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COMPTROLLER'S MEMORANDUM
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June 22, 2001

To: Agency Heads/Fiscal Offices

From: Edward J. Fitzpatrick, Jr.

Re: Guidelines for Use of Procurement/Purchasing Cards

In an effort to speed up processing times and lower transaction costs for small purchases, some City agencies have begun to explore the use of procurement cards, also known as purchasing cards. The use of procurement cards is a permissible business practice provided that agency programs incorporate appropriate internal controls. The controls must insure that payments are made only as appropriate, that card transactions are accurately reflected in the City's accounting records, and that all purchases are in compliance with the City's procurement policies. The purpose of this Memorandum is to facilitate the use of procurement cards by describing their appropriate use and establishing basic internal control policy.

Agencies are encouraged to establish procurement card programs for any purchasing situation where the use of the card can achieve financial and/or operational benefits.

1.0 PROCESS OVERVIEW

Procurement cards are a purchasing vehicle and payment mechanism. The cards can be used by office purchasing personnel from a central or distributed location, or by employees with field or road assignments. The primary benefits to the agency are user convenience, the elimination of intermediate steps required by the City's traditional procurement processes, and a reduction in the internal documentation needed to support a purchase and its payment. Vendors benefit by speedier payment and reduced transaction costs. Although this Memorandum refers to "cards" and "card holders", it is not necessary that a physical card be used, since employees, using the account number, can make card purchases via phone, fax or other means.

The card use cycle begins when a card is employed to order a product or service from a vendor. Instead of issuing a purchase order or using cash or checks from an imprest fund, cardholders present the card or card number to the vendor for payment. If the payment is for a valid purchase, that is, one that is made within the limits and conditions previously set by the agency, the card issuer will approve the purchase. Typically, the card issuer pays the vendor, less a fee, within a few days, then sends a monthly billing statement, along with card activity reports, to the agency for review and payment. Issuer agreements generally require that the monthly invoice be paid promptly.

2.0 INTERNAL CONTROLS

The internal controls for procurement card usage fall into three primary categories: authorization controls; payment controls; and compliance controls.

2.1 Authorization Controls

Agency procedures must incorporate measures to insure that only authorized personnel use procurement cards and that the cards are used only for the kinds of purchases and under the conditions set forth by the agency.

- 1) Procurement card issuers incorporate a variety of internal controls into their products that agencies can use to help insure that the cards are used by only authorized individuals for specified purposes. When selecting a card issuer, agencies must insure that the control mechanisms offered are adequate for the planned use environment.

These controls include spending and use restrictions that can be defined by the agency, such as limitations on the amount that can be purchased in any individual transaction, restrictions on the accumulated purchases during any specified time period, restriction of use to specific hours of the day and/or days of the week, permitting transactions with only valid vendors or for particular categories of goods and services, limits on the frequency of use, prohibitions on cash advances, or combinations of these factors by individual or groups of card users.

- 2) In addition to card issuer based controls, agencies must insure that:
 - Cards are issued only to trustworthy employees who are adequately instructed in the security risks that accompany card assignments;
 - Employees are advised that procurement cards are City property that have been assigned to the employee only for official business purposes.
 - Cards are not “loaned” or used by anyone other than the employee or employees authorized to use it;

- Physical cards are adequately safeguarded when not in use; and
 - Cards are deactivated immediately when employees change assignments, retire or are terminated.
- 3) It is recommended that agencies use “cardholder agreements”, signed by the employee, which detail the terms and conditions of the card assignment.

2.2 Payment Controls

Agency procedures must include steps that insure that card issuers are paid promptly and only for authorized purchases. These procedures include:

- 1) Use of a PC spreadsheet or similar method to maintain a record or log of card usage as it occurs. The log should include enough information to enable agency vouchering staff to match card transactions with the card issuer’s month end statement. Such information may include date of use, vendor name, a brief description of the purchase, dollar amount, receipt of goods/service performance dates and the name of the individual purchaser/buyer. All receipts and charge slips should be maintained on file and be available to vouchering personnel. Attachment A provides an illustrative card usage log which agencies may adapt as needed.
- 2) Agencies must have procedures in place that insure that card issuer invoices are paid within the contractually stipulated timeframe. Issuer payment requirements may differ from the payment timeframe in the City’s cash management policy. When necessary, agencies may have to use the Financial Management System’s (FMS), Online Disbursement Request (OR) document to insure that the card vendor is paid in a timely manner.

Agencies must be aware that the City’s cash management policy changes from time to time. The current cash management policy can be viewed at any time in FMS by accessing the Cash Management Policy table (CMGT). In addition, cash management policy changes are announced in FMS bulletins.

- 3) Agencies must insure that the card issuer’s reports and statements are sent to individuals who are independent of those authorized to use the cards. Generally this would be someone in the agency’s vouchering/accounts payable area.
- 4) When the card issuer’s statement arrives it must be promptly compared to the card usage record or log and receiving reports before authorizing payment.

- 5) If there are no discrepancies between the card issuer's statement, the agency usage log, and the receiving reports, the bill should be paid as described in *Part 4* below.
- 6) Discrepancies between the agency record and card issuer's statement must be investigated and resolved to the satisfaction of vouchering personnel or other appropriate agency staff.
- 7) Certain card issuer agreements may require agencies to pay bills promptly in full even though there may be an unresolved discrepancy or billing dispute. In such cases, it is critical that agency recordkeeping is adequate to maintain close control over such billing errors, disputes and similar matters to insure that appropriate adjustments are made in successive billing periods.

2.3 Compliance Controls

Agencies must implement controls to insure that procurement cards are not used to circumvent the City's procurement policies and procedures, the City's accounting system (FMS) rules and procedures, or any policies and procedures established by the agency.

- 1) Purchases made with procurement cards must comply with all City procurement guidelines and Comptroller's Internal Control and Accountability Directives applicable to the dollar amount of the purchase made.
- 2) Agencies must not use procurement cards to acquire items that are available from DCAS requirements contracts, open market price agreements, or the Central Storehouse.
- 3) Agencies may not use procurement cards to circumvent imprest fund, split ordering, or other rules limiting a procurement's dollar value.
- 4) Agency staff independent of the card holders must conduct monthly reviews of each card holder's activity to ensure that the card is being used in accordance with the rules and procedures established by the agency. Such reviews include verifying that the card is being used in the manner intended, for the specified purchase types, and within the specified purchase limits.
- 5) Agencies must implement and adhere to a policy whereby unauthorized or inappropriate use of procurement cards results in immediate sanctions, including suspension or revocation of card privileges, reimbursement for unauthorized use, any appropriate disciplinary proceedings, or referral to DOI.
- 6) Agencies must not use procurement cards to purchase from a vendor if the agency is aware that the City has a lien against the vendor.

3.0 PURCHASE THRESHOLDS

The use of procurement cards is limited to purchases of \$2500 or less.

3.1 Purchases Up to \$250

Generally, agencies may use procurement cards for imprest fund type and other small purchases of \$250 or less without restriction. The provisions of Comptroller's Internal Control and Accountability Directive 3, *Procedures for the Administration of Imprest Funds* apply, as do all other applicable City procurement rules.

3.2 Purchases Over \$250 to \$2500

Purchases in excess of \$250, not to exceed \$2500, must be made in accordance with written guidelines established in advance by the agency. The guidelines must reflect the agency's specific business requirements, and must, at a minimum, include the following or similar elements:

- 1) An overall policy statement that establishes the general framework within which the agency permits procurement card usage. Examples include, but are not limited to, use as a mechanism for unplanned, ad hoc purchases, to facilitate purchasing for field personnel, for use when it is important to expedite a purchase, or to suit other specific business needs of the agency;
- 2) A tiered approach that treats purchases at different increments, e.g. \$250, \$1000 and \$2500, with escalating internal controls, as appropriate;
- 3) A reference to this Comptroller's Memorandum with explicit notice that certain card purchases over \$250 are subject to the enhanced processing procedures described below.

4.0 ENCUMBRANCE, PAYMENT AND ADDITIONAL PROCEDURES

As described above in *Process Overview*, one of the primary benefits of a card program is that agencies can, by paying the card issuer's consolidated monthly bill, satisfy many individual purchases made during the billing period. FMS, however, was not designed to handle procurement card transactions.

Until such time that the City can undertake the significant effort necessary to fully integrate procurement card processing into FMS, agencies will be required to follow the interim procedures set forth here to insure that the City's accounting and 1099 reporting capabilities are not materially compromised.

4.1 Encumbrance and Payment Processing

Agencies must encumber funds in FMS each month in an amount equal to the estimated card usage for the month. Encumbrances must be allocated to the proper budget and detail object codes based on planned spending. Before paying the card issuer's invoice, the encumbrances must be modified to reflect actual spending. The encumbrance must then be liquidated using a Payment Voucher (PVE). More detailed PVE instructions are provided in the *FMS Policy and Procedure Manual, Chapter 3: Payment Vouchers*.

4.2 Vendor/Payee Coding

This section contains special General Journal Vouchering (JV) procedures that must be used for all 1099 reportable payments over \$250, and for all other transactions over \$1,000.

Agencies should refer to the *FMS Policy and Procedure Manual Chapter 5: Payee/Vendor Maintenance*, for further instructions on the vendor registration process, and *Chapter 6: Adjustments and Accruals*, for additional detail and instructions on journal vouchering.

1) 1099 Reportable Transactions Over \$250.

The procedures in this section must be used for all procurement card transactions for 1099 reportable payments over \$250. Following these steps will insure that 1099 reporting is accurate and will help the City comply with applicable IRS reporting requirements.

When the card issuer's statement and reports are received, agencies must journal all 1099 reportable payments over \$250 back to the original supplier of the good or service using a General Journal Voucher (JV). The JV requires a "Payee / Provider Code" for each payee or vendor. If the agency does not have the Payee/Provider Code and/or the Taxpayer Identification Number (TIN), it will need to contact the vendor to obtain either the TIN or a Substitute W-9, whichever the situation requires.

Although it is not a requirement at this time, agencies are encouraged to follow the foregoing procedures for all 1099 reportable payments regardless of amount.

Agencies must refer to ***FMS Bulletin, Volume II, Number 5, 1099 Correction Instructions***, for detailed instruction on identifying and processing 1099 reportable payments.

2) Expenditures Over \$1,000.

When the card issuer's statement and reports are received, agencies must journal all expenditures of \$1,000 or more back to the original supplier of the good or service using a General Journal Voucher (JV). Following these steps will help insure that FMS and the City's accounting records accurately reflect spending by vendor.

4.3 Tax Identification Numbers (TINs)

As a general policy, it is preferred that TINs be obtained for every agency expenditure, regardless of amount, and that every expenditure be appropriately object coded. Accordingly, as discussed in Comptroller's Internal Control and Accountability Directive 6, Part 19: *Agency Accounting and Reporting*, agencies, where practicable, should obtain a payee/provider's Tax Identification Number for all purchases, regardless of amount using the procedures for obtaining TINs described in 4.2(1) above. It is recognized that compliance with this policy may not be possible in many cases.

Attachment A – Illustrative Procurement Card Usage Log

Buyer/Purchaser Name: _____

Department: _____

	Vendor Name	Date of Use	Description of Item	Quantity	Unit Cost	Total Amount
1						\$
2						\$
3						\$
4						\$
5						\$
6						\$
7						\$
8						\$
9						\$
10						\$
11						\$
12						\$
13						\$
14						\$
15						\$
						Grand Total \$