Model Credit Card Policy + Guidance

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Many towns have instituted credit card or purchasing card programs as a way to avoid small-dollar, high-volume repetitive purchases, and to avoid the necessity for petty cash funds. Transactions can be done more conveniently and expediently, there is less paperwork to process and fewer checks to write, and there are more merchants from whom purchases can be made.

Such programs provide an opportunity for misuse, so it is important that a credit card policy clearly establish the controls and criteria for card use, and that this information be effectively communicated to those employees who are authorized to use the cards.

The following should be considered in the development of a credit card policy:

Purchasing Controls. The Government Finance Officers Association (GFOA) recommends various controls be established to avoid misuse/abuse of credit cards:

- Instructions on employee responsibility with written acknowledgement by the employee.
- Ongoing training of cardholders.
- Spending and transaction limits for each cardholder (both per transaction and on a monthly basis).
- Written requests for higher spending limits.
- Recordkeeping requirements, including review and approval process.
- Clear guidelines as to the appropriate uses of the cards, including approved merchant codes.

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- Guidelines for making purchases by telephone, fax, or online.
- Periodic audits for card activity and retention of documentation.
- Timely reconciliation by cardholders and supervisors.
- Procedures for handling disputes and unauthorized purchases.
- Procedures for card issuance and cancellation, lost or stolen cards, and employee termination.
- Segregation of duties for payment approvals, accounting, and reconciliations.

The accompanying model policy provides a simplified process to identify authorized card users and standards for appropriate credit card use and documentation. It also provides that authorized credit card users will be responsible for the card's protection and custody.

Merchant Category Codes. Though not included in this model policy, the Merchant Category Codes (MCC) system is a process of identifying vendors based upon the type of commodities sold or services offered. Purchasing card programs can be set up to reject certain purchases based on the MCC of a particular vendor. For example, a card program can be set up to reject purchases at vendors identified as bars or cocktail lounges, travel agencies, jewelry stores, liquor stores, etc.

Segregation of Duties. As with so many other policies, adequate segregation of duties is important in the successful operation of a credit card or purchasing card program. No one individual should be able to authorize a transaction, record the transaction, maintain custody of the asset acquired under the transaction, and reconcile the transaction in the accounting records.

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Publication Date

04/01/2026

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Current as of: 11/22/2026