



## BEST PRACTICE

### Purchasing Card Programs (1998, 2003, 2008, and 2011) (TIM)

**Background.** The purpose of a purchasing card (also known as a procurement card or P-Card) program is to provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high-volume purchases. This type of program is used as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices, and checks processed. Purchasing cards can be used whenever a purchase order, check request, or petty cash would have been processed and with any vendor that accepts credit cards.

There are numerous benefits to a purchasing card program. Benefits to the cardholder can include:

1. convenience of purchasing without a purchase order,
2. expedited delivery of goods,
3. better pricing on goods,
4. expanded list of merchants from whom purchases can be made, and
5. reduced paperwork.

Benefits to the government can include:

1. simplified purchasing and payment process,
2. lower overall transaction processing costs per purchase,
3. increased management information on purchasing histories,
4. reduced paperwork,
5. decentralized procurement function,
6. the ability to set and control purchasing dollar limits,
7. the ability to control purchases to specific merchant categories and vendors, and
8. receipt of rebates from the bank based upon dollar volume of total purchases.

Benefits to the vendor include:

1. expedited payments,
2. reduced paperwork, and
3. lowered risk of nonpayment.

Purchasing cards may be issued in a designated individual's name and/or the government's name clearly indicated on the card as the buyer of goods and services. The purchasing card and any transactions made with the card may become a liability of the governmental entity. For this reason, it is important that governments be aware of the risks related to the use of purchasing cards and establish controls to address those risks.

Disadvantages of purchasing cards include:

1. the potential for duplicate payments to vendors, unless payments are recorded by individual vendor within the accounting system,
2. the perception in the public about issuing "credit cards" to employees may be negative, and
3. the potential for abuse despite the controls available with purchasing cards.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that governments explore the use of purchasing cards to improve the efficiency of their purchasing procedures. A competitive

process should be used to select a purchasing card provider. Consideration should be given to vendors who can provide:

- automated approval and reconciliation software. This software should provide for the ability to integrate to the entity's accounting records in a timely fashion;
- a program that is simple and easy to use;
- comprehensive control restrictions for single transactions, the number and amounts authorized per day and per cycle; and restrictions on the types of vendors and merchant category codes with which the card may be used;
- provisions for handling questioned items and chargebacks;
- a broad selection of reports or ad hoc reporting ability;
- training materials;
- customer support; and
- program rebates.

Governments need to maintain appropriate controls, in accordance with their purchasing policy, to ensure the ongoing success of a purchasing card program. These controls should include:

1. written agreements with banks, which include fee schedules, processing procedures, and security requirements;
2. written policies and procedures for internal staff, including:
  - a. instructions on employee responsibility and written acknowledgments signed by the employee
  - b. ongoing training of cardholders and supervisors
  - c. spending and transaction limits for each cardholder both per transaction and on a monthly basis
  - d. written requests for higher spending limits
  - e. recordkeeping requirements, including review and approval processes
  - f. clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC)
  - g. guidelines for making purchases by telephone and fax or over the Internet
  - h. periodic audits for card activity and retention of sales receipts and documentation of purchases
  - i. timely reconciliation by cardholders and supervisors
  - j. procedures for handling disputes and unauthorized purchases
  - k. procedures for card issuance and cancellation, lost or stolen cards, and employee termination
  - l. segregation of duties for payment approvals, accounting, and reconciliations
  - m. regular review of spending per vendor and merchant category codes
3. systems to ensure compliance with IRS 1099 reporting regulations.

### **References.**

- *Banking Services: A Guide for Governments*, Nicholas Greifer, GFOA, 2004.
- *An Elected Official's Guide to Procurement*, GFOA, 1995.

Approved by the GFOA's Executive Board, February, 2011.