

Purchasing Card Programs

The original recommended best practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Purchasing Card Programs*, approved by the GFOA's Executive Board in 2008. Other sources used are footnoted in the text.

Recommendations

Governments should consider introducing purchasing cards (also known as procurement cards) to improve the efficiency of their purchasing procedures. The GFOA recommends that governments should use a competitive process to select a purchasing provider, and consideration should be given to vendors who can provide automated approval and reconciliation software. Purchasing card programs should be designed to be simple and easy to use, but governments should maintain appropriate controls to ensure ongoing success of its purchasing card program. The GFOA contends that the following controls should be included:

- Written agreements with banks, which include fee schedules and processing procedures.
- Written policies and procedures for internal staff.
- Instructions on employee responsibility and written acknowledgements signed by the employee.
- Spending and transaction limits for each cardholder both per transaction and on a monthly basis.
- Record keeping requirements, including review and approval processes.
- Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes.
- Guidelines for making purchases by telephone and fax or over the internet.
- Periodic audits for card activity and retention of sales receipts and documentation of purchases.
- Procedures for handling disputes and unauthorized purchases.
- Procedures for card issuance and cancellation, lost or stolen cards, and employee termination.
- Segregation of duties for payment approvals, accounting, and reconciliations.

Purpose

Purchasing card programs are designed to provide an efficient and low-cost method of purchasing and paying for small-dollar and high-volume purchases. Purchase cards provide municipalities with an alternative approach to the traditional purchasing process,

and it can result in a significant reduction in purchase orders, invoices, and cheques processed.

Background

Purchasing cards are credit cards assigned to specific employees who are given authority to purchase certain items. Purchasing cards are used for many different functions such as purchasing supplies and materials, airline tickets, and travel expenses. Purchasing cards have recently increased in popularity because of the benefits compared to the traditional method of purchasing. Purchase cards eliminate a significant amount of administration associated with traditional purchasing programs, and they have been successful in reducing administration costs.

Considerations for Policy Development

When a municipality is considering implementing a new purchasing program involving purchasing cards, certain factors should be taken into consideration. Municipalities should look at the positive aspects, as well as the incentives, to implementing a purchasing card program (for further details, see *Appendix I*). In addition to examining the positive aspects of a purchasing card program, municipal administrators should also examine the negative components of the program. The most prominent drawback to a purchasing card program is the threat of theft and fraud. It is important for municipalities to take measures to curb any possible threats of fraud or theft. Municipalities should consider implementing internal controls to prevent the abuse of a purchasing card program. Internal controls are essential when implementing any new kind of purchasing program, and especially because so much authority is given to cardholders. There are sixteen internal controls that municipalities should consider when implementing a purchasing card program:

1. Restrictions Placed on Purchasing Certain Items
2. Restrictions Placed on the Number of Transactions or Dollar Amounts
3. Card Eligibility
4. Written Policies and Procedures for Cardholders
5. Education of Policies and Procedures for Cardholders
6. Internal Monitoring Mechanisms
7. Internet Access to Expense Management Data
8. Customized Reporting Tools
9. Historical Data Tracking
10. Employees Maintain a Log of Transactions
11. Central Billing
12. Bank Monitoring
13. Bank Reconciliation
14. Written Agreement with the Bank
15. Random Audits
16. Segregation of Duties

(For further details of these internal controls, see *Appendix II*).

Lastly, municipalities should also consider the process they use when selecting the credit card company for their purchase card program. It is important to select the most qualified candidate in an equitable manner. Nova Scotia municipalities are required to adhere to the Agreement on Internal Trade in Nova Scotia (for further details, see *Appendix III*).

Appendices

Appendix I: Incentives to Implementing a Purchasing Card Program

Appendix II: Internal Controls within a Purchasing Card Program

Appendix III: Purchasing Card Procurement

Appendix IV: Example of Purchasing Card Agreement

Appendix I: Incentives to Implementing a Purchasing Card Program

A purchasing card system eliminates complicated steps of procurement and purchasing, and gives certain individuals authority to make various purchases. The greatest incentive that purchasing card programs has to offer is the reduced administrative costs and efficiency it provides. Because purchasing cards reduce the amount of paper required to carry out simple transactions, administration cost and time are significantly reduced. In fact, purchasing cards have reportedly reduced administration costs by 75% per transaction on more than 1.25 million transactions per year.¹ The efficiency and speed of the transactions are also significantly increased. For instance, when a municipality makes a purchase, the payment will be in the vendor's bank account within 24 hours after the purchase. This is simply not the scenario with traditional purchase orders and invoices.²

Another benefit to purchasing cards is the potential rebates that can be made available to municipalities. Rebates are often based on both the volume of purchasing and the speed that of the bank's bill for credit card purchases is paid. The established rebate rate is a confidential element in the contract between both the credit card company and the municipality. The potential for significant rebates should be another incentive for municipalities to adopt credit card purchasing system.

¹ "MasterCard Provides Innovative Public Sector Payment Solutions to Governments Worldwide". May, 2002.
http://www.mastercardbusiness.com/assets/ca/publications/newsreleases/nr_20020529_purchase.pdf.

² Morrison, Catherine. "Getting Credit: Acquisition Cards Benefit Government Purchasing". Canada's Magazine on Public Sector Purchasing. February 2004.
http://www.summitconnects.com/Articles_Columns/PDF_Documents/200402_06.pdf.

Appendix II: Internal Controls within a Purchasing Card Program

A consequence of any new purchasing program is fraud and theft. Fraud and theft is found with the traditional paper system, and it can also be found among the purchasing card program. Municipalities should take measures to prevent such occurrences, which can be done through internal controls. Internal controls can enable employees to be carefully monitored by their supervisors to ensure that the cards are being used for their intended purpose. Some control mechanisms that should be considered are:

1. Restrictions Placed on Purchasing Certain Items

Restrictions may be placed on different areas, such as merchant restrictions or selected items. These restrictions can vary between employees based on the intended purpose of the purchasing card.

2. Restrictions Placed on the Number of Transactions or Dollar Amounts

Limits can be placed on daily or monthly purchase limits. Limits can also be placed on cash advance access.³ If employees wish to have a higher spending limit, they should be required to submit a written request.

3. Card Eligibility

The municipality's managers must consider who will receive the purchasing cards. This decision is completely up to the municipality, however, the managers should carefully consider whom they give the purchasing cards to. These employees should be fully trained on the responsibilities associated with the purchasing cards, as well as the repercussions if they abuse the card. These employees should also sign documents acknowledging that they are aware of both their responsibilities and repercussions associated with the card.

4. Written Policies and Procedures for Cardholders

All internal controls should be made available for the cardholders so there is no confusion as the guidelines and rules concerning the use of the purchasing card. Policies and procedures should include employee's boundaries for purchases online and over the phone. Policies and procedures should also include the repercussions involved with card issuance and cancellation, lost or stolen cards, unauthorized purchases, and employee termination. Employees should be required to sign a document stating they understand the responsibility associated with the purchasing card. See Appendix IV for an example of written policies and procedures.

³ Commercial Card. Toronto, ON, Scotiabank.
<http://www.scotiabank.com/images/en/filesbusiness/8111.pdf>.

5. Education of Policies and Procedures for Cardholders

In addition to providing the employees with the written policies and procedures associated with the purchasing card program, it is essential to ensure that the cardholders understand the authority associated with a purchase card. A municipality can hold information sessions, seminars, and distribute literature regarding the new purchasing system. Their interest is to promote increased usage, and the municipality cardholders and managers can benefit from such information.⁴

6. Internal Monitoring Mechanisms

Managers should monitor cardholder's purchases to ensure that they are adhering to the guidelines established by the municipality. Repercussions should be established for cardholder's who violate the guidelines.

7. Internet Access to Expense Management Data

Managers should monitor employee activities, print reports, and adjust spending levels. The bank and credit card company can provide the municipality with access to these statements.

8. Customized Reporting Tools

Customized reporting tools can allow managers to be aware and in control of employee's purchasing activities. Also, it can be arranged to provide the managers with easier access to this data to make monitoring the purchases more effective.

9. Historical Data Tracking

Historical data tracking allows manager to track program performance and ensure cost control targets are reached.

10. Employees Maintain a Log of Transactions

Cardholders should be required to maintain a log of all of the purchases and transactions they have completed. This list of transactions will then be compared to the monthly statements provided by the purchase card company.

11. Central Billing

Central billing provides a consolidated monthly invoice. This makes it easier for managers to monitor all purchases by the various cardholders in a single statement. Individual billing can also be provided.

⁴ Morrison, Catherine. "Getting Credit: Acquisition Cards Benefit Government Purchasing". Canada's Magazine on Public Sector Purchasing. February 2004.
http://www.summitconnects.com/Articles_Columns/PDF_Documents/200402_06.pdf.

12. Bank Monitoring

Some banks may assign a manager to a municipality's account to ensure that spending guidelines are adhered to. This tool should be used in addition to the municipality's own monitoring mechanisms.⁵

13. Statement Reconciliation

Banks may provide the service of statement reconciliation to save time for municipalities performing the service themselves.

14. Written Agreement with the Bank

When procuring a bank to establish a purchasing card program, the municipality should outline fee schedules and the processing procedures to be provided by the bank.

15. Random Audits

Managers should randomly audit their employee's purchasing card transactions to potentially uncover any unauthorized spending. Employees should also be aware of the chance that their transactions may be audited at any time.

16. Segregation of Duties

To enhance accountability, different people should conduct the various tasks involved with purchasing cards, such as payment approval, accounting, and reconciliation.

⁵ Scotiabank. [Commercial Controls with Program Flexibility](#).

Appendix III: Purchasing Card Procurement

When deciding which credit card to use as the municipality's purchasing card, the municipality should consult the Agreement on Internal Trade for the Province of Nova Scotia. Municipalities are not required to follow Nova Scotia's Procurement Process, however, if a municipality wishes to seek assistance, the Provincial Procurement Branch will provide support. If municipalities would like to contact the Provincial Procurement Branch, see <http://www.gov.ns.ca/tenders/>.

The following website contains a PDF document of the Atlantic Procurement Agreement and the Agreement on Internal Trade in Nova Scotia. Municipalities should be familiar with these policies when procuring their purchasing card.

http://www.gov.ns.ca/tenders/policy/pdf_files/ProcurementPolicy.pdf

Appendix IV: Province of Nova Scotia Example of Purchasing Card Agreement

Department	Division/Section

Name of Employee	Credit Card Number

Enclosed is your new Purchasing Card. Although this card is issued in your name, it is the property of the Province of Nova Scotia (the “Province”) and must be used in accordance with the Province’s policies, procedures and guidelines.

By signing this Agreement you acknowledge that you have received the card indicated above and agree to comply with the following terms and conditions:

- I. This card is provided to you based upon your need to purchase business-related goods and services in the course of your employment with the Province. This card may be revoked at any time based on a change of assignment or location. This card is not an entitlement nor is it reflective of your title or position.
- II. This card is for business-related purchases only. Any use of this card for purchases of a personal nature is strictly prohibited.
- III. You are the only person entitled to use this card and you are responsible for all charges made against it.
- IV. Any unauthorized use of this card will be considered an improper use of government funds and will be subject to appropriate disciplinary action.
- V. This card must be used in accordance with all government policies, procedures and guidelines respecting government purchasing and the use of cards as such policies, procedures and guidelines may from time to time be issued and amended.
- VI. This card must be returned to your departmental coordinator immediately upon request and, in any event, upon your resignation, retirement or dismissal, at which time, no further use of this card will be authorized.

As the holder of this card, you are responsible for its protection and safekeeping. If this card is lost or stolen you are required to advise immediately, during working hours to contact your Card Coordinator.

Signature of Witness

Signature of Cardholder

Date

References

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