SEC. 841. MICRO-PURCHASE THRESHOLD APPLICABLE TO GOVERNMENT PROCUREMENTS.

(a) INCREASE IN THRESHOLD.—Section 1902 of title 41, United States Code, is amended—

(1) in subsection (a), by striking "$3,000" and inserting "$10,000"; and

(2) in subsections (d) and (e), by striking "not greater than $3,000" and inserting "with a price not greater than the micro-purchase threshold".

(b) OMB GUIDANCE.—The Director of the Office of Management and Budget shall update the guidance in Circular A-123, Appendix B, as appropriate, to ensure that agencies—

(1) follow sound acquisition practices when making purchases using the Government purchase card; and

(2) maintain internal controls that reduce the risk of fraud, waste, and abuse in Government charge card programs.

(c) CONVENIENCE CHECKS.—A convenience check may not be used for an amount in excess of one half of the micro-purchase threshold under section 1902(a) of title 41, United States Code, or a lower amount set by the head of the agency, and use of convenience checks shall comply with controls prescribed in OMB Circular A-123, Appendix B.

[PLEASE NOTE: THE "CHANGES TO EXISTING LAW" SECTION BELOW SETS OUT IN RED-LINE FORMAT HOW THE LEGISLATIVE TEXT ABOVE WOULD AMEND EXISTING LAW.]

Section-by-Section Analysis

This proposal would increase the micro-purchase threshold (MPT) in Government procurements from $3,000 to $10,000 so that federal agencies would have the option to authorize personnel, as appropriate, to have higher limits on their Government purchase card, referred to hereafter as "purchase card," to facilitate easy and administratively efficient purchasing of small dollar items. This increase would affect less than one percent of federal contract spending, but could allow hundreds of thousands of transactions to be conducted more efficiently. This proposal would not make changes to the thresholds in the Davis-Bacon Act or the Service

Contract Act. Nor would it change the threshold levels that are authorized during contingency operations or certain other types of emergencies.

Purchase cards give agency end users an efficient tool to make simple purchases themselves and, at the same time, offer a number of additional benefits for both the agency and its vendors. In the two decades since the MPT was established, purchase cards have reduced transaction costs for government payment offices by lowering the number of budgetary/accounting entries that need to be processed in financial management systems, allowed agencies to earn rebates, and helped vendors receive timely payment without the burden of having to process government invoices. Equally important, by putting purchase cards into the hands of properly trained end users to make purchase directly, the burden of making micro-purchases has largely been lifted from the shoulders of contracting officers, allowing them to instead give greater attention to larger, more complex procurements, where their acquisition training and expertise can be put to better use and have greater impact.

In 2010, the MPT was adjusted for inflation from $2,500 to $3,000 and would be adjusted again this year to $3,500, pursuant to authority provided in 41 U.S.C. 1908. While these adjustments will help agencies to leverage the efficiencies of the purchase card for additional small dollar transactions, there are many needs between $3,000 and $10,000 that can be more efficiently acquired with a purchase card in the hands of a trained end user. Some of these routine needs did not exist in the 1990s and therefore were not envisioned when the MPT level was first established, such as those for digital services, including web applications, application program interfaces, simple cloud services, scalable web hosting services, case management, platforms to support on-line interactive dialogues, IT systems monitoring, and tools to measure and improve digital customer experiences -- all of which can be purchased easily by program and IT technical experts through existing government-wide and multi-agency contracts that include pre-negotiated terms and conditions which are well suited for small dollar purchases.

The benefits of purchase cards cannot be realized unless coupled with smart buying practices, such as those that encourage purchases through existing vehicles where they can meet agency needs. For this reason, this proposal would require OMB to update Appendix B of Circular A-123, *Improving the Management of Government Charge Card Programs,* (herein after referred to as Appendix B) as appropriate, to reflect principles of category management that encourage placement of orders against best in class vehicles and best practices for maximizing opportunities for small businesses, as identified by OMB in its 2011 guidance implementing section 1322 of the Small Business Jobs Act.

Purchase card activity must also be conducted in accordance with strong financial management controls that help agencies detect and prevent fraud, waste and abuse. Accordingly, the proposal would further require OMB to update Appendix B to reinforce and strengthen existing controls applicable to current government purchase card transactions, appropriately increase the oversight responsibilities of agency management and agency Inspectors General on expenditures in accordance with the Government Charge Card Abuse Prevention Act of 2012, P.L. 112-94, and reporting required by OMB Memorandum M-13-21, which implements the Act, and align these controls with the threshold for mandatory reporting for certain financial transactions.

Appendix B would also establish appropriate limits on the use of convenience checks, not to exceed one half of the micro-purchase threshold. Convenience checks are generally only authorized when a merchant does not accept a purchase card. Appendix B currently includes a chapter on internal controls for convenience checks (Chapter 12). Specifically, convenience checks may be written only to vendors who do not accept the purchase card, for emergency incident response, and for other Agency approved purposes that comply with Public Law 104-134, the Debt Collection Improvement Act of 1996. Controls on the use of convenience checks will be updated not to exceed one half of the micro-purchase threshold, and limits on the use of convenience checks will be identified in Appendix B.

In the past 10 years, Federal agencies have deployed a number of systems and internal controls to reduce the risk of fraud, waste, abuse, and misuse associated with the purchase card. Examples of agency actions include implementation of government-wide metrics for Government charge cards programs under the General Services Administration (GSA) SmartPay program to improve security including purchase card transactions. As part of Federal efforts, GSA SmartPay has made available data analytics and data mining tools provided by servicing banks and brands. The metrics identify potential areas of misuse or fraud for further investigation in categories of disputed charges; single merchant spending; use of data analytics tools; as well as a targeted group of questionable transactions.

Also for the Department of Defense (DoD), the Director of Defense Procurement and Acquisition Policy (DPAP) maintains a robust website on the purchase card at http://www.acq.osd.mil/dpap/pdi/pc/index.html. The website includes current Policy Documents and Guides including the DoD Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs, dated May 30, 2014. The Guidebook's purpose is to help DoD officials establish and manage charge card programs. As required by Appendix B, DPAP published the Purchase Card Management Plan (2014), which also outlines policies and procedures used by DoD to ensure that the objectives of the DoD's purchase card program are realized and that an effective system of internal controls is in place to mitigate the potential for fraud, misuse, and abuse. The DoD's purchase card policies and procedures comply with the conforming amendments to subsection (b) of section 2784 of title 10, United States Code, as amended by the Government Charge Card Abuse Prevention Act. Additionally, DoD policy requires all cardholders, approving officials, and certifying officials to complete basic purchase card training prior to assuming their official purchase card program roles and responsibilities. Purchase card refresher training is required every two years thereafter. These courses are provided through Defense Acquisition University courses (CLG 001 and CLG 004).

Additionally, DoD has implemented automated oversight systems to provide managers visibility of internal control effectiveness in mitigating the risk of improper purchases. Purchase card participants are using DoD-wide systems to improve the accountability of their purchase card programs, such as the automated systems (e.g. Purchase Card Online System (PCOLS)) to audit 100 percent of all DoD purchase card transactions. Through a set of risk predictive business rules, PCOLS or a similar Navy capability, scores each transaction against data points such as the merchant category code, cardholder spend limits, frequency of purchase card usage, and where the transaction was made. On a monthly basis, these systems flag over 3 percent of

transactions that score in the highest risk categories, and alert the installation program coordinator to conduct an independent review. The system also randomly flags about 1 percent of all other transactions for review by the cardholder's immediate supervisor, or someone in his or her chain of command. Each identified transaction is reviewed and addressed by the proper authorities (e.g., the cardholder's commander, base legal office, etc.). If it is determined that due diligence was not exercised by a cardholder, a variety of remedies and punitive actions exist. These include mandatory remedial training, card suspension, and other disciplinary actions under applicable directives, regulations, Federal Law, and the Uniform Code of Military Justice or civilian disciplinary actions. In addition, these systems are used to support quarterly and semi-annual statistical and violation reports to OSD, which in turn submits the report to the OMB and the GSA for analysis and policy recommendations.

Updates to Appendix B will be informed by the agency experiences and risk assessments described above along with reports and audits from agencies and Inspectors General and other applicable reviews. The Appendix will continue to hold agencies responsible for ensuring authorizations for card holders are appropriate for that individual's responsibilities and activities. As a result, if this proposal is enacted, individual purchase card limits would not be raised automatically. Instead, agencies would review existing limits and make adjustments based on organizational need and the responsibilities of the end user. For instance, an agency may leave unchanged an office manager's current authorization level of $1,000 to make purchase card transactions for office supplies from the OS3 contract established under the Federal Strategic Sourcing Initiative if this limit remains sufficient in light of the organization's needs for office supplies. By contrast, the agency may raise the purchase card limits for technical personnel in the agency's digital strategy office for the reasons stated above, so that these users can make purchases directly, rather than burdening their contracting officer for a rapid decision and clearance to place an order. In situations where contracting officers continue making purchases for the agency under $10,000, they will still benefit by being able to take advantage of the efficiencies offered by the purchase card in conducting these transactions.

Finally, GSA will continue to ensure there is appropriate transparency of purchase card activity on USASpending.gov so information on use of the purchase card below the micro-purchase threshold is available to the public, consistent with agency security requirements.

Budgetary Implications: There would be no budgetary impact for the Department of Defense or civilian agencies as a result of this legislative change because the proposal only addresses the micro-purchase dollar threshold and would not increase the overall budget requirements of the Department of Defense or other agencies.

Changes to Existing Law: This proposal would amend title 41, United States Code, as follows:

TITLE 41, UNITED STATES CODE

§ 1902. Procedures applicable to purchases below micro-purchase threshold

(a) DEFINITION.—For purposes of this section, the micro-purchase threshold is ~~**$3,000**~~ **$10,000**.

(b) COMPLIANCE WITH CERTAIN REQUIREMENTS AND NONAPPLICABILITY OF CERTAIN AUTHORITY.—

(1) COMPLIANCE WITH CERTAIN REQUIREMENTS.—The head of each executive agency shall ensure that procuring activities of that agency, when awarding a contract with a price exceeding the micro-purchase threshold, comply with the requirements of section 8(a) of the Small Business Act (15 U.S.C. 637(a)), section 2323 of title 10, and section 7102 of the Federal Acquisition Streamlining Act of 1994 (Public Law 103–355, 15 U.S.C. 644 note).

(2) NONAPPLICABILITY OF CERTAIN AUTHORITY.—The authority under part 13.106(a)(1) of the Federal Acquisition Regulation (48 C.F.R. 13.106(a)(1)), as in effect on November 18, 1993, to make purchases without securing competitive quotations does not apply to a purchase with a price exceeding the micro-purchase threshold.

(c) NONAPPLICABILITY OF CERTAIN PROVISIONS.—An executive agency purchase with an anticipated value of the micro-purchase threshold or less is not subject to section 15(j) of the Small Business Act (15 U.S.C. 644(j)) and chapter 83 of this title.

(d) PURCHASES WITHOUT COMPETITIVE QUOTATIONS.—A purchase **with a price** not greater than ~~**$3,000**~~ **the micro-purchase threshold** may be made without obtaining competitive quotations if an employee of an executive agency or a member of the armed forces, authorized to do so, determines that the price for the purchase is reasonable.

(e) EQUITABLE DISTRIBUTION.—Purchases **with a price** not greater than ~~**$3,000**~~ **the micro-purchase threshold** shall be distributed equitably among qualified suppliers.

(f) IMPLEMENTATION THROUGH FEDERAL ACQUISITION REGULATIon.—This section shall be implemented through the Federal Acquisition Regulation.