

GFOA Resource – Purchasing Cards

GFOA recommends in its Best Practice - *Using Purchasing Cards to Streamline the Payables Process* - that governments implement a purchasing card program to improve the efficiency and effectiveness of their purchasing processes. This Resource should be viewed as a companion piece to the Best Practice as it goes into greater detail about how governments can effectively implement and enhance a purchasing card program, and have appropriate policies and procedures in place.

What is a Purchasing Card?

A purchasing card is a type of commercial credit card issued to government staff authorized to make purchases on its behalf. Purchasing cards operate very similarly to consumer credit cards and can provide an efficient, cost-effective method of purchasing and paying for small-dollar or routine purchases. P-cards are 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 using networks set up by Visa, Mastercard, Discover, American Express or other similar vendors. Purchasing card programs usually provide a rebate to the government based on volume of usage and timelines of payment.

Governments may also use a purchasing card program for some specific types of purchases. These programs are usually separate from the traditional purchasing card program and may use a different vendor as well. Program examples are as follows:

- Fuel Card – usually used for fuel or vehicle related purchases in relation to a Fleet Management System.
- Travel Card – Specifically designed for employees you may travel heavily and is very limited in its expenditure scope. (this is more prevalent in the corporate environment).

Purchasing Card Program

Governments should develop a purchasing card program that include the following elements:

Defining the Scope of the Program

Usually purchasing programs are for small low-dollar purchases that are done frequently. The government should define its required scope and make sure that is integrated into its documents. Some examples of purchases can be:

- Maintenance supplies or program supplies from a local retail store
- Phone or internet orders for supplies, or other goods needed for a specific department
- Travel arrangement for conferences, schools, or other approved meetings
- Subscriptions or small purchases as part of a department's general operations
- Usually considered micro purchases (under \$5,000 – Federal Grant definition)

Some purchasing card programs include a centralized function that allow for larger purchases on a card by a purchasing department for payment efficiencies and to take advantage of rebates.

Developing a Purchasing Card Policy

The Purchasing Card Policy should conform to the government's overall procurement policy (either as a sub-set of or reference to) and should reflect a high-level statement of the government that designates an administrator for the program and defines the parameters for purchasing either using an overall purchasing policy or an individual purchasing card program policy. A policy should outline any purchasing dollar limits and merchant code restrictions due to legal or other local policy requirements. Either way, the policy should reflect broad terms and generally be prescribed in statements of what and why we are doing it.

Developing a Procedures Manual

The Government should develop a procedures manual that defines the specific process that are required for cardholders, supervisors, back-office administration, and the program administrator. The procedure manual should address fraud prevention throughout.

Cardholders Procedures - should include the following elements:

- Be issued in the cardholder's name
- Require initial authorization and usage level approval by supervisor
- Require that an annual training of card usage procedures (including fraud prevention) occur with a written or electronic acknowledgement that training has been completed
- Define receipt submission timeline and approval requirements for all activity

Supervisor – should include following elements:

- Require sign-off of initial request for an employee to obtain a Purchasing Card
- Require ongoing periodic approval of all activity for employees supervised (usually monthly)
- Require follow-up that all employees they supervise with a Purchasing Card are completing the required training and following the required procedures
- Fraud prevention overview, with instruction for addressing employees

Back-office Administration – should include the following elements:

- Receipt management – what is required for each cardholder to provide
- Approval levels - what are the approval levels of all submissions from cardholders
- Review for proper coding and following of policies, and identifying potential fraud or misuse
- Program payment steps and process (payment usually occurs prior to receipt reconciliation)
- Receipt reconciliation and follow-up with cardholders and their supervisors
- Managing approved requests for new cards or changes to card limits and usage

Program Administrator

- Defining the usage levels and merchant restrictions
- Communicating the program elements to cardholders and supervisors
- Overseeing the back-office Administration, ensuring policy and procedures are being followed
- Managing and monitoring the training requirements of cardholders and supervisors
- Development of fraud prevention procedures and techniques, ensuring proper training is occurring with staff and supervisors

Implementing a Training Program

The government should develop a training program for cardholders and supervisors to showcase the program and explain the expectations for being a cardholder and/or supervisor. The training should include the following elements:

- What you can purchase
- What you should not be purchasing
- The rules regarding purchasing levels (how much per transaction / per statement period)
- Rules governing split transactions (may interfere with general purchasing policy guidelines)
- Rules around Travel and meal usage
- Security of your card (what to do if you see a fraudulent transaction)
- List responsibilities of the cardholder and supervisors
- Share the non-compliance process, including the results of non-compliance
- Share what reports that are available for the cardholder and supervisor
- Require an annual review and sign-off by the cardholder and supervisor (Agreement that you understand the responsibilities of being a cardholder or supervisor)

Develop a Process for Selecting and Managing the Right Card Provider

The government should follow a competitive RFP Process for selecting a vendor to manage the program. The RFP should include the following within its scope:

- Timeline of the process (is it separate or included in a larger banking services contract)
- Anticipated cardholder count and usage data
- Software integration requirements (for ERP or other system)
- Training and Customer support requirements
- Reporting requirements
- Rebate program details (what is offered and how does it operate)

Purchasing Card Overview and Use

A purchasing card program generally simplifies processes and adds efficiencies to a government's procurement function. It is not a method to be used to subvert an organization's purchasing policy. The following table displays some typical purchases and identifies the appropriateness for Purchasing Card usage:

Type of Purchase	Appropriate for P-Card
Small dollar purchases	Yes
Routine purchases	Yes
Purchases made from online vendors	Yes
Purchases that require additional approvals	No
Emergency purchases	Yes
Point-of-sale purchases	Yes
Purchases that require a bid or RFP	No
Purchases of services that require separate contracts	No
Purchases of capital equipment	Maybe
Purchases of inventory items	Maybe

Purchasing Card Benefits

When used as part of an organization's overall procurement strategy, Purchasing Cards can offer many benefits to the cardholder, organization, and vendor.

Purchasing Card Holder Benefits

- **Convenience** – generally offer a convenient way to purchase goods and services avoiding any time delays associated with using a more formal purchasing order request process, especially with time-sensitive and emergency purchases.
- **Alternative to Petty-cash** – Reduce having to use personal funds for organization needs, including eliminating the time and effort to submit proper documentation for reimbursement
- **Expanded access to vendors** – Organizations many times have a process for adding a new vendor. This would allow one-time access or periodic access to numerous vendors for small purchases.

Organization Benefits

- **Lower transaction costs** – Processing a purchasing card transaction is significantly less than issuing a purchase-order and check for payment of goods. When factoring in staff time, purchase order and check costs usually run anywhere from \$40 to \$100 per transaction. Using a Purchasing card can significantly reduce these costs.
- **Alternative Petty Cash** – Allow for better cash controls and reduce petty cash need.
- **Rebate Revenue** – Most purchasing card programs offer a rebate incentive to the organization usually based on volume of transactions and timely payment of cards.
- **Improved Data Analytics** – Can create real-time tracking of small dollar purchases, allowing an organization to more easily manage their overall spending.
- **Emergency Preparedness** – Allows for ease of purchasing that can be expanded rapidly during an emergency or crisis that the organization may encounter.

Vendor Benefits

- **Expedited Payments** – vendors receive their payments through the credit card or merchant network much faster than an organization purchase order. Payment terms are typically 30-45 days for standard issue purchase orders.
- **Reduced Paperwork** – Accepting the purchasing card eliminates the need to invoice the government and manage the accounts receivable.

Purchasing Card Challenges

While purchasing cards provide many benefits for governments, they are not appropriate for all transactions and can have some challenges in maintaining compliance with a government's procurement and contracting policies.

- **Approval Process** – Make sure the government's policies are updated and any procedures and processes are adjusted to accommodate required payment terms and receipt management and reconciliation of the program.
- **Duplicate Payments** – Sometimes an invoice that is paid with by a purchasing card can also be accidentally entered into the ERP system as a check payment not realizing it was already paid. Ensure you

have proper procedures and approvals to allow for the identification on duplicate payments (invoice number is a commonly used check).

- **Compliance** - Make sure you have a training program that requires cardholders and supervisors to certify annually that they have reviewed it. Update procedures and have a process that verifies compliance is being maintained by all cardholders.
- **Compliance (Lost Cards and Fraudulent Transactions)** – Make sure you have a process for cardholders to follow built into your program regarding lost cards or the reporting of fraudulent transactions. This process should be communicated regularly and reporting of lost cards and fraudulent transactions should be provided to management on a monthly or quarterly basis.
- **Complex Spend Analysis** – Reporting can be challenging in any system. Make sure you work with your vendor and ERP System to develop a detailed reporting for both compliance and accountability management as well as spend analysis for reporting to various levels of the government (such as executive management or elected boards).
- **Delays in recording activity** – Ensure you have developed an integration or other process to timely update the purchasing card activity into the government’s ERP system. This should be done up front with a plan for meeting reporting needs.
- **Perception (“Front-page Risk”)** – While purchasing cards provide a level of control and transparency that is not possible using other procurement tools, there can be a perception among some government leaders and the public that providing a purchasing card to an employee will encourage reckless spending.