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New Rules Expanding the Permitted Uses of Procurement Cards by Local Units

The Local Finance Board has adopted comprehensive amendments to its existing procurement card (P-Card) regulations. Use of P-Cards by local units is authorized by statute in N.J.S.A. 40A:5-16(c), which encompass municipalities, counties, authorities, fire districts and any other entity subject to the Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 et seq.). School districts are not authorized to utilize P-Cards. These new rules are codified under [N.J.A.C. 5:30-9A](#), entitled "Disbursements without Vendor Certification". The [rule adoption notice](#) can also be found on the Division's website.

The most significant change abolishes the current per-transaction monetary limitation on P-Cards (15% of local unit's bid threshold) where the local unit has a Qualified Purchasing Agent managing their P-Card program. Another allows payment of travel, room and board expenses on the county level for defendants, witnesses or experts required for court matters. Additional changes allow greater flexibility in how a local unit can structure its P-Card monitoring regime.

Rules pertaining to Electronic Funds Transfers ("EFTs") were not amended; relevant guidance concerning EFTs can continue to be found at [Local Finance Notice AU 2003-1](#), issued July 23, 2003.

I. What is a Procurement Card?

P-cards are electronic procurement systems incorporating access restrictions determined by the contracting unit in accordance with an agreement with the issuer. Any P-Card program must include the ability to institute the following controls:

- Control limits and review current activity online and in real-time
- Establish, change or delete limits on each card individually

- Restrict the use of individual cards to certain individuals and categories of items
- Establish a cumulative limit for a specific period
- Receive sorted or sortable detailed reports of activity by authorized card user, department or spending category
- Interface with accounting software so that
 - vendor activity includes all transactions processed through the P-Card, as well as transactions where direct vendor payments are processed, and
 - internal controls are maintained concerning the integrity of vendor payments, accumulated costs for goods and services (aggregation) as well as other Local Public Contracts Law requirements.

Certain vendors providing local government accounting software have modified their software to allow interfacing with P-Card software. Accounting software without this interface compromises local units' ability to ensure Local Public Contracts Law compliance.

When a P-Card is used in a transaction, a vendor receives payment from the card issuer. The issuer then sends the local unit a bill for all transactions made during the last billing period (usually monthly). Depending on the issuer's system and the local unit's requirements, the bill may be formatted by card user, vendor or other parameters, with user capability to customize and print transaction reports. The local unit would then utilize internal controls to verify purchases and utilize their routine bill payment procedure in paying the bill.

The local unit would contract with an issuer, which must be a financial institution chartered by a State or federal authority, for card services. Services include the cards, billing system, control mechanisms and administrative support. Fees may be incurred for these services; if the issuer is a bank, fees may be included in the compensating balance calculation for the local unit. P-card systems are to be contracted for either through an agreement negotiated at the time of choosing a banking institution for the local government, a cooperative purchasing agreement with either the New Jersey Treasury Department's [Division of Purchase and Property](#) or another legally-operating purchasing co-op, or via the competitive contracting process following the requirements of N.J.S.A. 40A:11-4.1 et seq.

Only cards issued by a bank or major credit card provider with a generally pre-established credit limit can be used. Any rebate offered by the card provider shall be based upon the dollar volume of the transactions. P-cards are not the same as credit card, debit card, in-house or store credit card, which are still not permitted for use by local governments.

Electronic Funds Transfers (EFTs), which involve methods of transferring monies such as wire transfers, e-checks, automated clearing house (ACH) transfers and transactions initiated by phone or fax, differ from P-Cards in that EFTs are used to pay an obligation rather than create one.

II. How Procurement Cards Can be Used

P-cards can be utilized for tangible supplies or non-tangible items under the following conditions:

- When payment to vendors is required in advance of the delivery of certain materials or services that cannot be obtained from any other source at comparable prices
 - Advance payment is required by the vendor
 - Comparable pricing is not otherwise obtainable for such goods or services to be available at the time and place required
 - The contracting agent has approved such item for purchase from a particular vendor
- When ordering, billing and payment transactions for goods and services are made through a computerized electronic transaction (i.e. on the Internet)
 - Vendor requires immediate payment
 - Contracting unit's purchasing agent has approved such item for purchase from a particular vendor
- When certification is not readily obtainable by the contracting unit

Transactions cannot exceed 15 percent of a contracting unit's bid threshold **unless** the local unit appoints an officer or employee possessing a Qualified Purchasing Agent (QPA) certification from the Division of Local Government Services in the capacity of program manager, in which case the individual transaction limit shall be subject solely to the amount (if any) established by the local unit's governing body in its policies and procedures.

P-Cards cannot be used for the purchase of items or services of a personal nature for employees, volunteers or officials. Travel, dining and room and board expenses also cannot be paid for by P-Card; the only exception to this involves travel, room and board expenses for defendants, witnesses or experts required for matters before the courts. This exception can be exercised only by a QPA of a county or a County Sheriff's or Prosecutor's office if authorized by resolution or ordinance of the county's governing body.

Please be aware that all purchases of goods and services using a P-Card must be done in compliance with the Local Public Contracts Law; use of a P-Card does not change or eliminate any provisions of that law. Current law prohibits schools from using procurement cards for any purpose.

III. Procurement Card Program Oversight and Training

The governing body of a local unit seeking to utilize P-Cards to acquire goods and services must adopt a resolution or ordinance (as appropriate to the form and type of government) setting out policies and procedures that govern their use as well as ensuring sound fiscal and managerial controls. Local units should incorporate P-Card policies and procedures in a payment of claims ordinance, where applicable.

The amended rules require the governing body to appoint a program manager to be responsible for day-to-day oversight and management of supervisory review of procurement card usage. Supervisory review in this instance means confirming the propriety and accuracy of P-Card usage by subordinates. The program manager may also be responsible for reconciliation of activity. In order to better accommodate varying organizational and internal control structures among local units, the program manager can be an officer or employee other than the Chief Financial Officer (CFO). The role of a program manager in overseeing the P-Card program does not exempt that individual from accountability to those above them in the organization.

The governing body of a local unit can institute any monetary limit on procurement card purchases or none at all, so long as the appointed program manager is a Qualified Purchasing Agent ("QPA"). If the program manager is not a QPA, the maximum threshold on P-Card transactions cannot exceed 15% of the local unit's bid threshold.

Before implementing a procurement card program, local units must first have all personnel connected with the local unit's program complete training on the P-Card system. First, the Chief Administrative Officer, CFO and program manager should receive training in all aspects of the system. Following their successful completion of training, the local unit's chief administrative officer, in consultation with the chief financial officer and the program manager (if someone other than the CFO) and subject to the local unit's policies, is to identify positions within the organizational structure that will benefit from use of a P-Card and, pursuant to the local government's policies and procedures, establish limits by amount, period (time) and categories of permissible use. In turn, the program manager will develop and administer a supervisory review process, identify and manage all risks associated with P-Card use; as well as engage in any other oversight or management duties required to ensure their proper utilization.

A program manager must organize training for each individual whose duties may at any time include the use of a procurement card, supervisory review or reconciliation of activity in the P-Card program, as well as the local unit's policies and procedures concerning P-Card usage. The program manager will notify in writing every employee identified as a person who would be offered a P-card to obtain their consent for the required training. If the employee declines, they shall not be eligible to utilize a P-Card. When the list is finalized, the program manager will initiate training for those employees who will be assigned a P-Card. Topics to be covered shall be as listed in Appendix A. At the end of the training, all persons trained shall sign a statement consistent with the wording in Appendix B.

P-Cards must be issued in the name of a specific individual upon completion of the requisite training, and cannot be issued to personnel who are neither covered by a fidelity bond nor a blanked honesty policy held by the local unit (or become ineligible for said coverage after being issued a P-Card). Violations of policies governing P-Card use shall result in appropriate remedial or disciplinary action.

The Program Manager shall also ensure that:

- all cards have imprinted on them both the users' names and the name of the local unit
- the merchant code is accurate
- sufficient funds are encumbered from the proper accounts to cover any charges the user is authorized to make.
- program participants are aware of the proper and approved vendors with whom the cards may be utilized, dependent upon contracts awarded by the governing body.
- when bids are advertised, the bid documents include that the payments may be made by procurement card so the local unit receives in their bid prices any discount for timely payments.

Users shall expeditiously provide all receipts to the program manager, who will compare receipts to the computer-generated usage report provided by the card company. Returned material must reported to the Program Manager quickly to ensure either the charge is cancelled or the local unit receives the proper credit.

Conclusion

Procurement cards can be a highly beneficial tool for local governments, looking to further utilize e-commerce and strengthen their purchasing controls. For example, certain contracts through national cooperative purchasing groups (see Local Finance Notice [2012-10](#) for guidance on procurement through national co-ops) require vendor payment by P-Card. The amended rules will provide the mechanism to better utilize certain national co-op contracts. However, the benefits that come with P-Cards can only be realized with the proper training of all employees involved with the program along with the establishment of effective fiscal and managerial controls.

Approved: Thomas H. Neff, Director

APPENDIX A**Topics to be covered in Procurement Card User Training by Program Manager**

1. Short explanation of N.J.A.C. 5:30-9A and the benefits of using P-Cards
2. The policies and procedures established by the local unit's governing body concerning P-Card usage
3. Expeditious submittal of receipts to the program manager.
4. Expeditious handling of returns to ensure the local unit receives credit or is not billed.
5. Explanation that users may only use cards at pre-approved vendors for pre-approved merchant codes which you will provide, and that use for travel/room and board is prohibited except for the limited circumstances applicable to counties.
6. Prohibition on cash advances from P-Cards.
7. Immediate reporting of lost or stolen cards to the program manager, who will in turn cancel them immediately.
8. Relinquishing the procurement card upon termination of employment or other circumstance where the employee's P-Card privileges are terminated.
9. Users must not permit vendors to retain the card or otherwise institute a "running total" for the card.
10. Notifying the program manager of suspected fraudulent acts.
11. Explanation that improper use of a card will result in the employee being personally responsible for any such payment, and that improper use of the card could result in the termination of the employee's privilege to use a card and additional personnel actions up to and including termination.
12. All employees shall sign a statement incorporating the substance of Appendix B.

APPENDIX B

Acknowledgement of Procurement Card Training and Agreement to Abide by Policies and Procedures for Procurement Card Usage

I, _____, hereby certify that I have been trained in the permitted
(Name of cardholder)
use of procurement cards for the _____, and that topics as per attached
(Name of local contracting unit)
have been explained. (Attach Appendix A prior to cardholder signing).

I hereby agree to follow the provisions of the Procurement Card Program, its policies and procedures. I understand that violators of these rules may result in revocation of privilege of use and/or disciplinary action up to and including termination of employment. I also understand that inappropriate use may require that I reimburse all costs associated with such improper use.

Cardholder Signature

Cardholder- Print Name

Date

Assigned Card Number

Signature of Program Manager

Signature of Chief Financial Officer

Signature of Chief Administrative Officer

APPENDIX C**Procurement Card Program Checklist for Local Units**

- Governing body of local unit institutes policies and procedures for use of procurement cards.
- Chief Administrative Officer, Chief Finance Officer, and program manager must train in all aspects of the procurement card system.
- Chief Administrative Officer, in consultation with the CFO and program manager, decides which employees will be offered the use of P-Cards.
- Program Manager trains those employees accepting responsibility of P-Card usage.
- Chosen candidates accept conditions as described in training (in Appendix A) and agreeing to those terms as specified (signing Appendix B).
- Personnel utilizing P-Cards are notified of the proper and approved vendors with whom the cards may be utilized.
- Local unit ensures program manager has all tools necessary to oversee the program, including the ability to view accounts in real time.
- Program manager initiates cards by registering merchant code and encumbrance prior to providing the card; ensures that cards have imprinted on them the name of the local unit and the individual user.
- Program manager monitors for proper use, return of receipts and credit for any returned purchases.