



USFR MEMORANDUM NO. 253

TO: School District Administrators; County School Superintendents

FROM: Laura Miller, Office of the Auditor General
Stacey Morley, Arizona Department of Education

DATE: January 20, 2012

SUBJECT: Credit Cards and Purchasing Cards

This memorandum prescribes the minimum internal control policies and procedures to be used by Arizona school districts for credit cards and purchasing cards (p-cards). However, districts may use alternative policies and procedures if they provide the same level of internal control.

General Information

Credit cards allow authorized district employees to purchase goods or services that will be billed on a charge account and paid at a later date by the district. Examples would include bank credit cards that do not control where a purchase is made or what is purchased and vendor-specific credit cards, such as for home improvement stores or discount retail stores that can be used only at those vendors' locations, but do not control what is purchased. P-cards are credit cards that can be limited to specific vendor types using Merchant Category Codes and offer more control of card limits.

Prior to implementing a credit card or p-card program, districts should analyze their purchasing practices, including what is purchased, who is making the purchases, and vendors purchased from, to determine if a credit card or p-card program would benefit the district. Effective use of credit cards and p-cards can help districts streamline the acquisition process for obtaining goods or services directly from vendors and can provide a method for making purchases from vendors that do not accept purchase orders. Districts should consider whether certain purchases could be made more efficiently and cost effectively with a credit card or p-card. Cost analysis should include the cost of staff time to process traditional transactions versus card purchases, and to effectively monitor credit card and p-card purchases due to the greater risk of unapproved and fraudulent transactions.

If the analysis indicates the implementation of a credit card or p-card program would be advantageous to the district and the district decides to implement such a program, the district should select a credit card or p-card vendor through a competitive selection process. If the district anticipates credit card or p-card vendor charges will exceed the oral price quotation threshold, the district should follow the School District Procurement Rules or Uniform System of Financial Records (USFR) purchasing guidelines for written and oral price quotations, as applicable. Otherwise, the district should evaluate programs offered by multiple vendors to ensure it receives the best value and the program that best fits its needs.

Some factors that should be considered in selecting a credit card or p-card vendor include:

- Does the program allow for online management? If so, what features and functions are available?
- Does the vendor charge annual fees or per-card issuance or replacement costs?
- Does the vendor provide automated approval and reconciliation software, and is it compatible with the district's accounting software?
- Is the program easy to use, including "user-friendly" reports that district management can use to monitor the program?
- Does the program have a comprehensive system of controls that can be managed on a per-card basis?
- Does the card provider offer training material and customer support?
- Does the program offer rebates, and how are the rebates administered?
- Does the program have the ability to create and manage multiple levels of online security and authority?

Once the vendor has been selected, the district should ensure policies and procedures are in place to manage the program.

Policies and Procedures

The use of credit cards and p-cards can create a greater risk of unapproved and fraudulent transactions. Therefore, districts should implement adequate internal controls to help reduce that risk.

The governing board should authorize card use by district employees and ensure district management establishes formal, written policies and procedures. The policies and procedures should provide an effective accounting system to account for and control the cards, including:

- Clearly defined separation of responsibilities for issuing cards; requesting, authorizing, and executing purchases; and payment processing.
- An authorized employee to oversee the issuance and use of cards, usually an employee in the purchasing or business office.
- Outline the purposes for which the cards may be used. Cards should be used only for valid district purposes.
- Specific guidelines to be used in determining which employees should be issued cards and the specific restrictions and limits that should be placed on individual cards, including the maximum single transaction amount and monthly purchase limits that may be authorized. In setting these guidelines, management should consider how many individuals should be allowed to commit district resources through card transactions and the aggregate amount of district resources that could be committed by card users if they were to maximize their spending limits. Districts should limit the number of card users to the minimum necessary for effective purchasing to maintain adequate control of district resources, minimize oversight cost of card programs, and reduce the risk of loss due to unapproved and fraudulent transactions.
- Procedures for canceling or inactivating a card.
- Procedures for handling disputed charges.
- A designated employee to coordinate card accountability for each school site or department that utilizes the cards.

- Prohibit card users from splitting purchases into smaller transactions in order to circumvent the School District Procurement Rules and USFR purchasing guidelines or to avoid individual card user purchase limits.
- Specific procedures for card transactions and payments as discussed later in this memorandum.

District management should also monitor adherence to internal controls, including appropriate followup, investigation, and resolution of transactions that appear improper.

Card Issuance

Limits—Based on the district policies and procedures, the employee authorized to issue cards should approve card users and set single transaction limits and monthly purchase limits for each card user. Cards should be issued only to district employees with a legitimate need and whose use of the card is necessary for effective purchasing. The purchase limits should be established based on the types of transactions for which the card is to be used, rather than an arbitrary amount. The employee issuing cards should not be an authorized card user.

Tracking—Cards should be issued in the district's name and, if applicable, the user's name. The employee issuing cards should maintain a complete list of card users to track possession of all cards. Physical security of cards in the district's possession should be maintained at all times. Further, districts should cancel or inactivate cards—recovering the card, if possible—upon loss, theft, or misuse; when a card is no longer needed; and upon the card holder's separation from district employment.

For cards issued only in the district's name, such as fuel credit cards used for fleet vehicles, a specific individual should be designated to track who has the cards and account for all of the cards' transactions. The individual should ensure that all cards are signed out by employees when in use, returned timely with supporting documentation, and signed back in upon return.

Training—Districts should require training for card users and any other employees involved with the processing of transactions. Districts should keep training materials current and document when each employee was trained. The extent and type of training provided to employees should be appropriate in relation to individual authority and responsibility and the amount of transaction authorization given to the card user. Districts should also make card users aware of any laws, regulations, contractual agreements, and policies and procedures that require the card user to acquire goods and services from specific sources, such as contracts and blanket purchase orders.

Card User Agreement—All card users, including users of cards issued only in the district's name, should sign a card user agreement acknowledging receipt and understanding of the district's policies and procedures for the card's use. The agreement should authorize the district to withhold wages for the amount of any improper purchases if the card is misused.¹ Card users should be held personally liable for card transactions that are contrary to any laws, rules, or policies and procedures, including applicable penalties and interest. The agreement should also outline other possible disciplinary actions for misuse of district cards, including loss of card use privileges or possible personnel actions.

Transaction Controls

The internal control procedures established for card usage should be designed to ensure purchases are properly authorized, for an appropriate district purpose, within budget for budget-controlled funds or available cash balance for cash-controlled funds, and made in accordance with the School District Procurement Rules and USFR purchasing guidelines. Procedures should also be designed to help prevent or

¹ If wages are withheld for improper purchases from a nonexempt employee under the Fair Labor Standards Act, districts must ensure that remaining wages are sufficient to comply with the Act's minimum wage and overtime compensation requirements.

detect fraudulent and abusive transactions. This may be achieved through advance approval of purchases and review of supporting documentation during the payment process.

Advance Approval—To help prevent unauthorized transactions from occurring and ensure compliance with procurement requirements, district management may require purchases to be reviewed and approved by an authorized individual prior to goods and services being ordered. Purchase requisitions or purchase orders can be used to facilitate advance approval; however, alternative procedures may provide a similar level of control.

If purchase requisitions or purchase orders are used, they should document the approval process, including verification that the purchase is for an appropriate district purpose, that the monies or budget capacity are available, as applicable, and that applicable procurement requirements have been met. Purchase orders may be issued for individual transactions, or blanket purchase orders may be used for frequent purchases such as maintenance supplies or food service items.

Alternatively, district management should:

- Ensure strong controls over review of supporting documentation are in place and operating effectively to quickly detect and address improper purchases.
- Monitor budget and cash balances, adjusting card limits as necessary, or use declining balance cards.
- Limit card users to purchases of items on existing contracts that have been properly procured or where competitive purchasing is not required (e.g., the district's total like-item purchases do not exceed the oral price quotation threshold).

Supporting Documentation—Employees using cards should submit all supporting documentation to the district at least monthly. To allow for appropriate review of the purchase, supporting documentation should include:

- Purchase requisition, purchase order, invoice, packing slip, receiving report, and transaction receipt, as applicable. If original receipts are not available because they are lost or illegible, the card user should request a copy of the receipt from the vendor or complete an affidavit detailing the purchase date, vendor, product, cost, tax and other charges, and reason the receipt is not available.
- Description of item(s) purchased and the specific district purpose for the expenditure.
- The card user's signature and date the documentation was submitted to the district.
- The district vehicle license number and odometer reading for fuel or vehicle repair purchases.
- Transaction log that reconciles supporting documentation to the billing statement, signed by the card user or the individual designated to track transactions of cards issued only in the district's name.

Certain transactions, such as Internet, phone, and fax transactions, may result in card charges before goods or services are received. District procedures should address when such transactions are allowed, limiting them to items that are normally prepaid in order to procure them or to receive a discounted price. Districts should review USFR §VI-G for more information on items that may be prepaid. Procedures should also be adequate to verify and document the receipt of any prepaid items.

Payment Process

Districts should ensure that approval, verification, and payment duties are separated among different employees. A copy of billing statements should be sent directly to the district so the individual or department authorized to make payments on cards is aware of outstanding balances and payment due dates. Electronic

statements may be accepted if provided by the financial institution.² A copy of the billing statement should also be provided to card users by the financial institution or the district. Upon receipt of the billing statement the card user should complete the transaction log and submit the log, billing statement, and all other supporting documentation for review and approval. The reviewer should:

- Confirm that all supporting documentation is complete and was submitted in a timely manner.
- Verify that each purchase transaction appearing on the card user's billing statement is an appropriate, legitimate district purchase that was approved, and within the individual's authorized purchase limits.
- For travel expenses, verify that expenses do not exceed allowable reimbursement amounts (see USFR §VI-I and USFR Memorandum No. 231) and are supported by a properly approved travel claim.
- Initial and date the reconciliation to document responsibility for and timing of review.
- Submit reconciled statements and supporting documentation to the individual or department authorized to make payments on cards.

If the financial institution provides electronic access to transaction detail throughout the billing cycle, districts may wish to review transactions on an ongoing basis rather than wait until a billing statement is received.

All receipts should be reconciled and reviewed at least monthly and, if possible, prior to payment of the monthly bill. Payments should be made in a timely manner to avoid late fees and finance charges. Since statute does not authorize installment purchases, card balances should be paid in full each billing cycle. Partial payments are not appropriate. If the reconciliation or review identifies any items that were not a valid district charge, it should be disputed following the district's dispute-handling procedures.

Periodic Reviews

District management should periodically compare budget and actual expenditures to ensure purchases remain within budget or available cash balance, as applicable. Districts should also monitor types of purchases and vendor usage to ensure compliance with the School District Procurement Rules and USFR purchasing guidelines particularly related to cumulative purchases and items that are not under existing contracts. (Districts should review USFR Memorandum No. 248 for more information on analyzing cumulative purchases.) If card users are not complying with budget restrictions, procurement requirements, or any other card policies and procedures, appropriate corrective action should be taken.

District management should ensure periodic compliance audits are conducted to test card transactions for adherence to district policies. These audits should test the entire transaction process from the card's issuance to payment of the monthly bill. The audits should be performed on a sample basis by an employee not involved in issuing cards or processing transactions to verify card users and other employees involved with the processing of transactions are complying with all district card policies and procedures. The individual conducting these audits should document what was reviewed, any findings noted, and corrective action taken, if necessary. Documentation should be initialed and dated by district management and retained.

Transaction Red Flags

Authorized individuals reviewing card transactions and monthly statements should be aware of possible warning signs of improper or fraudulent transactions (red flags). The reviewer should investigate purchases that exhibit red flags or otherwise appear to be out of the norm. Possible red flags may include:

- Purchases that appear to be of a personal nature.

² Electronic statements must be retained in an accessible format in accordance with the *General Retention Schedule for School Districts and Charter Schools*.

- Transactions that occur during nonwork hours.
- Purchase documents that appear to be altered.
- Purchases without detailed receipts, shipping documents, or receiving reports.
- Transactions consisting of unnecessary or unauthorized items, e.g., premium grade fuel, gift cards, lottery tickets, cash withdrawals, alcohol, or in-room movies and games.
- Charges for meals already reimbursed through a travel claim or purchased at local restaurants.
- Excessive fuel purchases based on the number of miles driven.
- Purchases from vendors with which the employee has a conflict of interest.
- Multiple same-day purchases with the same vendor, particularly purchases that are just below the user's transaction limit.
- Purchases inconsistent with the employee's job duties.

District management should investigate red flags to conclusion; however, not every red flag is the result of fraud. Improper transactions can also indicate that an error has been made or further employee training is needed.

P-Card Specific Processes

Districts should use the Merchant Category Codes for p-cards to block unauthorized vendors and purchases, and apply the purchasing limits necessary to meet operational requirements.

Districts may also use a p-card to pay for previously acquired goods or services. A payment transaction satisfies an obligation to pay a vendor for goods and services already received and establishes a corresponding obligation to pay the p-card issuer. Individuals who use the p-card to complete payment transactions are most likely those responsible for managing the district's accounts payable; therefore, higher spending limits may be appropriate for individuals who make payment transactions.

District policies should specify whether p-cards may be used for payment transactions and establish separate maximum limits for p-card payment transactions. Supporting documentation and billing statements should be received and reconciled by someone other than the card user before payment is made to the card issuer.

Rebates and Incentives

Credit cards or p-cards may contain provisions for districts to receive cash rebates or incentives (rebates). When rebates are received, the district should treat the rebate as miscellaneous revenue or as a reduction of expenditures.

If the rebate is received in the same fiscal year as the original expenditure, including the encumbrance period, the rebate may be recorded as a reduction of the original expenditure. Otherwise, the district should record the rebate as miscellaneous revenue in the fund of the original expenditure or in the Auxiliary Operations Fund.

If the rebate is received after the close of the fiscal year in which the original expenditure was made, the rebate should be recorded as miscellaneous revenue in either the fund of the original expenditure or the Auxiliary Operations Fund.

When determining whether to record the rebate in the fund of the original expenditure or the Auxiliary Operations Fund, the district should consider how easily the rebate can be associated with the fund, program, function, and object code of the original expenditure and the dollar amount of the related rebate. For example, a rebate on fuel cards used solely for student transportation vehicles could be easily identified;

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however, a rebate for various types of transactions on a general use credit card may not be cost effective to identify with the original expenditure coding.

Rebates recorded as miscellaneous revenue in the Auxiliary Operations Fund may be used for any district purpose.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division, at (602) 553-0333 or ADE School Finance at (602) 542-5695.