



Commercial Card Transactions (Procurement Cards and Payment Cards)

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Policy

To leverage the established state enterprise agreement between P&C and a commercial card vendor bank, state agencies requiring procurement card services and/or payment card services shall acquire either or both services through P&C.

- An agency desiring to participate in the commercial card program must determine these factors exist: 1) adequate internal controls exist; 2) the timing associated with paying a supplier for goods and services will be optimized; 3) efficiencies shall result for the agency; 4) efficiencies shall result for the agency's employee(s); and 5) rebate incentives shall accrue to the State. Rebate incentives are to be considered a collateral benefit of implementing a commercial card program, not the primary reason for doing so.
- All commercial card transactions shall strictly comply with budget rules and funds encumbering requirements of the Office of State Budget and Management, UNC General Administration, and the NC Community College System, as appropriate.
- For all commercial card transactions, agencies must maintain adequate internal controls that embrace best business practices. Controls shall include: 1) verification of the receipt of goods and services procured; 2) verification that the goods and services procured were for official business use; 3) verification that the expenditure for the goods and services procured was within authorized spending limits; 4) revocation procedures are in place for revoking cards from employees that misuse the card; and 5) standards to ensure compliance with all applicable P&C requirements.
- Each commercial card obtained from the card vendor bank shall be designated as either a "procurement card" or a "payment card," with the proper controls and business rules applied to each respectively.
- For any procurement card transaction involving funds that cannot be encumbered until the card vendor notifies the agency of the payment transaction, and a purchase order is not generated, the card transaction amount shall not exceed the threshold established by P&C (\$2,500.00 unless otherwise approved by P&C for a larger limit). This threshold may be further limited by any adopted agency threshold. In no event shall the threshold exceed the amount for "Small Purchases," as specified in 01 NCAC 05B.0301.
- For any payment card transaction where funds can be encumbered at the time the order is placed or debt is incurred, the transaction may be in any amount consistent with the agency's fiscal policies.
- For any transaction where the agency has the capability and proper controls in place to participate in a commercial card program to pay for an existing accounts payable, the supplier or payee may be

paid using a payment card, provided the supplier or payee has been offered the option of being paid by any other form of payment that the agency may offer (e.g., ACH credit).

- Agencies must establish adequate and appropriate internal controls that embrace best business practices related to the security of physical cards and ghost card account numbers issued or to be issued, as well as cardholder data related to storage, processing, and data transmission.
- Disbursements of funds to the State's commercial card vendor bank shall be made timely in order to avoid any late payment penalty that may apply under the existing contract with the vendor bank. If the agency has the capability to pay electronically (i.e., ACH credit), it shall do so.
- The federal government must be allocated its portion of any rebate received from the use of commercial cards by state entities in accordance with the State Controller's procedures located at the following link:

http://www.osc.nc.gov/programs/disbursing/Procurement_Card_Federal_Rebate_Procedures-2014.pdf

- The agency must establish procedures to ensure that accounting for payment card transactions reflect payments made to the actual supplier (payee), not to the commercial card vendor bank. Funds remitted to the vendor bank for payment card transactions are to be considered as a reimbursement for funds the bank advanced to the payee on the agency's behalf when the payment was effected against the payment card. Payments made to the vendor bank for procurement card transactions may be accounted for as payments to the vendor bank.
- Any utilization of a commercial card used in conjunction with an electronic procurement system where the card is associated with a vendor shall be designated as a payment card and be subject to the business rules and funds encumbrance requirements established for payment cards.
- This policy shall not be used to circumvent any P&C policy or requirement to maximize the use of the statewide electronic procurement system. Furthermore, this policy does not prohibit account payables generated through the procurement system from being paid with a payment card, provided the respective accounting system used by the agency to disburse funds to suppliers (payees) is compatible with the procurement system.
- This policy does not pertain to transactions initiated by an employee who has been issued a corporate travel card under a contract facilitated by the State (where the card is in the name of and is the responsibility of the employee).

NCAS Agencies: For state agencies whose vendors are maintained in the North Carolina Accounting System (NCAS), the Office of the State Controller (OSC) does not have a business process with the commercial card vendor bank to accommodate payments using a payment card instead of paper check or direct deposit. Such a program is under consideration and will be pursued when resources are available.

SUPPORTING INFORMATION AND DEFINITIONS

Commercial Card Programs: A commercial card program allows for a branded card to be issued to a governmental agency through a financial institution to designated employees of the agency. Although a commercial credit card resembles and functions similar to a consumer credit card, there are significant differences: 1) the commercial card is normally assigned by the financial institution (card vendor bank) to a designated agency employee, but is issued in the name of and on behalf of the agency; and 2) full liability rests with the agency for payment to the financial institution for all transactions, not with an individual.

There are two types of commercial card programs addressed by this policy: 1) "payment cards" that function as a "form of payment" to satisfy an accounts payable (AP) previously created by the agency; and 2) "procurement cards" that function as a "procurement mechanism," facilitating the acquirement of goods or services by an agency employee, with the payment being made in conjunction with the procurement.

While both programs are established on the same infrastructure platform maintained by the vendor bank, each program is generally set up under separate account structures, in order to establish separate controls and rules for use of the cards under the particular program. For example, procurement cards normally have a smaller amount limit assigned, since the funds encumbrance

process is by-passed. Payment cards are normally only assigned an amount limit after the funds encumbrance process has been performed, and is often assigned to a particular vendor/payee. Each program accommodates both “distributed cards” and “ghost cards” (where no physical card exists).

Distinction between “Payment” and “Disbursement:” For purposes of this policy, a “disbursement” results when funds are actually paid out of the State Treasury. A disbursement can be effected by different “forms of payment,” (e.g., cash, check, ACH credit, wire transfer, or commercial card). Depending upon the form of payment, a payment may take a number of days to be finalized (settled). Not until the form of payment has been cleared through the banking channels or card network is the payment finalized. The finalization of the payment results in an actual disbursement of funds, which normally is some time after the payment transaction is “initiated” by the payor.

Relationship between “Procurement and Payment/Disbursement: Use of a commercial card as a mechanism to effect a payment or disbursement of funds is separate and distinct from the approval process a cardholder (or card account owner) must adhere to in order to procure goods and services, or to incur a debt. However, due to the interconnectivity of the two functions, coordination of the development of internal controls for both functions must be considered jointly. The respective accounting systems and procurement systems used by an agency must also be compatible.

Program Administration: The Office of the State Controller (OSC) is responsible for prescribing the manner in which agencies are to make disbursements, while the Department of Administration’s Division of Purchase & Contract (P&C) is responsible for promulgating rules pertaining to procurement, as well as for administering a procurement card contract with the commercial card vendor bank. In recent years, the commercial card has evolved into a mechanism that can be used to accommodate two distinct functions, as a procurement mechanism and as a payment mechanism. Often times the two functions are interrelated with each other as part of the same transaction.

Because the commercial card supports two functions, with each function being governed by two separate central oversight state agencies, it is necessary that the needs and requirements of both OSC and P&C be considered when securing the services of a commercial card vendor bank.

Procedures

NA

Accounting Guidance

NA

Related Documents (Memos/Forms)

NC Administrative Code – 01 NCAC 05B.1523 <http://www.doa.state.nc.us/PandC/946a.pdf>

Revision History

Date	Description
11/21/14	Revised procedures for federal share of rebates