

GFOA Recommended Practice

Purchasing Card Programs 1998

Background. The purpose of a purchasing card (also known as a procurement card) program is to provide an efficient, cost-effective method of purchasing and paying for small-dollar, as well as, high-volume, repetitive purchases. This type of program is designed 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 include:

- Convenience of purchasing without a purchase order,
- Expediting delivery of goods,
- Expanded list of merchants from whom purchases can be made, and
- Reduced paperwork.

Benefits to the government's internal departments include:

- Simplified purchasing process,
- Lower overall transaction processing costs per purchase,
- Increased management information on purchasing histories,
- Reduced paperwork and
- The ability to set and control purchasing dollar limits.

Benefits to the vendor include:

- Expedited payments,
- Reduced paperwork and
- Lowered risk of nonpayment.

Purchasing cards may be issued in a designated individual's name with 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 develop plans to address those risks.

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. Purchasing card programs should be designed to be simple and easy to use; however, governments need to maintain appropriate controls to ensure the ongoing success of a purchasing card program. These controls should include:

- Written agreements with banks, which include fee schedules and processing procedures,
- Written policies and procedures for internal staff,
- Instructions on employee responsibility and written acknowledgments signed by the employee,
- Spending and transaction limits for each cardholder both per transaction and on a monthly basis,

- Written requests for higher spending limits,
- Recordkeeping requirements, including review and approval processes,
- Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved merchant category codes (MCC),
- Guidelines for making purchases by telephone and fax or over the Internet,
- Periodic audits for card activity and retention of sales receipt and documentation of purchases,
- Procedures for handling disputes and unauthorized purchases,
- Procedures for card issuance and cancellation, lost or stolen cards, employee termination and
- Segregation of duties for payments, accounting and reconciliations.

References

- *An Elected Official's Guide to Procurement*, Patricia C. Watt, GFOA 1995
- *An Introduction to Electronic Commerce: Government Cash Management Programs*, GFOA, 1998.