card.

5 We reviewed how Government Procurement Cards are used in central government, by considering:

- how and where the Card is used;
- how departments control spending; and
- how controls could be improved, including considering the role of the Cabinet Office.

6 We reviewed departments' policies for using the Card (design of controls), and tested how these policies were implemented (operation of controls). We also reviewed the departments' own internal audit reports looking at both control design and implementation, examined the context of how the Cards are used, and the central role of the Cabinet Office.

7 Although we did not set out to assess the risks and benefits of the Government Procurement Card, in the course of our review we encountered wider value-for-money issues around the use of the Card in government. These included: how departments decide to use this procurement route; whether controls are based on assessing risks, costs and benefits; and the consistency of controls across government.

8 The review covers central government, including the 17 departments and their executive agencies. Government Procurement Cards are used elsewhere in the public sector. While not covered by this study, some recommendations made in this report may be applicable in these organisations.

Key findings

How the Government Procurement Card is used

9 Central government spent £322 million using Government Procurement Cards in 2010-11, and £149 million in the first half of 2011-12. There were 1.75 million transactions in 2010-11, and 818,781 transactions in the first half of 2011-12. The majority of transactions are low-value purchases. The average value of a transaction in 2010-11 was £184.

10 Departments' use of Government Procurement Cards varies, both in the amount spent and in the type of goods and services purchased. The Ministry of Defence accounted for around 74 per cent (£237 million) of central government's total spending using the Card in 2010-11, compared with HM Revenue & Customs which spent £205,000. This may be a reflection of varying business need or business models. 'Travel' and 'Hotels and Accommodation' are among the most common categories for which the Card is used across government, comprising 41 per cent of total spending. However, some departments do not allow the Card to be used for these categories.

Assessing controls in departments

11 Departments are responsible for designing and implementing a set of controls for use of the Card. These are generally designed satisfactorily. However, approaches are inconsistent and this is not entirely justified by business need.

Some controls vary legitimately, reflecting differing business needs or business models operating in departments. For example, blocking of certain categories may be entirely appropriate for one organisation while not suiting the operating model of another. However, we would expect other controls, such as the rigour of the monthly review process, to be consistent across all departments.

12 Generally, controls are operating as set out in departmental policies but there are some notable weaknesses. We found different controls in each of the five departments we examined. There were instances of departments not complying with controls, such as missing receipts or invoices to support transactions, or no evidence that the cardholder was authorised to make purchases. In some departments we identified more significant issues, including a large backlog of unapproved transactions, and limited approval and reviewing procedures.

13 Some departments have inadequate management information and cannot monitor Government Procurement Card use effectively. This presents a further weakness in departmental controls. Without accurate data, departments cannot monitor adherence to policies, assess exposure to risk, or review whether controls meet business need.

Improving controls across government

14 Central data is incomplete and inconsistent, and does not provide an accurate picture of Government Procurement Card spending across government.

The Cabinet Office oversees the Card centrally but it does not have an accurate picture of activity to support this. Data collected centrally cannot be mapped to the data collected by individual departments. The Cabinet Office is undertaking an exercise to address these inconsistencies.

15 Historically, there has been a lack of central oversight and control of the Card, which has increased risks to value for money. However, the centre of government has made recent moves to strengthen controls, including the introduction of a cross-government policy on use of the Card. A cross-government steering group has been established which designed and distributed the central policy. These are important first steps towards greater standardisation of controls. The new policy highlights gaps in departmental policies. While some elements were already widely used, such as clearly linking misuse of the Card to disciplinary procedures, other areas, such as management information, were not specified in most departmental policies.

16 While departments acknowledge the risks and potential advantages of the Card, there is no up-to-date value-for-money case to substantiate this.

Departments are not given clear guidance on when the Card may (or may not) be an appropriate way to procure goods or services. The finding from a 1998 KPMG report¹ that each Government Procurement Card transaction costs an average of £28 less than a non-card transaction was based on procurement processes that are no longer used. This outdated figure can no longer serve as the basis of a business case for using the Card. Our preliminary work in the Ministry of Justice indicates that the cost of procurement has decreased substantially, due to advances such as electronic procurement and invoicing methods. In the specific transactions we examined, we estimated the difference in cost to be around £5 or 35 per cent less for a Card transaction compared with a non-card catalogue transaction. The Ministry of Justice also confirmed wider benefits to the Card, such as prompt payment to suppliers, reduced supplier set-up and maintenance costs, and rebates from card providers.

Conclusion

17 Used appropriately, the Government Procurement Card can be a cost-effective way for central government to procure goods and services, with benefits in terms of convenience and reduced administration. Departmental controls in the five departments we examined were generally designed satisfactorily and operating as intended. However, the Card also comes with a degree of reputational risk which is heightened by a lack of clear central guidance on when it is the most appropriate procurement route. This has contributed to inconsistent controls across central government, and considerable variation in how departments use the Card. The business case for using the Card is based on outdated information. The centre of government is making progress towards greater consistency and centralisation, but the current system still contains risks to value for money.

Recommendations

18 We make the following recommendations to improve value for money in using Government Procurement Cards:

- a** **There is a lack of comprehensive management information on the use of the Card.** As part of its current exercise, the Government Procurement Service (within the Cabinet Office) should work with card providers and departments to develop a consistent way to gather data, and report on spending. Improved management information would help central government and departments to understand how the Card is used and the risks involved, and to design appropriate controls with clear objectives.

¹ KPMG's findings are referenced in an National Audit Office report: Comptroller and Auditor General, *Improving procurement*, Session 2003-04, HC 361-I, March 2004.

- b There is considerable inconsistency in the controls applied to the Card's use.** Some departments are already compliant with the cross-government policy. However, where this is not the case, they should adopt this as a minimum, and make sure that their associated bodies adopt these policy standards. Departments should reflect these clearly in their policy documents, as well as ensuring that the specified controls are operating effectively. They should assess the benefits, costs and risks of using the Card, and use this to design controls appropriate to their business. This should consider the points below:
- Lower-risk lodge cards (a form of Government Procurement Card) may be more appropriate for certain categories of spending.
 - The case for enhanced controls, such as requiring departments to:
 - block all merchant category groups (categories of spending) for individual cards unless specifically required to meet a defined business need;
 - increase the use of (near) real-time online monitoring to detect suspicious or fraudulent transactions;
 - withdraw cards for repeated low-level breaches;
 - approve 100 per cent of transactions by someone with designated authority; and
 - regularly assess the business need for individual cards, promptly withdrawing them if such need no longer exists.
 - The case for more stringent deterrents, such as publishing all transactions (not just those of £500 and above, as at present) and publishing instances of detected fraud.
- c There are weaknesses in departmental controls, particularly in approving and reviewing transactions.** Departments should review how controls operate and act upon internal audit recommendations to address the weaknesses identified. Departments must make sure that they have adequate management information to monitor compliance with policies.
- d It is not clear when the Card is the most value-for-money procurement option.** The Cabinet Office should revisit the value-for-money business case for the Card and clarify how it should, and should not, be used. Although departments may be flexible, to suit individual business needs, there should be central guidance on which procurement tools are appropriate for different types of purchase.

Part One

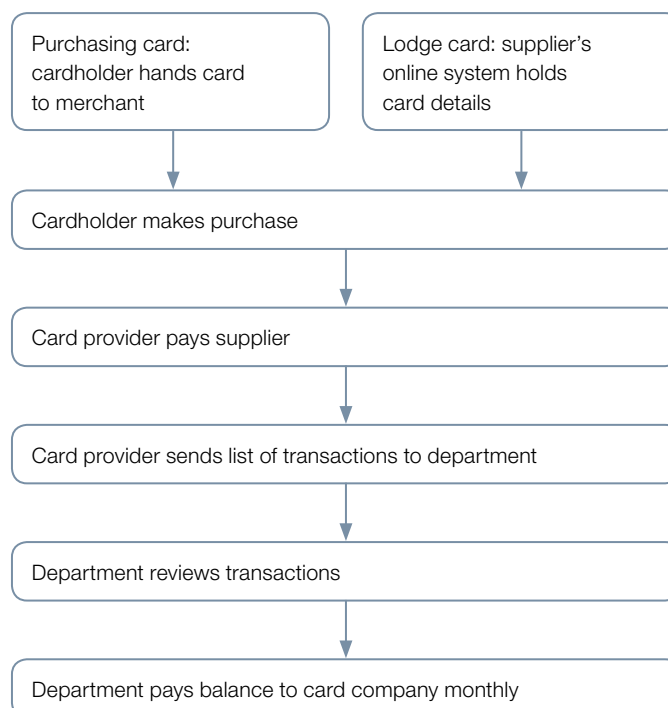
How the Government Procurement Card is used

1.1 This section provides an overview of how Government Procurement Cards are used by central government, and how this varies between departments.

1.2 The Government Procurement Card is a way to pay for goods and services. It is typically used for low-value, high-volume transactions, such as travel, hotel accommodation and office supplies. Cards are provided by major card companies, including Barclaycard and American Express, and work in a similar way to credit cards. With the Government Procurement Card, the payment for goods or services is made almost immediately by the card company, who are paid the balance of all transactions by departments monthly (**Figure 1**). This differs from other means of procurement based on supplier invoicing. Payment for this would be direct from department to supplier and processed monthly, requiring a longer time frame for payment.

Figure 1

A typical Government Procurement Card purchase process



1.3 As at 31 October 2011, there were 23,998 Government Procurement Cards in use across central government. There are two forms of Government Procurement Card; purchase cards and lodge cards. In the case of purchase cards, individuals are given cards and are authorised to purchase goods. An alternative form of the Card is the lodge card, where a virtual card is 'lodged' with a frequently-used supplier. This enables payment for certain goods or services by multiple users (a typical example would be a travel company). Other types of payment card, including travel cards, pre-payment cards and declining balance cards, have different arrangements, and they are not covered by this report. **Figure 2** describes the different types of card.

1.4 The Cabinet Office has overseen Government Procurement Cards since June 2010, when Buying Solutions and its parent agency, the Office of Government Commerce, became part of the Efficiency and Reform Group.² Buying Solutions is now the Government Procurement Service (GPS), and it manages government framework contracts with card providers and monitors all procurement spending.

Figure 2
Types of cards

Card type	Description
Government Procurement Card: Purchasing card	A card that allows cardholders to make purchases within predefined limits. Unlike a traditional credit card, the whole outstanding balance is payable by the department at the end of the account settlement period. Card providers offer rebates based on the total level of spend across all cardholders.
Government Procurement Card: Lodge card	A virtual card that operates to pay for all transactions with a single supplier. Lodge cards can be used by many users, for example in ordering stationery or booking travel with a contracted provider. In every other way, they operate identically to purchasing cards.
Travel card and fuel card	A card used by regular travellers to pay travel expenses.
Pre-payment card	Single load card used for a one-off payment of funds. The card is then disposable. A reloadable card acting as a single load card but the card can be recharged with a balance and is not disposable.
Declining balance card	A card with a predefined spending balance that can be used to make purchases within specified category areas.

Source: *Efficiency and Reform Group*

² The Government announced the formation of the Efficiency and Reform Group within the Cabinet Office in May 2010 to bring many of the functions of a typical corporate headquarters together in central government.

1.5 The Cabinet Office created a Government Procurement Card Steering Group in January 2011, comprising representatives from five of the large central government departments³ and the Government Procurement Service. The objectives of the group include shaping the direction of using the Card, and acting as an open forum to share best practice. It is also a forum for departments to air concerns around managing their card programmes, and discuss how the centre can assist them. The Government Procurement Card Steering Group developed the new cross-government policy, and is responsible for monitoring its implementation.

Government Procurement Card spending

1.6 We undertook a data collection exercise among departments to obtain a consistent picture of how the Card is used across central government departments and executive agencies. The data provided by departments has limitations and is inconsistent and incomplete in some cases. However, more comprehensive data are not available centrally regarding the use of the Card across government. The subsequent analysis we present in the report is based upon these data.

1.7 These data show that spending using the Card is a small proportion of total procurement. In 2010-11 it was 0.75 per cent of total procurement spending (0.71 per cent in the first six months of 2011-12). In 2010-11 the Cabinet Office had the highest proportion at 2.97 per cent. HM Revenue & Customs had the lowest card spending as a proportion of procurement at 0.01 per cent (**Figure 3**). This may be a reflection of varying business needs or different business models in operation.

1.8 Central government card spending totalled £359 million and £322 million in 2009-10 and 2010-11 respectively. In the first six months of 2011-12, central government spent £149 million using the Card. In 2010-11, the Ministry of Defence was the largest spender, comprising 74 per cent of total Government Procurement Card spending across the 17 departments, with £237 million (**Figure 4** on page 14).

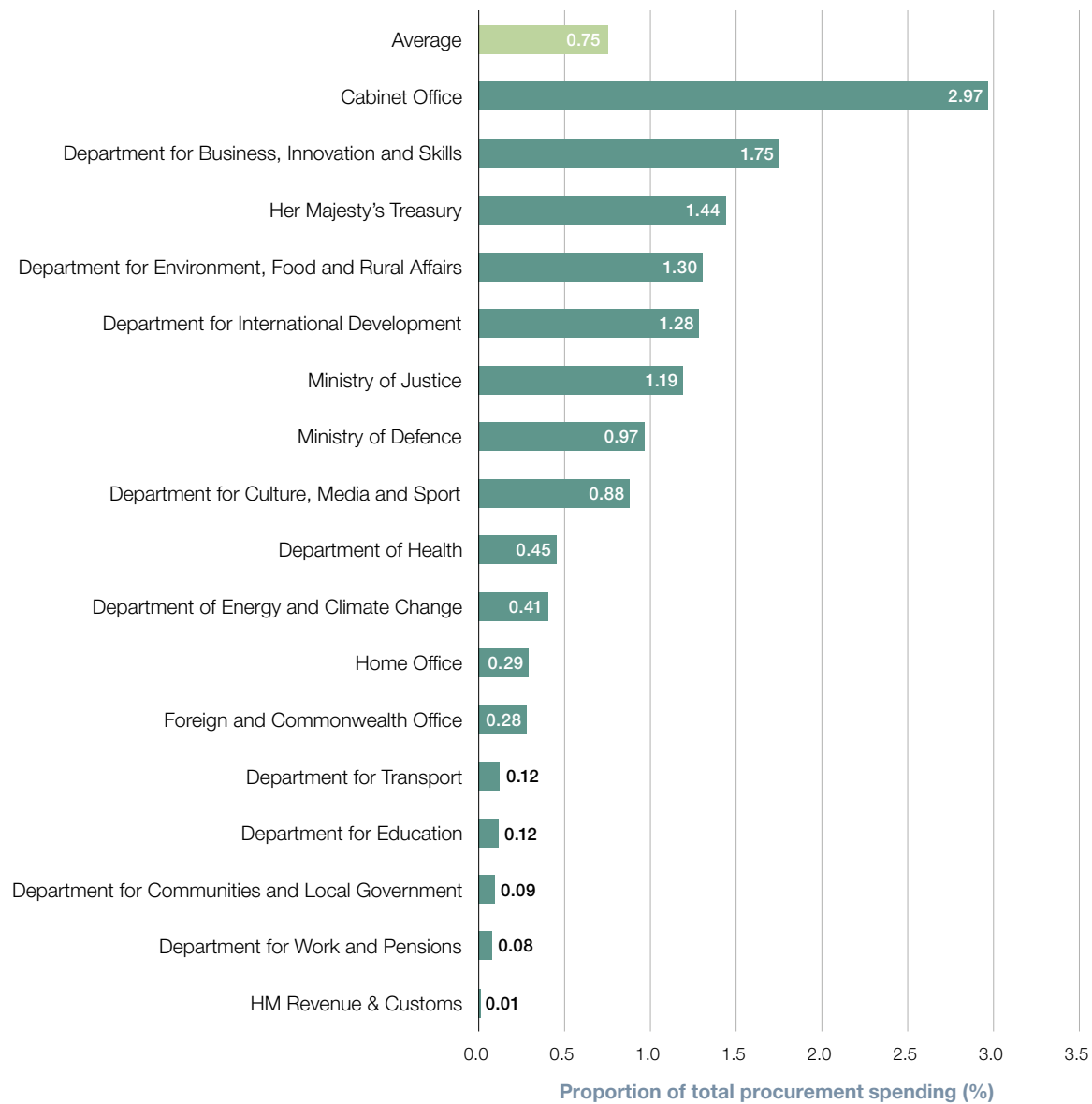
1.9 Government Procurement Card spending varies across the year. Most departments have seasonal fluctuations with high levels of spending either at the start or end of the financial year. However, the general trend, since April 2009, has been a fall in card use (**Figure 5** on page 15). Only three departments have increased their average monthly spending.⁴

³ Ministry of Defence, Ministry of Justice, Foreign and Commonwealth Office, Department for Work and Pensions, Home Office.

⁴ Department for International Development, Department for Business, Innovation and Skills, Foreign and Commonwealth Office.

Figure 3

Government Procurement Card spending as a percentage of total procurement spending 2010-11

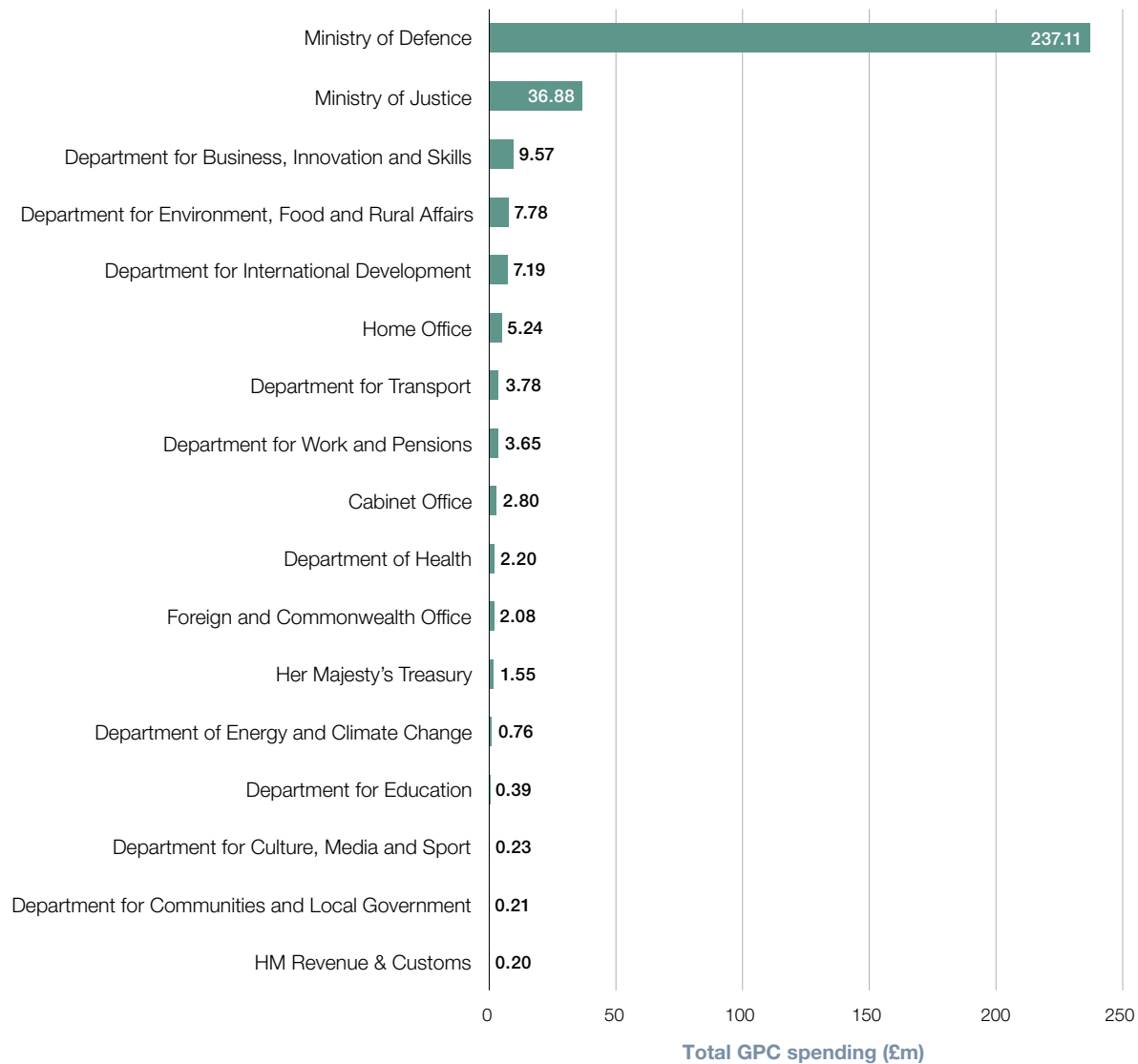
**NOTE**

1 The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.

Source: National Audit Office analysis of departmental data

Figure 4
Total Government Procurement Card spending 2010-11

Total GPC spending in 2010-11: £322 million



NOTE

1 The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.

Source: National Audit Office analysis of departmental data

Figure 5

Total monthly Government Procurement Card spending for 17 departments
(April 2009 to September 2011)

Monthly spending (£m)**NOTE**

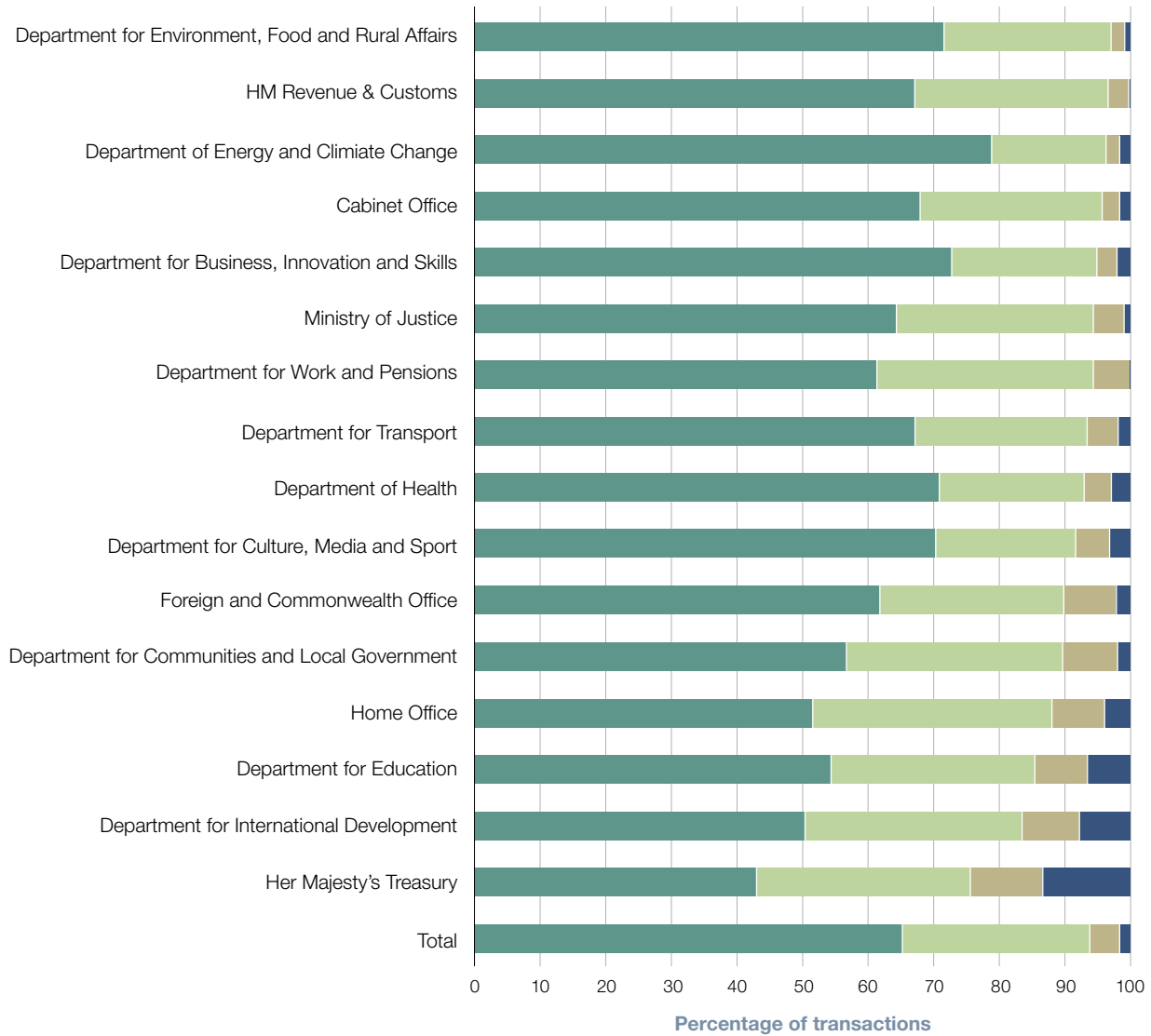
1 The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.

Source: National Audit Office analysis of departmental data

Profile of spending

1.10 Central government made 1.75 million card transactions in 2010-11, and 818,781 transactions in the first half of 2011-12. **Figure 6** overleaf shows that the majority of transactions are low in value. It excludes the 1,157,742 transactions made by the Ministry of Defence as its systems are not sufficiently sophisticated enough to group data in this way. The remaining 16 departments made 588,915 card transactions in 2010-11, and 243,209 transactions in the first half of 2011-12. Transactions of under £500 accounted for 94 per cent of purchases in 2010-11. In the same time period, there were only 43 single transactions of £10,000 or more. These included a number of bulk stationery purchases by the Ministry of Justice, using a lodge card.

Figure 6
Government Procurement Card transactions by value 2010-11



- £99.99 or less
- £100-£499.99
- £500-£999.99
- £1,000 +

NOTES

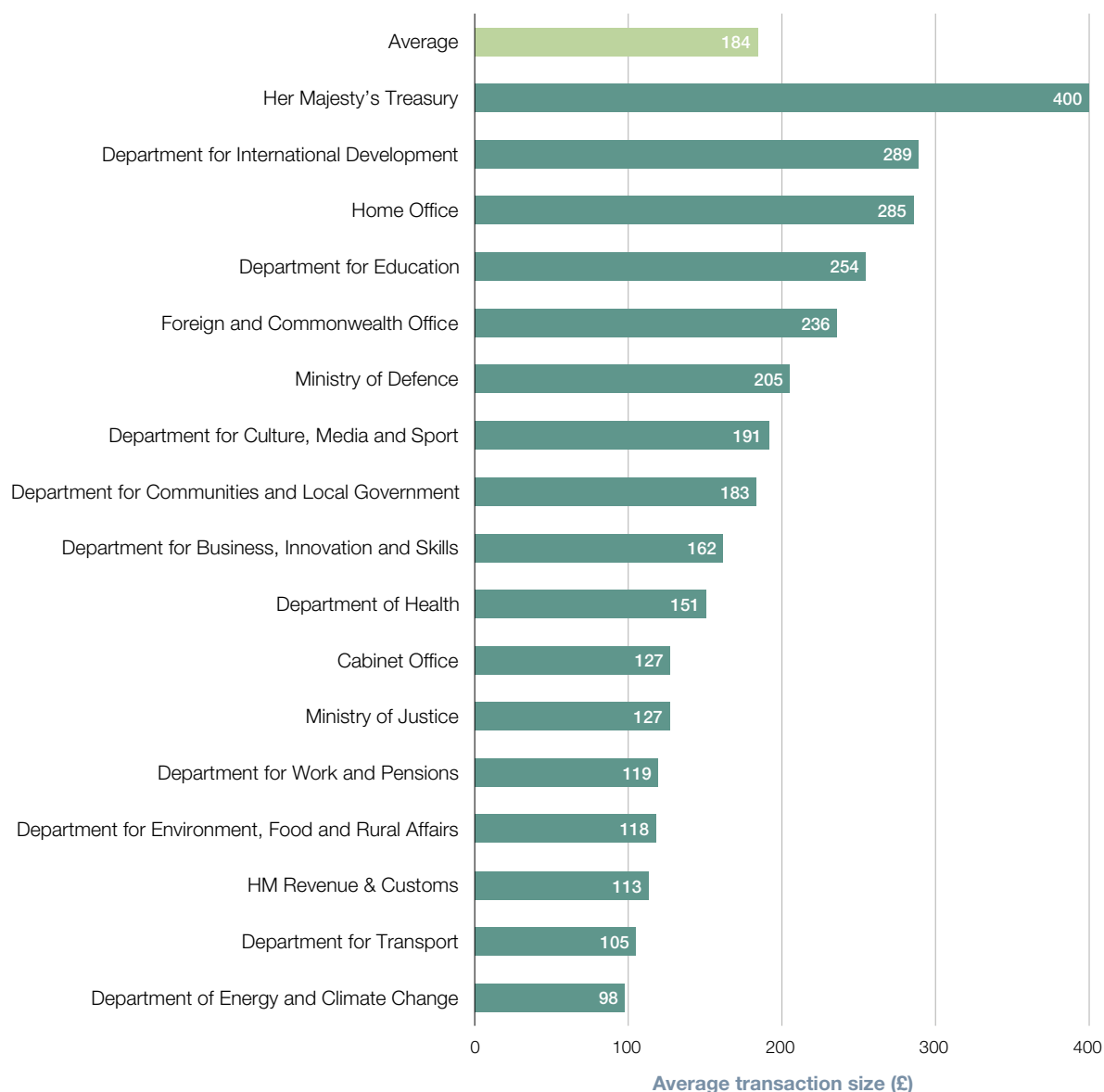
- 1 Figures exclude Ministry of Defence data.
- 2 The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.

Source: National Audit Office analysis of departmental data

1.11 The average transaction size across all departments in 2010-11 was £184 (Figure 7), which has remained at a similar level since 2009. The Treasury has the highest average size of £400 per transaction, while the Department of Energy and Climate Change has the lowest at £98.

Figure 7

Average transaction size 2010-11



NOTE

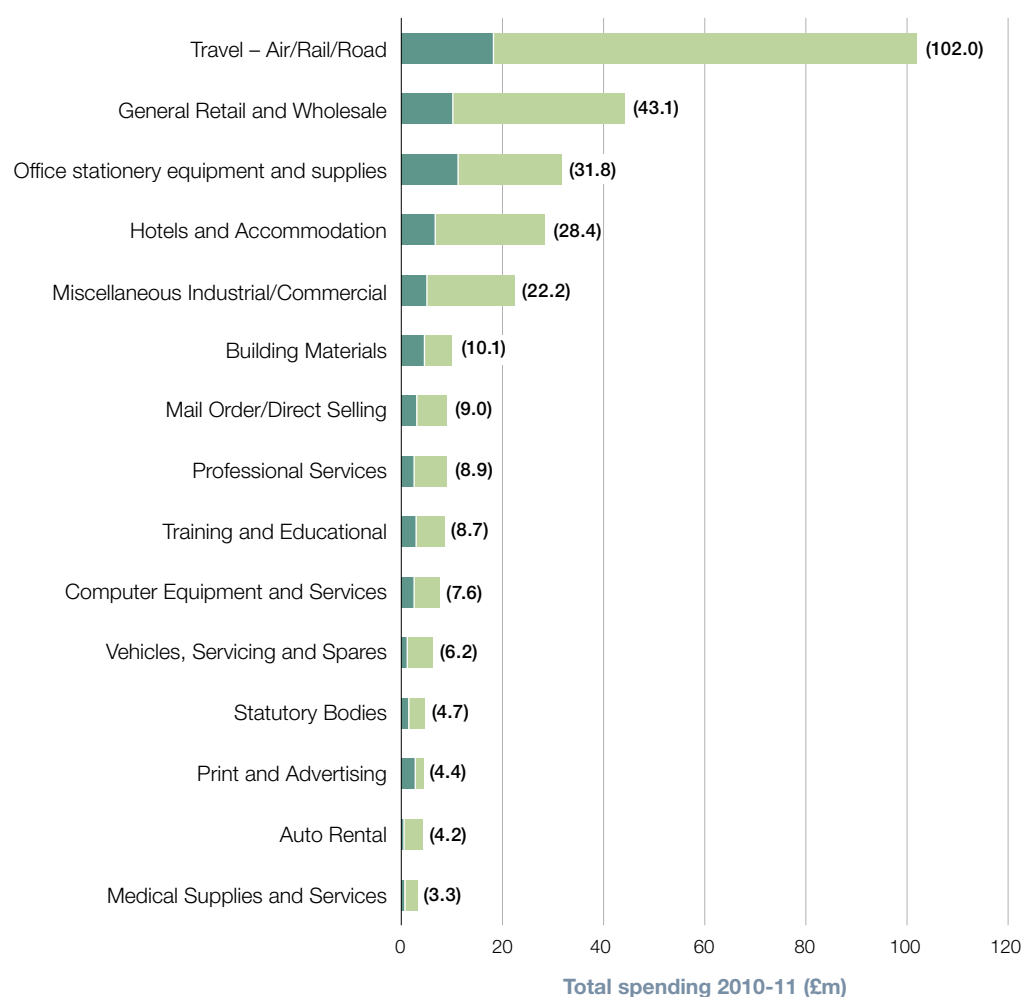
¹ The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.

Source: National Audit Office analysis of departmental data

1.12 Card spending is broken down into categories known as merchant category groups. Each group consists of a number of merchant category codes which are more detailed and specific to each supplier. For example, air fares and rail tickets are different codes under the 'travel' group. Overall, travel is the largest group by value in 2010-11, with 32 per cent of total spending (**Figure 8**). There is considerable variation between departments among the smaller merchant category groups.

Figure 8

Total spending in the top 15 merchant category groups 2010-11



■ Total excluding Ministry of Defence
 ■ Ministry of Defence

NOTES

- 1 Totals including Ministry of Defence shown in brackets.
- 2 The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.

Source: National Audit Office analysis of departmental data

Number of cards and average expenditure

1.13 Of the 23,998 Government Procurement Cards in use across central government (as at October 2011), around half of these are used in the Ministry of Defence (**Figure 9**). The average amount spent per card across departments during 2010-11 was £13,403. This figure will depend on departments' use of lodge cards. These virtual cards are lodged with one supplier, a travel company for example. They will be used by employees across the organisation and will have higher spending attributed to one card. For example, the Department for International Development's appointed travel service provider processed travel transactions worth £5.49 million using a lodge card as the payment mechanism.

Figure 9

Government Procurement Cards October 2011

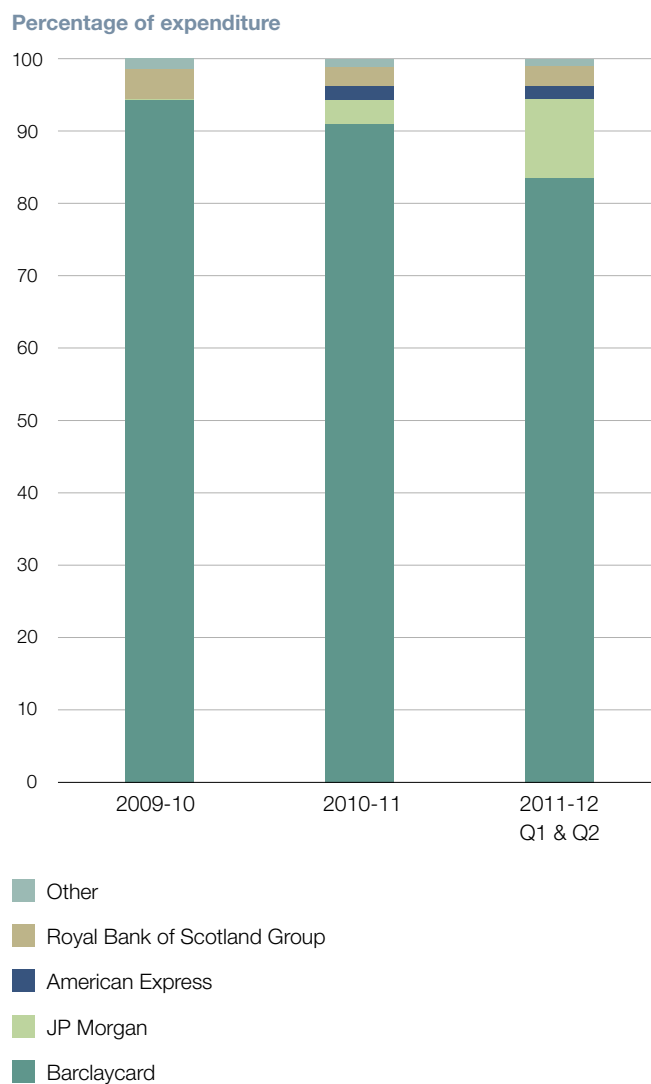
Department	Number of cards (31 October 2011)
Ministry of Defence	12,932
Ministry of Justice	3,573
Department for Environment, Food and Rural Affairs	1,957
Department for Business, Innovation and Skills	1,487
Department for Transport	1,211
Home Office	612
Cabinet Office	515
Department for Work and Pensions	429
Department of Health	326
Foreign and Commonwealth Office	218
Department for International Development	200
Department of Energy and Climate Change	165
Her Majesty's Treasury	111
Department for Education	87
HM Revenue & Customs	78
Department for Culture, Media and Sport	67
Department for Communities and Local Government	30
Total	23,998

Source: National Audit Office analysis of departmental data

1.14 Government Procurement Cards are provided by a number of suppliers. The majority of spending is through Barclaycard (91 per cent in 2010-11), although this proportion has fallen from 94 per cent in 2009-10 to 84 per cent in the first six months of 2011-12 (**Figure 10**).

Figure 10

Total spending by card provider (April 2009–September 2011)



NOTES

- 1 The National Audit Office requested that departments submit Government Procurement Card data from 2009-10, 2010-11, and April–September 2011, to cover core department and executive agencies, exclusive of VAT. There is some variation from this, which is summarised in the technical annex which can be found at www.nao.org.uk/gpc-2012.
- 2 'Other' category includes the Co-operative Bank and NatWest. National Westminster Bank Plc (otherwise known as NatWest) is a wholly-owned subsidiary of The Royal Bank of Scotland plc, and its ultimate holding company is The Royal Bank of Scotland Group plc. NatWest data may be included in the Royal Bank of Scotland Group category, however, some departments reported NatWest data separately.

Source: National Audit Office analysis of departmental data

Part Two

Controls over Government Procurement Card spending

2.1 When used appropriately, the Government Procurement Card can be an effective tool for departments to use in purchasing low-value goods and services. However, the way the Card operates, with the cardholder making the decision at point of purchase, means there is a risk that purchases may not always represent value for money. Cardholders may use the Card inappropriately, or even fraudulently, causing the department financial loss and reputational damage.

2.2 The Cabinet Office, departments, and individual cardholders and approvers each have a role to play in the governance and control of card use. However, it is departments that are each responsible for balancing the risks with the benefits of the Card, and implementing an appropriate system of controls (**Figure 11**).

Figure 11
Roles and responsibilities

Party	Role
Cabinet Office (including the Efficiency and Reform Group and the Government Procurement Service)	Responsible for improving the efficiency of procurement in central government, including overseeing the use of the Government Procurement Card.
Departments	Responsible for putting a policy in place which sets out when the Card is the most appropriate method of paying for goods and services.
Individuals (including cardholders and approvers)	Responsible for complying with the terms of the departmental policies.

Source: National Audit Office

2.3 This section of the report considers departmental policies and how these are implemented. In doing so, we:

- reviewed the policies of ten departments that used the Government Procurement Card most extensively in 2010-11, according to a review by the Efficiency and Reform Group, within the Cabinet Office;⁵ and
- examined the controls in five case study departments, selected to represent those with a range of Government Procurement Card spending,⁶ and reviewed a sample of transactions in each department, covering a range of transaction values.

Designing a system of departmental controls

2.4 We would expect a department's system of controls to be based on an analysis of the benefits and risks in different categories of spending, taking into account the systems it has available. It would be in a clearly written and easily accessible policy; reviewed regularly to ensure it remained appropriate.

2.5 Of the ten policies we reviewed, all had been updated in the past two years, showing that departments are regularly considering whether policies meet their needs. We found that the guidance on the use of Government Procurement Cards was not always consolidated into one policy document, but was easily available to cardholders, for example, on departmental intranets.

2.6 However, our discussions with departments showed that policies and controls were not necessarily formed by setting benefits against risks. In most cases, policies and controls had evolved over time and departments have implemented these differently. This means that departments have different approaches to when the Card should, or should not, be used, and the rationale for this is not always clear. For example, the Ministry of Justice use the ability to block the use of cards for certain categories that other departments do not, such as financial services.

Our expectations

2.7 We would expect departmental policies to contain a combination of different types of controls.

2.8 Preventative controls are to prevent inappropriate spending from occurring. Examples we would expect to find include:

- blocking particular types of spending so that attempted purchases within a category (for example, restaurants and bars) are automatically declined;

⁵ The Cabinet Office data identified the following departments as the highest spenders: Ministry of Defence, Ministry of Justice, Foreign and Commonwealth Office, Home Office, Department for Work and Pensions, Department for Business, Innovation and Skills, Department for Environment, Food and Rural Affairs, Her Majesty's Treasury, Department of Health, Department for Transport. Due to differences in scope between the Cabinet Office's and our own data collection exercises (presented in Figure 4), there are some variations in the figures.

⁶ Ministry of Defence, Ministry of Justice, Foreign and Commonwealth Office, Department for Work and Pensions, Department of Health.

- authorised expenditure limits for both single transactions and monthly expenditure which, if exceeded, would cause the transaction to be declined;
- departmental limitations on who can become a cardholder, with mandatory training for cardholders and card administrators;
- departments requiring cardholders to obtain pre-authorisation for transactions in categories blocked in accordance with departmental policies; and
- regular assessments of whether the individual cards are still required for business needs.

2.9 Detective controls try to identify inappropriate purchases after the transaction has occurred. Examples we would expect include the departments:

- requiring monthly reconciliations between transaction logs and card statements, which are then reviewed by a designated approver;
- doing further spot checks on a sample of transactions, for example by internal audit; and
- reviewing management information to identify areas for further investigation – for example, spending reports by business unit or cardholder.

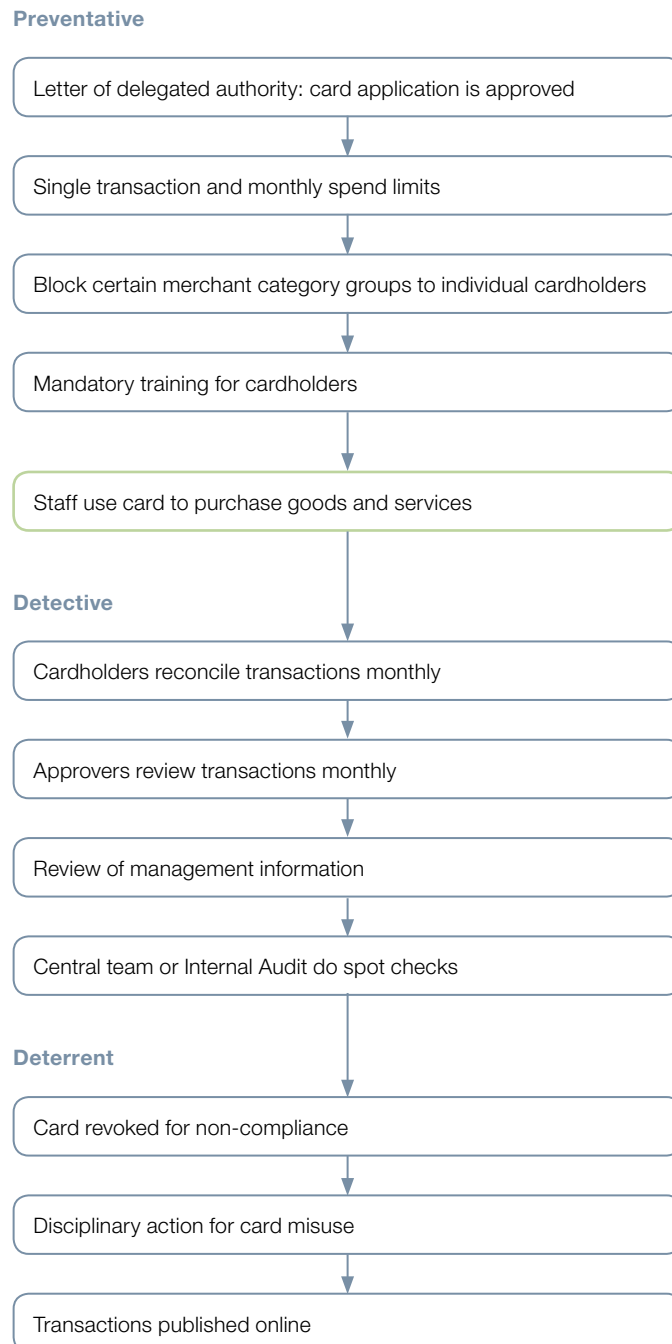
2.10 Deterrent controls are to dissuade, as opposed to prevent, cardholders from making inappropriate purchases. Examples we would expect include departments:

- removing cards for repeated low level non-adherence to the policy;
- having clear sanctions for misuse, including the threat of disciplinary action in the case of serious misuse; and
- publishing transactions online.

2.11 Departmental policies may legitimately vary in some respects, reflecting differing business needs or business models. For example, blocking of certain categories may be entirely appropriate for one department while not suiting the operating model of another. However, we would expect other controls, such as the rigour of the monthly review process, to be consistent across departments.

2.12 When reviewing a sample of ten departments' policies against our expectations, we found many similarities between them. For example, all of those tested used a monthly review process (reconciliation), card limits and disciplinary procedures for misuse (**Figure 12** overleaf). However, there were variations in policy details, and in how they were implemented.

Figure 12
Timeline of example controls



NOTE

1 Letters of delegated authority may also be referred to as cardholder declarations or letters of authorisation.

Source: National Audit Office

Preventative controls

2.13 The first, and most usual control is a restriction on who can hold a card. Some departments allow any member of staff to apply for a card, but others restrict this, for example, by excluding non-permanent members of staff. Some departments require the cardholder to have a letter of authorisation to make purchases with the Card, although not all require this degree of formality. In most cases, the applicant cardholder requires authorisation from the budget holder.

2.14 Another preventative control is to block using the Card for certain types of purchase. 'Merchant category groups' are spending categories which contain groups of suppliers (for example, office stationery suppliers), and card companies can block these. Most departments use this facility, but there is considerable variation. For example, the Ministry of Justice blocks most categories by default, while others limit this to a small number. Most commonly blocked categories are restaurants, fuel, and cash withdrawal.

2.15 A further preventative control used by most departments is to set single transaction and monthly spend limits. If a cardholder tries to make a transaction that will breach either limit, it will be declined by the card provider. Departments often have a default transaction limit, but this will vary between parts of the organisation based on business need.

2.16 As well as single transaction limits, departments have in place standard monthly spending limits, which range from £1,500 to £10,000. In most departments, both single and monthly limits can be altered if a business case is provided and approved. For example, in the Ministry of Justice the standard monthly limit is £5,000, however, three cards have an approval limit of £60,000. This is to allow a single user to purchase items on behalf of a number of prisons to facilitate maintenance.

Detective controls

2.17 Detective controls typically operate within departments on a monthly timetable. All ten of the policies we reviewed contained a monthly reconciliation process. This requires all cardholders to fully reconcile between a log of their transactions (including receipts) and the monthly card statement.

2.18 Beyond this point, the design of controls varies. Reconciliations must be reviewed, either in full or just a sample, and authorised by a designated second person. A second team may also review transactions; for example the cardholder's business unit or a central Government Procurement Card team, using reports from a management information system. There may be further spot checks or internal audit sample testing.

2.19 Figure 13 summarises the monthly review process outlined in ten policies, including the cross-government policy introduced by the Cabinet Office in November 2011. The Department of Health has the most rigorous review process, with transactions being checked by three separate people. Within the Ministry of Defence and the Department for Business, Innovation and Skills, however, even the first level approver is not required to review all transactions. Depending on how many cardholders the individual approver is responsible for, the monthly sample varies between 5 and 100 per cent of cardholders in the Ministry of Defence. Nine out of the ten policies reviewed required the cardholders to include receipts with their monthly reconciliations.

Figure 13
Monthly review processes

	100 per cent cardholder review	Approver review	100 per cent approver review	Second review	Third review
Department of Health	✓	✓	✓	✓	✓
Department for Work and Pensions	✓	✓	✓	✓	
Home Office	✓	✓	✓	✓	
Ministry of Justice	✓	✓	✓	✓	
Central policy	✓	✓	✓	✓	
Department for Transport	✓	✓	✓		
Her Majesty's Treasury	✓	✓	✓	✓	
Department for the Environment, Food and Rural Affairs	✓	✓	✓	✓	
Foreign and Commonwealth Office	✓	✓	✓		
Department for Business, Innovation and Skills	✓	✓		✓	
Ministry of Defence	✓	✓		✓	

NOTES

- Review processes may be in place in those departments not ticked, but this process is not explicitly stated in departmental policies or cardholder guidance documents.
- Department policies dated as follows: Department for Business, Innovation and Skills July 2010; Department for Environment, Food and Rural Affairs January 2010; Department of Health June 2011; Department for Transport April 2011; Department for Work and Pensions February 2010; Foreign and Commonwealth Office November 2011; Her Majesty's Treasury September 2011; Home Office July 2010; Ministry of Defence May 2011; Ministry of Justice September 2011.
- Second and third reviews consist of a regular review or spot check by the budget centre, GPC team or internal audit function. This can consist of reviewing all or a sample of the transactions.

Source: National Audit Office analysis of departmental policies

Deterrent controls

2.20 There is some variation in the controls to deter misuse of the Card. All ten policies we reviewed contained consequences for misusing the Government Procurement Card or not adhering to the policy. Most state that there will be disciplinary procedures and potential criminal proceedings if the cards are used for personal use. Some, but not all, also state that the card would be removed if the cardholder did not complete their monthly reconciliations.

2.21 As well as increasing transparency, increasing the visibility of transactions also deters misuse. From October 2011, the Cabinet Office required departments to publish all transactions of £500 and above. Some departments now examine their transactions more carefully to make sure they will bear public scrutiny, and challenge cardholders for explanations as necessary.

Implementing a system of controls

Our expectations

2.22 After designing appropriate controls and setting it out in their policy, departments need to implement it effectively. We expect that:

- the controls in the policy operate as described;
- departments collect management information to oversee spending and compliance with controls;
- internal auditors review how controls operate, highlight non-compliance, identify fraud, and propose improvements to controls;
- departments enforce penalties for staff who do not comply with policies; and
- possible fraud and inappropriate spending is identified, investigated and dealt with, via disciplinary and criminal routes as necessary.

Controls operating as described in the policy

2.23 To assess the implementation of policies, we examined five case study departments. We interviewed staff responsible for designing and operating controls. We also examined a sample of around 30 transactions between April and September 2011 in four departments. The Foreign and Commonwealth Office operates a number of card schemes, in the UK and across its international network. In this Department, we sampled around 15 Government Procurement Card transactions, as part of wider sampling of card schemes.⁷

⁷ Overall we sampled around 135 transactions across five departments. This represents a small sample in line with the scope of this report. Sampling was as representative as possible within the scale of the testing, but it should not be seen as statistically significant.

2.24 We found that controls were operating in general accordance with departments' policies. However, within our sample we found some significant instances where this was not the case (**Figure 14**).

Figure 14
Case study control weaknesses and non-compliance

Department	Control weaknesses and non-compliance identified
Department of Health	<p>Two out of the 30 transactions could not be supported with evidence, such as a receipt or invoice.</p> <p>Typical transaction and monthly limits were relatively high, compared with other departments, and seemed to have been set significantly higher than their use suggested was necessary.</p>
Department for Work and Pensions	<p>Over half of the 35 transactions we reviewed were not approved by a designated individual, as required by the policy.</p> <p>There was also a backlog of transactions awaiting approval, the total value of which stood at over £600,000 at the time of our visit.</p> <p>For 12 out of the 35 transactions tested, a receipt or invoice could not be provided as evidence to support it.</p> <p>For 23 of the transactions tested, the Department could not provide evidence that the individual had the delegated authority required to make the purchase.</p>
Foreign and Commonwealth Office	<p>Of the 15 transactions tested, in a number of cases, the Department was unable to supply letters of cardholder delegated authority within the specified time frame for testing.</p>
Ministry of Defence	<p>Ministry of Defence policy only requires that the GPC checking officer check a sample of monthly statements. Therefore, of the 40 transactions tested, eight transactions had no evidence of approval.</p>
Ministry of Justice	<p>We found that three of the 35 transactions tested had not been reviewed in the month of the statement which covered them. They were, however, subsequently reviewed.</p>

NOTES

- 1 The sample tested was drawn from April–September 2011 transactions.
- 2 The sample is not designed to produce statistically significant results.

Source: National Audit Office review of case study departments

Using management information

2.25 A department should have high quality and timely management information on using the Card, with regular reporting. This will help them to oversee:

- whether cardholders are using the Card when the policy says they should;
- whether cardholders comply with controls; and
- whether there are any suspicious transactions that require investigating.

2.26 The exercise we conducted to collect some basic information on how cards are used within departments showed that not all departments have ready access to data. Some could not meet certain requirements, and others said that the information would only be available by paying their card providers a fee.

2.27 Our discussions with case study departments found that the levels of management information depended on the contract terms with the card provider and the sophistication of their own systems. Some departments had access to online systems that allowed them to interrogate transaction data in real time. Some had access to a suite of reports, including declined transaction reports, unused card reports, and lists of cards that the card provider was monitoring because of unusual activity. However, this was not always the case. Where departments do not have access to timely and accurate management information on spending, this represents a barrier to managing the controls.

The role of internal audit

2.28 Departmental internal audit can highlight areas where controls are poorly designed or not operating as expected. Internal audit chooses which area of spending to examine using a risk-based approach, and therefore may not necessarily cover Government Procurement Card spending every year. However, in the ten departments we reviewed, internal audit had carried out work in the last two years that related, at least partially, to controls over such spending.

2.29 In a number of cases, internal audit had identified significant control failures, and made recommendations to address them. We found evidence of these improving departmental controls (**Figure 15** overleaf).

Figure 15

The role of internal audit

Department	Assurance rating (date)	Conclusions	Improvements made
Department of Health	Red/Amber (July 2010)	Identified instances of non-compliance with guidance; incorrect use of cards when central contracts or other procurement methods would have been applicable.	The policy guidance and forms have been updated (including examples of inappropriate use) and made available to all staff.
Ministry of Defence	No assurance (April 2011)	Identified a number of serious control weaknesses owing to widespread non-compliance; often not identified and where it was, little being done in the way of corrective or preventative action.	The departmental governance structure over Government Procurement Cards has been changed. A larger central GPC team has been established to ensure compliance with policy.
Department for Transport	Acceptable (May 2011)	Many of the controls had been strengthened and governing policies and procedures were fully documented. There were concerns around general compliance with revised guidance.	Since the time of a 2009 report which gave a 'weak' rating, internal audit found that compliance with checking and approvals controls was improving, but more work remained to be done.
Foreign and Commonwealth Office	Limited assurance (January 2012)	There was a lack of guidance for GPC approvers. Fifty-two per cent of the transactions reviewed had not been approved by a designated person as per the policy. No punitive enforcement measures were in place to ensure compliance with the approval system.	The department put in place a new monthly review procedure to identify unapproved transactions, and to make sure that they are approved.

Source: Departmental internal audit reports

Enforcing rules on non-compliance

2.30 The level of compliance with Government Procurement Card policy should be higher if the consequences of not complying with that policy are clear, and are enforced. Our five case study departments all said that this was the case. Through our work in those departments, we found that there was a trend towards tougher enforcement in policies, often following recent findings of internal audit (**Figure 16**), although recent negative media coverage was also a factor.

Dealing with suspected card fraud

2.31 The most serious form of misuse of a Government Procurement Card is where the Card is used fraudulently, either by cardholders or by non-cardholders. Where the controls identify instances of suspected fraud, these should be investigated and dealt with, as per departmental policies.

2.32 Policies should clearly state that sanctions for cardholder fraud will include both disciplinary procedures and police involvement. The deterrent effect of investigating and enforcing disciplinary procedures is an important one. The ten departmental policies we reviewed all clearly specify that fraudulent misuse of Government Procurement Cards by a cardholder is a disciplinary matter, though not all specify that it is a criminal one.

2.33 We found that departments have identified a small number of instances of first and third party fraud in the last two years, for example through spot-checks or internal audit. Such instances were routinely investigated by departments where identified. Where first party (cardholder) fraud was found to have been committed, departments have used disciplinary and criminal measures. Departments have also been able to reclaim sums fraudulently spent from the card company or through insurance policies. Examples of this are shown in **Figure 17**.

Figure 16
Consequences of non-compliance

Department	Finding
Department for Work and Pensions	The Department's previous policy did not clearly set out timescales for complying with the monthly approvals process, or the penalties for non-compliance. The Department believes that this partially accounted for the high rate of non-compliance. Its new policy sets out the required timescale, and clearly explains that cards will be withdrawn from those who do not comply.
Foreign and Commonwealth Office	Following an internal audit report, which showed a high level of non-compliance, a new 'three strikes' rule for non-compliance was introduced.
Ministry of Defence	Internal audit identified a number of staff who were not complying with policy. These were investigated by the central team and, where it was appropriate, cards were removed.

Source: National Audit Office review of case study departments

Figure 17
Card fraud

Department	Fraudulent activity and action taken
Department for Work and Pensions	By following up a report of declined card transactions, the department identified a fraudulent transaction by a cardholder. The individual was dismissed, criminal proceedings are ongoing, and the sums were reclaimed via insurance.
Department of Health	Three instances of suspected fraud (one by a cardholder, two by non-cardholders) were identified through the card company detecting suspicious transactions, monthly reconciliation procedures, and central team oversight. The Department have had money refunded from the card provider, and have tightened controls over card security to prevent repeat occurrences. The cardholder who was suspected of having committed fraud had already left the Department, but the police were contacted.

Source: National Audit Office review of case study departments

Assessing the controls

2.34 Figure 18 shows our overall assessment of the controls in our five case study departments, based on testing carried out by ourselves and departmental internal audit.

Figure 18
Assessment of controls: a summary

Department	Assessment of control design	Type of control	Issues identified	Assessment of control implementation	Type of control	Issues identified
Ministry of Justice	Satisfactory	Preventative		Satisfactory, only minor issues identified	Preventative	Some transactions not being approved within the same month.
		Detective			Detective	
		Deterrent			Deterrent	
Department of Health	Satisfactory	Preventative	Few categories are blocked allowing cardholder more freedom over their purchases.	Satisfactory, only minor issues identified	Preventative	Transaction and monthly limits set relatively high compared with usage.
		Detective			Detective	
		Deterrent			Deterrent	
Department for Work and Pensions	Satisfactory, only minor issues identified	Preventative	Lack of clarity about timescales for completing reconciliations and approvals, and implications of non-compliance (a new policy corrects this).	Some significant issues identified	Preventative	Some formal delegations of authority for cardholders not on file.
		Detective			Detective	
		Deterrent			Deterrent	
Ministry of Defence	Some significant issues identified	Preventative	Few categories are blocked allowing cardholder more freedom over their purchases.	Some significant issues identified	Preventative	Internal audit found that the monthly checks were not operating as expected. In our testing, we found some approvals missing.
		Detective			Detective	
		Deterrent			Deterrent	
Foreign and Commonwealth Office	Some significant issues identified	Preventative	Approval procedures and level of spot checking is inconsistent, as is the use of management information at local level.	Some significant issues identified	Preventative	Internal audit found that most transactions had not been approved by an independent person. The Foreign and Commonwealth Office was unable to supply cardholder letters of delegated authority within the time frame for testing.
		Detective			Detective	
		Deterrent			Deterrent	

NOTES

1 The sample tested was drawn from April–September 2011 transactions.

2 We conducted departmental interviews September–December 2011.

3 Departmental policies dated as follows: Ministry of Justice September 2011; Department of Health June 2011; Department for Work and Pensions February 2010; Ministry of Defence May 2011; Foreign and Commonwealth Office November 2011.

Source: National Audit Office review of case study departments

Part Three

Improving controls

3.1 This part of the report considers how controls could be improved, examining the role of the centre of government, other card programmes and the business case for using the Card.

Central oversight of Government Procurement Cards

Central management information

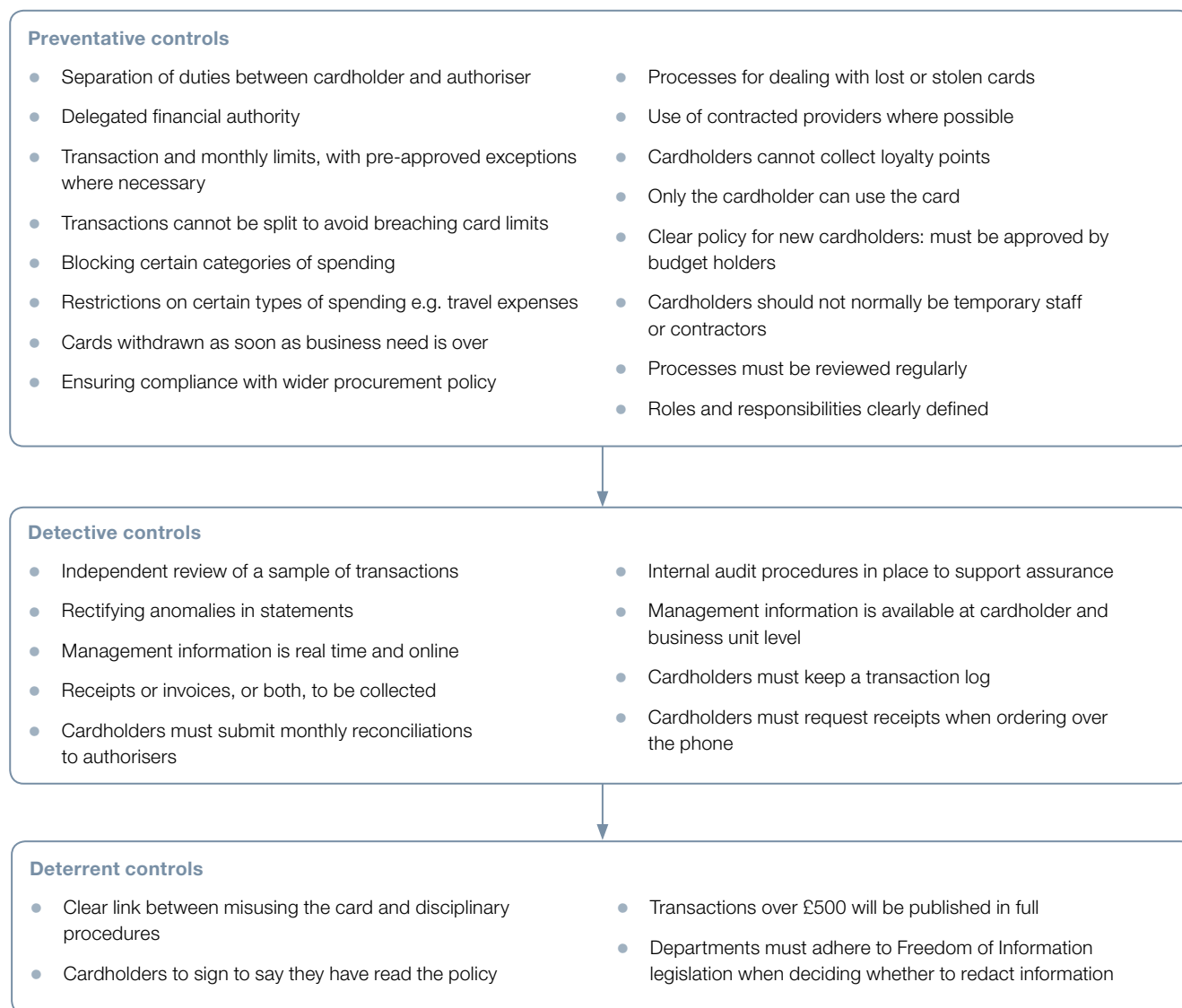
3.2 One of the aims of the Efficiency and Reform Group within the Cabinet Office is to look across government to improve the value for money of procurement activity. However, the Cabinet Office does not routinely collect data to allow it to oversee Government Procurement Card spending. The Government Procurement Service holds some spending data, but does not consider it sufficiently comparable between departments to enable this oversight. As a result, when the Cabinet Office collected some limited spending statistics as part of its policy review in 2011, it had to run a bespoke data collection exercise. The Government Procurement Service is undertaking an exercise to ensure consistency between departmental- and centrally-held datasets.

3.3 In conducting our own data collection exercise across departments, we found considerable issues with the comparability of data held by departments. For example, departments may record spending including or excluding VAT, and may be unable to produce reports which automatically group spending by merchant category group. As noted in Part Two of this report, there were further problems concerning the completeness of departmental data.

Central policy

3.4 In November 2011, the Cabinet Office introduced a new cross-government policy for using Government Procurement Cards. This was developed by the Government Procurement Card Steering Group, jointly chaired by the Cabinet Office and the Ministry of Justice. The policy is comprised of a mixture of preventative, detective and deterrent controls which departments are expected to have in place as a minimum (**Figure 19**). This is an important move towards greater consistency across government, but its success depends upon the new policy being implemented. The Government Procurement Card Steering Group will begin to monitor progress against this after an initial six-month period.

Figure 19
Central policy summary



Source: National Audit Office and Cabinet Office

3.5 We reviewed departmental policies and guidance in ten departments⁸ and found that these corresponded with the cross-government policy to varying degrees. The central policy states that departmental policies should be available to, and agreed by, all cardholders. The Ministry of Justice's policy document and accompanying guidance contained reference to all elements specified in the central policy. However, although the other departments had some documentation on use of the Government Procurement Card, this was not always consolidated into one departmental policy, with clear links to accompanying guidance. Some departments did not have a departmental policy document, instead providing cardholder guidance on their intranet. This was tailored for the user and, therefore, did not cover areas such as the availability of management information.

3.6 The objective of our review was to assess the clarity of departmental policies, and not to test whether these controls were actually operating successfully in departments. We found that the content of policies did not provide a complete picture of departments' actual procedures. Some controls are not stated explicitly in policies, although they may be in operation. For example, while all policies specified clearly that receipts must be collected to verify purchases, most did not specify that all transactions of £500 and above would be published. By not including the latter in a policy document agreed by cardholders, departments are not making the most of this as a deterrent to card misuse.

3.7 Our work at case study departments has shown that, even when specified in the policy, controls will not necessarily operate as described. The new central policy is intended to be a 'minimum standard' and the Cabinet Office expects departments to build on this baseline. There are a number of measures that are not specified in the cross-government policy that could create stronger controls for the Card. The policy could require departments to:

- block all merchant category groups (categories of spending) for individual cards unless specifically required to meet a defined business need;
- increase the use of (near) real-time online monitoring to detect suspicious or fraudulent transactions;
- withdraw cards for repeated low-level breaches;
- approve 100 per cent of transactions by someone with designated authority; and
- regularly assess the business need for individual cards, promptly withdrawing them if such need no longer exists.

⁸ Ministry of Defence, Ministry of Justice, Foreign & Commonwealth Office, Home Office, Department for Work and Pensions, Department for Business, Innovation and Skills, Department for Environment, Food and Rural Affairs, Her Majesty's Treasury, Department of Health, Department for Transport.

3.8 The central policy also states that departments should develop a strategy for using the Card that aligns with its wider procurement strategy. The variation in the development of departments' Government Procurement Card schemes means that this has not always been the case. The policy does not provide guidance on the types of transaction for which the Card provides value for money and those where it does not. This risks perpetuating inconsistencies in how the Card is used between departments. This inconsistency suggests that current use of the Card cannot always be optimal.

3.9 The Cabinet Office is taking steps to help departments increase their level of control over the Card. The Government Procurement Service is developing its data collection systems to ensure consistency, and the Government Procurement Card Steering Group is working closely with departments to implement the central policy. Efforts are also under way to consolidate the number of card providers across government. As departments' contracts expire, the Cabinet Office aims to bring all new arrangements for the Card under one cross-government contract. This would allow for greater consistency in areas such as access to data, statement dates, reporting, and category blocking.

Alternative card programmes

Private sector

3.10 Different payment cards are commonplace beyond the public sector, with a range of systems to control their use. In **Figure 20**, we consider a private sector example as a comparison.

Figure 20

Private sector example: Professional services firm

A large provider of professional services has a contract with a single card provider for all of its card programmes.

The firm's corporate card is used widely throughout the firm and has no spending limit. The individual is responsible for settling the bill with the card provider and then claiming back business expenses from the firm against a published expenses policy and with a countersignatory authorisation process. The debt falls back to the employer after six months, but it is actively monitored and pursued by the card provider and the firm to ensure that it does not reach this stage. The individual will also receive overdue charges.

The firm is moving towards settling certain predefined categories of spending directly with card providers under strict controls monitored by the firm. Its 'Business Travel Account' is lodged with a travel company, in a similar arrangement to a lodge card. It is considering whether to extend the use of these virtual cards.

Source: National Audit Office

3.11 With the professional services firm corporate card, the individual carries the financial risk. Although this is monitored, it is ultimately guaranteed by the firm. Some firms may go further and manage the risk of non-settlement by putting card transactions through the payroll, charging spending to staff directly, which the staff member then has to reclaim. The professional services firm in Figure 20 is moving towards greater use of direct settlement with card providers for certain controlled categories. This reduces the financial burden on staff, and saves staff administrative time within the expenses system.

3.12 We asked our five case study departments whether they would consider introducing controls whereby individuals are personally responsible for the balance on their card. One case study department told us that they could not rule out such a system for some types of spending, though noted that implementation would require considerable upheaval to their existing systems.

3.13 The Cabinet Office considers that departments could make greater use of lodge cards, as opposed to purchasing cards. These cards give the same benefits, in reducing processing costs, but come with fewer risks as they are limited to a specific supplier rather than a cardholder. The current degree of use is not tracked across government, but we only observed their use in three of our five case study departments. Of Government Procurement Card spending, 41 per cent is on 'Travel' and 'Hotels and Accommodation'. Departments and private sector firms are already using lodge cards for these categories.

3.14 There are options to strengthen existing controls even further. For example, government may consider publishing all transactions (not just those of £500 and above as at present) or publishing instances of fraud, or internal audit findings. To choose controls, departments must weigh risk against the benefits of using the Card. While a lack of controls heightens risk, controls that are too strict will incur costs disproportionate to the risks and may discourage legitimate use (Figure 21). In our discussions with departments, they acknowledged both the risks and the potential advantages of using the Card. However, there was no up-to-date value-for-money case, and no formal process of balancing benefits, costs and risks to choose optimal controls.

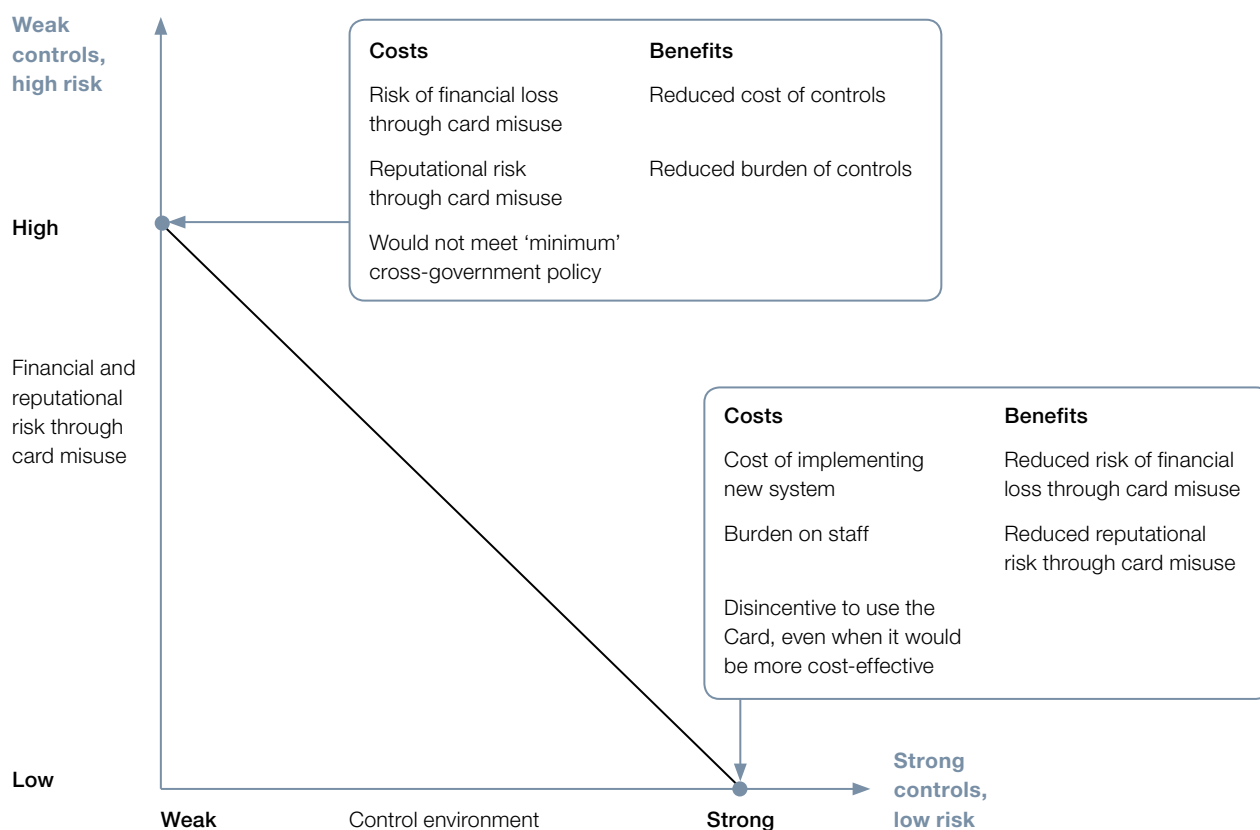
International

3.15 The General Services Administration (GSA) is an independent agency of the United States government, and is responsible for managing US Government Procurement Card programmes (Figure 22 on page 40).

Figure 21

Balancing the benefits against the risks

The optimal control environment will balance the risks with the costs and benefits of procuring goods or services using the Card



Source: National Audit Office

A central business case for the Government Procurement Card

3.16 Departments and central government maintain that there is a financial benefit to using the Card over alternative methods of procurement. The most commonly cited business case for the Card is a 1998 report from KPMG,⁹ which stated that an average Government Procurement Card transaction cost £28 less than a 'traditional' invoiced purchase in terms of staff time and processing costs. This £28 saving was based on a comparison with non-card systems that were more labour-intensive than modern processes, and hence is now outdated and inaccurate.

9 KPMG's findings are referenced in a National Audit Office report: Comptroller and Auditor General, *Improving procurement*, Session 2003-04, HC 361-I, March 2004.

Figure 22

International example: The United States

Headline Figures

- Expenditure of over \$30 billion per year
- 100 million transactions per year
- Annual rebate of \$300 million

The US has the largest government card programme in the world. There are different types of cards in operation: purchasing cards (\$20 billion), travel cards (\$8 billion) – centrally billed (CBA) and individually billed accounts (IBA) – and fleet cards (\$2 billion). The Government is liable for expenditure on these cards, with the exception of the IBA travel cards where the individual is liable for settling the balance directly.

‘Cardless’ transactions (similar to lodge cards) are also widely used as they increase the speed with which the supplier is paid.

The main benefits of the cards include rebates, strong management information and speed of supplier payment. The General Services Administration (GSA) also quotes estimates that the cost savings of using government cards over other procurement methods are \$77-\$125 per transaction. This takes into account the fact that many large suppliers recognise the card as a government card and offer discounts on that basis.

The reputational risk is still an issue in using the cards in the US although GSA and the government agencies aim to mitigate this risk with strong internal controls. There is a central policy in place that all government agencies must adhere to as a minimum standard. All cards must be used for business purposes only, with any personal use of the cards resulting in disciplinary action, up to and including dismissal.

The cards are the favoured procurement route for transactions of \$3,000 or less, although over \$4 billion (13 per cent) of annual expenditure on the cards relates to transactions of \$10,000 or more.

GSA is looking to expand card use further in the United States.

Source: National Audit Office and General Services Administration

3.17 It is beyond the scope of this report to revisit this figure comprehensively. However, as an illustrative example we have summarised four different procurement methods within one department; the Ministry of Justice. **Figure 23** describes each method, and the types of transaction that were sampled. These transactions were selected to be broadly ‘typical’ of the purchases made using each procurement method in a headquarters environment.

3.18 For each transaction, the Ministry of Justice estimated the time involved and the typical grades of staff. Using average salaries in given bands, we calculated the cost in staff time of each transaction, and added these to any direct costs (**Figure 24** on pages 42 and 43). In this example, the costs indicated represent the midpoint of best- and worst-case scenarios in terms of estimated time taken. On this basis, the average Card transaction costs around £5 or 35 per cent less than a catalogue system transaction. The cost of a non-catalogue transaction is considerably higher, given the need to obtain multiple quotes.

3.19 There are also initial costs that have been excluded from the cost per transaction for catalogue processing, such as setting-up and maintaining suppliers and catalogues on the system. In the case of non-catalogue transactions, suppliers are added on to the system on an ad hoc basis (controlled and approved by the department’s procurement team), presenting additional ongoing maintenance costs. For the Card, a single supplier is set-up on the system once.

Figure 23

Ministry of Justice illustrative example: procurement methods for comparison

Method	Description	Sampled transaction
Purchasing card (GPC)	A 'real' card that allows cardholders to make purchases within predefined limits.	Building materials
Lodge card (GPC)	A virtual card for all transactions with a single supplier.	Stationery
Catalogue purchase	Staff select goods or services from a pre-agreed list, from an online contracted catalogue, where the contract price and lead times have been agreed. All purchases must be approved by a financial approver before the goods or services can be obtained. Payment is made on receiving a valid invoice.	Hire cars
Non-catalogue purchase	Where goods or services cannot be obtained on the Card or a catalogue, a non-catalogue purchase can be raised by staff to identify their requirement(s). All purchases must be approved by someone with the authority, before the goods or services can be obtained. Appropriate sourcing will take place to make sure value for money is obtained. Payment is made on receiving a valid invoice.	Utilities – broadband internet

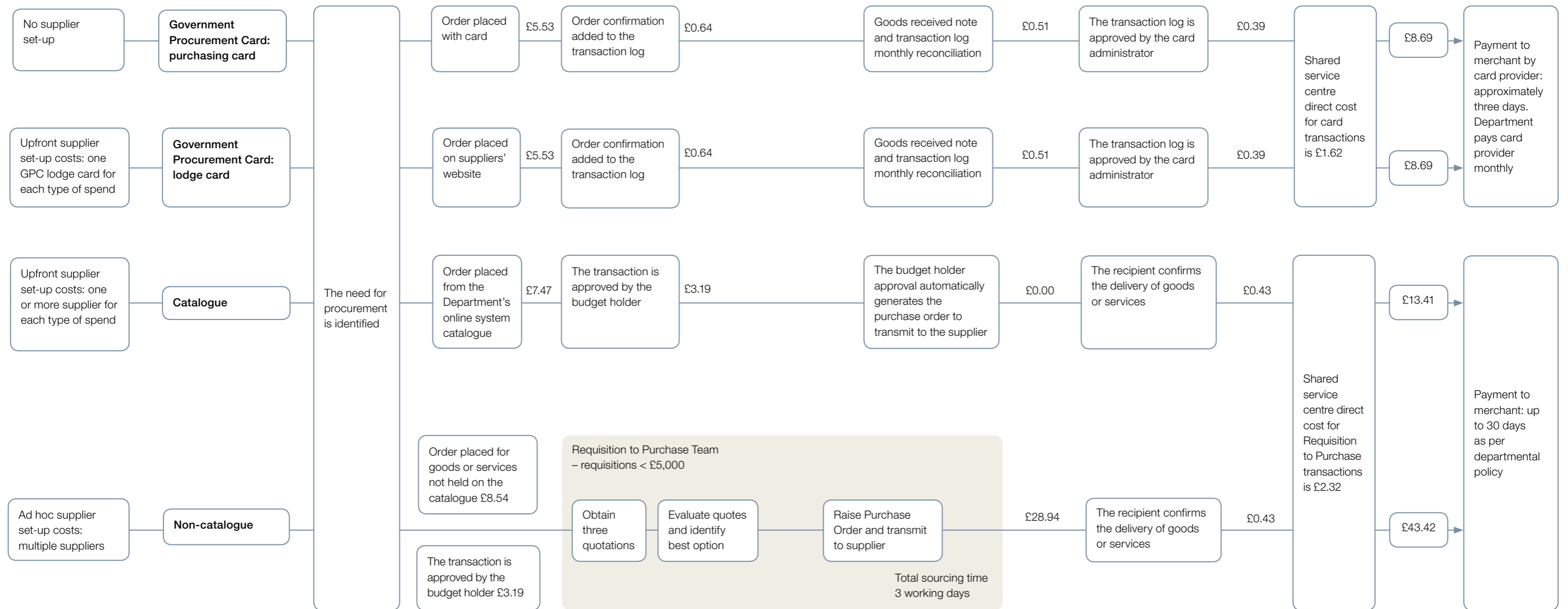
Source: National Audit Office and Ministry of Justice

3.20 The Ministry of Justice also identifies other advantages, both financial and non-financial, to using the Government Procurement Card when compared with other methods. Most notably:

- government receives a rebate on Government Procurement Card spending from the card providers;
- prompt payment to the supplier encourages better discounts;
- supplier set-up and maintenance costs are reduced, particularly when compared with non-catalogue transactions;
- good management information is available from card providers, online and in (near) real-time, allowing better monitoring and control of spending; and
- the Card allows for merchant and category blocking, giving departments more control over spending.

3.21 For suppliers, a key characteristic of Government Procurement Card transactions is that the merchant is paid immediately by the card provider, who is then paid monthly by departments. Prompt payment aids business cash flow, which is particularly beneficial for small and medium enterprises. However, suppliers note that this advantage has become less marked owing to improvements in other procurement methods. Suppliers also highlight the advantage of being able to block particular merchants. For example, if a department has a contract to purchase stationery with one supplier it can prevent transactions with other stationery suppliers, thus protecting that contract and ensuring value for money for the department.

Figure 24
Ministry of Justice worked example: costing procurement methods



NOTES

- 1 Cost per hour for each grade is based on average salaries as at July 2011. This costing assumes that transactions would be carried out by Administrative Officer and Executive Officer grades.
- 2 The time provided for the reconciliation process was for a number of transactions, an average of 11 per statement is used in the calculations.
- 3 For non-catalogue requisitions less than £5,000, this can take approximately three working days before the purchase order is transmitted to the selected supplier. This is to ensure the correct goods/services are procured and value for money is obtained for the organisation.
- 4 Ranges of estimated timings were provided by the Ministry of Justice: costs represent an average of the best- and worst-case scenarios.
- 5 The Shared Service Centre costs were provided by the Ministry of Justice.
- 6 For catalogue and non-catalogue purchases, payment to merchant within the stated time period is subject to receipt of a valid supplier invoice matched to the purchase order.

Source: National Audit Office/Ministry of Justice

Appendix One

Methodology

The main elements of our fieldwork, between October 2011 and January 2012, are set out below.

Method

Interviews with the Cabinet Office procurement team and those involved with creating the cross-government policy on the Government Procurement Card Steering Group.

Data collection and analysis. We surveyed all 17 government departments for data on their Card use, such as size and type of spending. See the technical annex for a summary of data received.

Review of relevant information already held by the NAO, including Card policies, transaction testing, and internal audit reports relating to the ten departments with the highest Card spending (see Para 2.3). In 2010-11, spending in these ten departments accounted for 97 per cent of the total.

Additional work in five case study departments (see Para 2.3).

Interviews with procurement teams, documenting controls, and testing a sample of transactions in each department.

Departments were sampled to include those with a range of spending.

We worked with the Ministry of Justice's central procurement team to estimate the cost of processing 'typical' transactions through four different procurement routes.

Telephone discussions with finance teams at a professional services firm, and a representative from the General Services Administration in the United States.

Telephone discussions with two suppliers to government; Banner (stationery) and Crown (flooring).

Purpose

To understand the Cabinet Office's role regarding the Card.

To understand the context of Card use.

To understand the design and implementation of the controls across government.

To understand the controls and to test how consistently the controls were operating in a sample of departments.

To compare the cost of Card versus non-card procurement routes. This was an illustrative costing exercise and is not meant for wider extrapolation across government.

To provide examples of different card programmes – private sector and international.

To provide a supplier perspective on the use of the Card when working with departments.



Design and Production by
NAO Communications
DP Ref: 009819-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & Email

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

£16.00

