

Municipal Procurement or Purchase Cards

Massachusetts General Laws Chapter 44, §4 grants cities and towns the general power to enter contracts with the approval of town meeting or adoption of a bylaw stating as much. However, this exercise of Home Rule authority is permitted only to the extent that the purpose of the contract or its implementation does not run counter to existing state law or State Constitution. This is where the hurdles lie when a municipality seeks to enter an agreement for procurement or purchase card (P-card) services with a financial institution.

A municipal P-card differs from a traditional credit card in that it requires full payment at the close of each statement period. In other respects, they are similar with equal prospects for clashing with state finance statutes. For example, a charge to a P-card is in a sense a prepayment which, in the context of c. 41, §56, is not permitted. Using a P-card increases the risk that an expenditure will exceed the appropriation to be charged, which is prohibited by c 44, §31. A P-card can represent a form of debt not authorized by c. 44 §2.

The evolution of opinion however is that these risks can be offset by well-defined program guidelines and strong financial controls. Most frequently, these rules and safeguards are enumerated in a written P-card policy.

A policy defines the purpose of the program and sets out a process for issuing cards. It establishes permitted uses of cards; imposes card-holder responsibilities to document purchases and to reconcile the P-card account. It describes card-holder liability in the case of misuse or a rejected purchase. The policy describes the accountant's role in reviewing transactions and monitoring accounts, and provides for program or account audits. Other provisions might direct action when a card is lost, stolen or otherwise needs to be terminated and activated. It might set-out procedures when a merchant refuses to accept a P-card, when errors occur or disputes arise. A policy should also make clear that any rebates or benefits from use of the P-card flow to the municipality and not to the card-holder, who might be a department manager or employee. Virtually all policies incorporate an agreement, or contract, by which the card holder accepts the P-card and consents to program rules, responsibilities and penalties.

In general, a P-card must be restricted to municipal or public purposes related to the work of the card-holder or department where he or she is employed. Individual purchases might be subject to a dollar transaction limit, but each card should always have a dollar ceiling, or card

limit, for total purchases. Municipalities have used P-cards to replace blanket purchase orders, payment by manual check and petty cash funds. They have otherwise authorized the cards for small dollar, repetitive purchases, and for phone, fax or online purchases. Such purchases, with or without pre-approval, might involve materials, supplies, equipment, shipping and fuel, as well as costs for travel or training. It appears that most communities limit purchases to only incorporated vendors.

Conversely, policies should explicitly state that the P-card may not be used for private or personal purposes and may only be used by the person assigned the card. Impermissible uses would include cash advances at ATMs or exchanges for traveler's checks, money orders, etc., and charges for alcohol or personal entertainment. Expenditures for non-job related purposes should be disallowed even where there is the intention of reimbursing the municipality.

Card-holders should know that they will be held accountable should they misuse or abuse a P-card. While much is dependent on card-holder behavior, the municipality can help protect its interests with strict financial controls. Responsibility should be imposed on the card-holder and/or the department head to obtain and retain purchase documentation, to keep accurate records and to reconcile the P-Card account. In this regard, the card-holder would typically be required to match monthly P-card statements to purchase receipts, verifying in the process that goods and services are received.

Written safeguards for P-cards should be promulgated by the city auditor or comptroller, town accountant in conjunction with the board of selectmen, or any other officer whose approval is needed for the payment of vendor bills under the municipality's charter, ordinances, or bylaws. For a P-card policy with examples of appropriate safeguards and financial controls, see the State Comptroller's policy for the use of P-cards by state agencies: "[Commonwealth Procurement Card Program Policy and Procedure](#)."

All should understand that the use of a P-card does not allow skirting the state c. 30B procurement laws and that controls are in place to monitor compliance. And, the accountant or auditor must carry-out statutory obligations to verify that charges are lawful, not excessive and not fraudulent, before placing them on a vendor warrant for payment. Lastly, a plan to conduct random audits of individual accounts or a regular audit of the entire program can help ensure financial controls work as intended.