



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
ACQUISITION LOGISTICS AND TECHNOLOGY  
103 ARMY PENTAGON  
WASHINGTON DC 20310-0103

March 20, 2001

The Honorable Carl Levin  
Ranking Member  
Committee on Armed Services  
United States Senate  
Washington, D.C. 20510

Dear Senator Levin:

The Fiscal Year 2001 Senate Armed Services Committee Report 106-292, page 329, directed each of the military services to develop a plan for sampling purchase card transactions and determine whether the retail prices paid were fair and reasonable, and to ensure that the purchase card is being used in an appropriate manner. In summary, the Army examined 4,144 purchase card transactions. The cardholders determined these items were purchased at fair and reasonable prices based on their knowledge of prices and availability at the time of the purchase. Of the transactions, 835 (20 percent) were determined to be from wholesale sources and 3,309 (80 percent) from retail sources.

We performed an additional review of 366 (11 percent) of the above retail transactions. We sorted them within seven categories (services, computer hardware, office supplies, automotive, medical, electrical, and general), and made a determination whether or not the cardholders could have purchased these items from wholesale sources (federal supply sources). We did this by evaluating the categories of supplies and services available on federal supply schedules as listed in *GSA Advantage!* Our review concluded that cardholders probably could have purchased 315 of the 366 items (86 percent) from *GSA Advantage!*

*GSA Advantage!* did not always offer the lowest price or the best delivery solution. The Army actually identified a small percentage of items within *GSA Advantage!* at a higher price or not available as needed and available from retail sources. However, the Army concluded that federal supply schedule prices, as available on the internet via *GSA Advantage!*, can provide additional information to cardholders with which to make an informed determination that retail prices they are paying are, in fact, fair and reasonable.

Although the Army is in compliance with regulatory pricing requirements for purchase card buys, we recognize the potential for further savings if cardholders make determinations based on an expanded knowledge of available pricing. The Army will re-emphasize to purchase card personnel the importance of making informed decisions as to fair and reasonable pricing by comparing commercial pricing with prices shown on Federal Supply Schedules. The Army will use Federal Supply Schedules when required and when they offer the best value, considering price, delivery and quality.

This letter has been sent to the Armed Services and Appropriations Committees of both the House and the Senate. As always, if I can be of further assistance please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth J. Oscar". The signature is fluid and cursive, with the first name "Kenneth" being the most prominent.

Kenneth J. Oscar  
Acting Assistant Secretary of the Army  
(Acquisition, Logistics and Technology)

Enclosure

**REPORT TO CONGRESS:  
APPROPRIATE USE OF GOVERNMENT  
PURCHASE CARDS**

Prepared By:  
Army Contracting Support Agency  
Falls Church, VA

February 2001

## BACKGROUND

Fiscal year 2000 Defense Authorization Act Committee Report Number 106-50 directed all military departments to conduct a review of purchase card actions and report to Congress on their findings no later than March 1, 2001. In response to the report, the Army selected categories of merchants (responsible for over 75 percent of the dollars purchased) from which the Army made purchases. A sample of the purchases made by the Army showed many of the items purchased with the card were purchased from wholesale merchants (wholesale office supplies, computers, medical and dental supplies, electric parts, industrial supplies, durable and non durable goods) or, from merchants having Federal Supply Schedules offering volume discounts (Office Depot, Grainger, Boise Cascade, Staples, CompUSA, etc). Additionally, the Army stated that implementation of the card within the Army was done so with the belief that the savings inherent with the streamlined and decentralized purchase card process were generally greater than the savings which would be realized from purchasing offices ordering against volume discount contracts. When you add in the administrative costs of \$55 to \$100 to process a purchase order, the better buy is made utilizing the card.

The Committee was disappointed that Department of the Army (DA) did not sample the actual purchases to identify the items purchased and determine if the prices paid were reasonable. For that reason, Senate Arms Services Committee (SASC) Report 106-292 of the fiscal year 2000 Defense Authorization Act directed us to develop a plan for sampling actual purchase card transactions and determine whether the retail prices paid were fair and reasonable, and to ensure the purchase card is being used in an appropriate manner.

Additionally, DA was tasked with determining if wholesale sources were available for the items purchased, if the wholesale source would have resulted in a greater cost savings than the retail purchase price, and if cardholders are aware of the wholesale sources available.

## DISCUSSION

In response to the Committee's tasking, the Army directed its Major Commands to conduct a sampling of card transactions from fiscal year 2000. They were asked to review the transactions, determine if the purchase was from a retail or wholesale source and determine if the price paid was fair and reasonable.

The Army examined 4144 purchase card transactions of which 3309 (80 percent) were from retail sources, with the remaining 835 coming from wholesale (GSA, etc.) or mandatory (UNICOR, NIB/NISH) sources. In all cases, the cardholders determined that the prices paid were fair and reasonable based on knowledge of prices and available delivery. Subsequent review by supporting contracting

offices revealed that some of the retail prices paid were higher – and some were lower - than that available in federal supply schedules. A determination as to fair and reasonableness by the contracting office could not be made without information pertaining to delivery and quality requirements. Selecting 365 of the retail transactions provided by the Army Commands, we sorted them into common groupings based on commodity to determine if GSA/wholesale sources were available. The groupings were automotive, electrical, medical, general, services, computer items and office supplies. Our assessment reveals that 315 of these transactions could possibly have been purchased using GSA/wholesale sources. This equates to 86 percent of the retail purchases. Without specific detail as to what was purchased, we could not determine if the retail prices of the 315 items were more or less than the prices in the federal supply schedules. However, we believe the determination of fair and reasonableness for retail prices should be made by a comparison – whenever practicable - to prices and delivery available in federal supply schedules.

In conducting an analysis of the review sampling, additional determinations became apparent as indicated below:

a. DA is in compliance with regulatory requirements regarding price reasonableness. Pricing practices from a statutory basis in the Federal Acquisition Regulations (FAR) Part 13.202, Purchase Guidelines, states that micro-purchases (purchases less than or equal to \$2,500) may be awarded without soliciting competitive quotations if the cardholder considers the price to be reasonable. Additionally, it may not always be practicable for the cardholder to determine s[he] is purchasing at the lowest price since the administrative cost of verifying the lowest price for small dollar purchases may more than offset potential savings.

b. Despite the fact that we comply with regulatory pricing requirements, we recognize the need to emphasize to our cardholders the importance of making informed decisions. The use of GSA/wholesale pricing, if available, should be one of the factors used to determine fair and reasonableness of prices. Cardholders will be reminded that they have an obligation to manage Government funds as effectively as they manage their personal charge cards. We will educate cardholders on the contracts/agreements that may be available for them to use in their determination of fair and reasonableness. This information will be disseminated to purchase card personnel through the issuance of Army guidance as well as posting on the Army purchase card homepage at <http://purchasecard.saalt.army.mil/army>.

A future DA initiative for the purchasing of supplies is the development of the Army Mart, part of the Department of Defense (DOD) EMall. Through this eCommerce initiative, Army cardholders will be able to use the Internet in making best value decisions. Contracting offices will leverage the buying power of Army cardholders by awarding ID/IQ contracts and directing cardholders to those vehicles when appropriate.

### CONCLUSION

The Army acquired a large percentage of their purchase card purchases from retail sources. Not all cardholders were aware, or took advantage, of prices available on federal supply schedules. Although federal supply schedules may not always offer the lowest price or the best delivery solution, they can provide additional information to cardholders with which to make an informed determination that retail prices they are paying are, in fact, fair and reasonable. Whenever practicable, Army cardholders should use federal supply schedules as one of the major factors in determining price reasonableness.