



State of Arizona Accounting Manual

Topic 40 Revenues and Receipts

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INTRODUCTION

The acceptance of credit cards for payment by State agencies, though fairly common and well-established, is somewhat complex. This section of SAAM sets forth the policies and procedures to properly apply, impose, and account for the fees and charges relating to the processing of the underlying transactions.

The acceptance of credit card payments to the State of Arizona can be summarized as occurring through one of the following two media:

- 1) By way of the Internet. This includes the State Portal or another provider of Internet-based processing approved by the Office of the State Treasurer (OST).
- 2) By way of a medium other than the Internet. This includes transactions completed over-the-counter, by mail, by telephone, or through another Web-based medium that is not the State Portal.

In the context of this policy, the State and/or one of its agencies is frequently referred to as the “merchant.” This terminology is generally used by the credit card industry for the individual or organization that sells its products or services. The “customer” is the individual or organization purchasing or paying for goods or services or, in the case of governments, discharging other obligations such as taxes and fines.

The statutory definition of a “credit card,” and the definition applied in this section of SAAM, includes mechanisms such as Automated Clearing House (ACH), electronic check (e-check), or an account number (like the State’s “ghost cards” used to pay for certain travel) other than a paper instrument (e.g., warrant, check, money order, bank draft, etc.) used to effect payment. This means that any limits established by the OST, as discussed in this section of SAAM, apply to these methods of payment, as well.

POLICY

1. Any State agency or its authorized agent may accept credit card remittances as payment of any amounts due to that agency.
 - 1.1. Whether an agency accepts credit cards is left to the discretion of agency management.
 - 1.2. An agency that elects to accept credit cards must comply with the requirements of the Payment Card Industry (PCI) and with any directives issued and any processes undertaken by the Office of the State Treasurer (OST), the Office of the

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Secretary of State (SOS), the Arizona Strategic Enterprise Technology Office (ASET), and/or the General Accounting Office (GAO) that involve the use of credit cards and/or compliance with PCI requirements.

2. There are four types of fees associated with credit card processing:
 - 2.1. A discount fee is computed as a percentage of a transaction and deducted by the card issuer from the amount remitted to the merchant.
 - 2.2. A processing fee is a fixed amount deducted by an online service that facilitates the communication between the card issuer and the merchant.
 - 2.3. A convenience fee is a fixed amount added by the merchant to the transaction and charged to the customer to recover, in whole or in part, the discount and processing fees.
 - 2.4. A service fee is computed as a percentage of the transaction and added by the merchant to the transaction and charged to the customer to recover, in whole or in part, the discount and processing fees.
3. Except for the Department of Revenue for tax payments, the amount collected net of the sum of any approved discount fees and approved processing fees associated with a credit card remittance shall be considered the legally required full deposit. No other deduction is permitted against the transaction amount.
 - 3.1. The amount of discount fee by which a transaction amount may be reduced shall not exceed an amount computed by multiplying the transaction amount by the rate expressed as the approved discount fee limit. The amount deducted is the approved discount fee; any excess is to be treated as an operating expenditure.
 - 3.2. The amount of processing fee by which a transaction amount may be reduced shall not exceed the approved processing fee limit. The amount deducted is the approved processing fee; any excess is to be treated as an operating expenditure.
4. Annually, by the first day of June each year, the OST will establish both an approved discount fee limit and an approved processing fee limit. These limits will go into effect on July 1 of each fiscal year and remain in effect for the balance of the fiscal year to which they apply. These limits can be found on the OST Website at <https://www.aztreasury.gov/credit-card-agreements>.
5. With respect to a given transaction, either a service fee or a convenience fee may be charged to a cardholder for a given class or type of transaction, but not both.
6. Before charging a convenience fee, a service fee, or a surcharge, a state agency must submit the proposed fee for review and receive written approval from the OST.
7. An agency that contracts with an authorized agent to process credit card transactions via the State Portal or another Web-based medium may, subject to all

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the following conditions, include a provision in the contract to allow the authorized agent to impose a convenience fee or a service fee, but not both. This convenience fee or service fee, but not both, shall be charged to the cardholder in addition to the transaction amount.

- 7.1. Neither a convenience fee nor a service fee may be charged with respect to the issuance of a license unless the agency accepts:
 - 7.1.1. Other methods of payment, such as cash or check.
 - 7.1.2. Payments through channels other than the State Portal or another Web-based medium; such channels include remittance made by mail or in-person, over-the-counter.
8. If a convenience fee or a service fee is to be charged, the fee must be disclosed to the cardholder as a charge for the convenience of using an alternative payment channel, i.e., the State Portal or another Web-based medium. A convenience fee or a service fee must be disclosed to the cardholder before the completion of the transaction, and the cardholder must be given the opportunity to cancel the transaction if the cardholder elects not to pay the convenience or service fee.
9. With respect to convenience fees:
 - 9.1. A convenience fee may only be charged in an alternative card-absence payment environment (online, mail, or phone). A convenience fee may not be charged for credit card transactions conducted over-the-counter.
 - 9.2. The same convenience fee amount must apply to all forms of payments accepted within the card-absent environment.
 - 9.3. A convenience fee should not be submitted to the card issuer or processing financial institution separately from the transaction to which it relates.
10. With respect to service fees:
 - 10.1. A service fee may be charged for any credit card transactions whether conducted online, over-the-counter, by telephone, or by mail.
 - 10.2. The same service fee percentage must apply to all forms of credit card payment accepted, no matter how effected (i.e., online, over-the-counter, by telephone, or by mail).
 - 10.3. A service fee should be submitted to the card issuer or processing financial institution separately from the transaction to which it relates.
11. In general, when determining whether it is preferable to charge a convenience fee or a service fee:

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- 11.1. Convenience fees work best in situations where the amounts being charged are not wide ranging (e.g., a licensing board has three types of licenses with respective costs of \$50, \$75, and \$100).
- 11.2. Service fees work best in situations where the amounts being charged span a very large range (e.g., insurance premiums ranging between \$35 and \$1,000 a month).
12. When adopting a rate for a convenience fee or a service fee, it is to be borne in mind that the objective of charging these fees is to offset or recover discount fees and processing fees an agency incurs to accept credit cards for payment.
 - 12.1. This recovery need not be on a transaction-by-transaction basis, but, rather, on an overall annual cost of business basis.
 - 12.2. To this end, an agency should, during June each year, review the fees charged and the fees paid with respect to credit card processing and adjust the fees to be charged in the coming year in an attempt to establish parity between the fees to be charged and those likely to be paid.
13. For transactions in which there is a convenience fee or service fee charged, amounts by which a discount fee incurred exceeds the approved discount fee limit and/or a processing fee incurred exceeds the approved processing fee limit:
 - 13.1. May be treated as reductions of revenue to offset the convenience fee or service fee revenue collected to the extent such revenues exist at the time the discount fee or the processing fee is incurred.
 - 13.2. Must be treated as operating expenditures when they exceed existing convenience fee or service fee revenue at the time the discount fee or the processing fee is incurred.
14. Costs associated with credit card processing that are not discount fees, processing fees, or attributable to the acquisition of capital assets (and, hence, are to be booked as ancillary costs) must be treated as operating expenditures. These costs are subject to the same budgetary and appropriation restrictions that may apply to other such expenditures. Such costs include but are not limited to:
 - 14.1. Certain supplies, connectivity costs, equipment rental, web development fees, web maintenance fees, and the acquisition of non-capital, long-lived resources.
 - 14.2. Amounts by which a discount fee or processing fee incurred exceeds the approved limit (except in cases where there is a convenience fee or service fee charged in addition to the transaction amount).
15. Any agreements, contracts or arrangements entered into by any agency with any card issuer, processing financial institution, or authorized agent relating to the acceptance or processing of credit cards must be submitted to and approved by the

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OST. Contracts for authorized agents are also subject to the State Procurement Code as well as any other statutes or regulations that may apply.

16. The OST will not recognize a credit card remittance until its settlement date; agencies are not to recognize revenue until the settlement date.
 - 16.1. The transaction date is the date upon which a transaction occurs and upon which, generally, the transaction information is entered into the electronic interchange system.
 - 16.2. The settlement date is the date upon which the monies representing payment for a given transaction are credited to the agency's credit card bank account.
 - 16.3. The delay between the transaction date and the settlement date generally ranges from no less than one (1) to as many as four (4) business days.
17. As with all other expenditures, an agency head is obligated to assure not only that an expenditure is paid or incurred in accordance with statutory authority, but also that the benefits derived from such an expenditure significantly and demonstrably exceed its cost. These principles apply to all activities associated with the acceptance of credit cards.
18. Accepting credit cards may involve establishing an Internet presence or other projects involving technological change. To proceed with any web development initiative, regardless of the expected dollar amount, agencies must submit a NOI to ASET for its approval. To proceed with a technological project, the amount of which is expected to exceed twenty-five thousand (\$25,000), agencies must present a PIJ to ASET for its approval.
19. Each agency accepting credit cards must reconcile its credit card bank account as frequently as dictated by transaction volume but under no circumstances less than once a month.
20. Refunds or adjustments for credit card transactions should, if at all practicable, be credited back to the card that was used to effect the original transaction. This means that refunds by warrant or electronic funds transfer should only be made when the attempt to credit the originating card fails because that card has been canceled.
21. Neither convenience fees nor service fees are refundable.
22. Convenience or service fees collected by a 90/10 board or agency are subject to normal distribution to the general fund.

PROCEDURES

23. Preliminary requirements and considerations.

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- 23.1. In order to become a merchant, an agency must file a written request with the OST requesting that the agency be provided with credit card acceptance capability. This request should be made using the Request for Agency Bank Account Form and must be signed by the account custodian and Agency Head. This form can be found on the OST website at <https://www.aztreasury.gov/banking-forms>.
- 23.1.1. This request must provide information about whether credit cards will be accepted online, over-the-counter, by mail, by phone, or in some combination thereof. If online transactions are planned, the request must indicate whether the agency intends to use the State Portal and, if not, which other Web-based medium for credit card processing will be used. This additional information should be included on the Request for Agency Bank Account Form in the section titled "Purpose for Separate Bank Account."
- 23.1.2. In response to the agency's request, the OST will open a credit card bank account (ZBA) on the agency's behalf. It will also provide the applicant a merchant account ID.
- 23.1.3. All of an agency's credit card activity will be processed through its credit card bank account (this includes the processing of fees, which will be debited against the account monthly). Transactions not related to credit card activity should not be processed through this account.
- 23.1.4. Except for credit card transactions processed through the State Portal, an agency will identify a valid fund or if a new agency fund is needed related to the credit card transaction processing activity, an agency must complete an agency fund setup with the GAO. The GAO requires a completed Form GAO-FGRP *Fund Authorization Form* to establish an agency fund in AFIS. The agency must ensure that the activity related to the credit card transactions being processed are authorized by the laws of the selected fund.
- 23.2. Except for credit card transactions processed through the State Portal, the OST will post all credit card activity transfers from the agency's credit card bank account to the agency selected fund. The agency is responsible for making any adjustments to properly categorize receipts and charges.
- 23.3. Credit card transactions processed through the State Portal are subject to the following procedures:
- 23.3.1. Credit card receipts will be automatically posted to the Document Catalog in AFIS as a Cash Receipt document using the function code that the agency designates when setting up their State Portal account. This will be accomplished via a deposit interface file that the Merchant Gateway transmits to AFIS when credit card transactions are settled. Therefore, it will not be necessary to manually enter a deposit into AFIS. However, the agency will still be required to submit a Cash Receipt document in AFIS to the OST upon being notified, by way of facsimile transmission or other means, that a State Portal transaction has posted. The cash receipt in AFIS must match the daily Statement Report

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- provided by the OST. The OST will release the batch from the Document Catalog in AFIS upon the submission of a Cash Receipt document by the agency. The OST may require additional documentation in order to release these documents.
- 23.3.2. Any subsequent charges (chargebacks, discount fees, processing fees, or other fees) to the agency's credit card bank account will be transferred by the OST to fund 2600 or the fund provided by the agency. The agency may elect to use a different fund, but it must contact the OST to request the change. The agency is responsible for making any adjustments to properly categorize the charges to the appropriate fund.
- 23.3.3. The card issuer, processing financial institution or authorized agent credits the agency's credit card bank account with the entire amount of the transaction (or, if applicable, the transaction amount and the convenience fee) and periodically (generally on a monthly basis) charges the agency for any discount fees and/or processing fees related to the transactions conducted during the period under consideration.
- 23.4. Chargebacks posted to the agency's credit card bank account as they occur and are recorded by the OST as an unfavorable credit card adjustment.
24. Except for credit card transactions being processed through the State Portal, for any business day during which there is activity in an agency's credit card bank account, the OST will prepare and enter two separate transactions to reflect the total amount transferred between the credit card bank account and the State servicing account. One transaction will represent all credit card revenues and the other will represent all credit card charges.
- 24.1. If, at the end of a business day, the agency's credit card bank account has a positive balance, that balance will be transferred to the State servicing bank. The OST will prepare a favorable credit card adjustment form debiting Cash with Treasurer and crediting the Treasurer's Credit Card Clearing Account for the amount of the transfer.
- 24.2. If, at the end of a business day, the agency's credit card bank account has a negative balance, an amount sufficient to return the account balance to zero will be transferred from the State servicing bank to the agency's credit card bank account. The OST will prepare an unfavorable credit card adjustment form, debiting the Treasurer's Credit Card Clearing Account and crediting Cash with Treasurer for the amount of the transfer.
- 24.3. Except for credit card transaction processed through the State Portal, transfers will be made to or from the agency selected fund.
- 24.4. The agency will use statements provided by OST to locate the appropriate favorable and unfavorable documents in AFIS.

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24.5. The favorable and unfavorable credit card adjustment forms prepared by the OST will have no detailed information except for the date and amount of the transfer, the event type, the number of the fund affected, and the agency involved. The affected agency must analyze the merchant billing statements, the credit card bank account statement and its own transaction records (such as register tapes or activity logs) to determine the composition of such transfers and to properly account for them.

25. The following balance sheet accounts, revenue sources, expenditure objects, and funds are used to report the transactions in AFIS related to credit card activity. The general ledger accounts are system-generated by AFIS based upon the event type used when processing the transactions. The revenue source, expenditure object, and fund number, if required by the type of transaction, must be keyed into AFIS, or in the case of State Portal transactions, are interfaced into AFIS.

25.1. Balance sheet accounts:

25.1.1. **0070** - Cash on Deposit with Treasurer.

25.1.2. **1211** - Claims Payable.

25.1.3. **1534** - Treasurer's Credit Card Clearing.

25.2. Revenue sources and expenditure objects:

25.2.1. **4645** - Credit Card Discount Fees Paid.

25.2.2. **4647** - Credit Card Processing Fees Paid.

25.2.3. **4649** - Credit Card Convenience Fees Revenue.

25.2.4. **7229** - Miscellaneous Rent.

25.2.5. **7554** - Credit Card Fees over Approved Limit.

25.3. **Fund 2600** – Credit Card Clearing Fund. The OST will attribute all credit card activities (with the exception of State Portal credit card receipts) to a single fund (an agency defined fund or Fund 2600). If Fund 2600 is used, the agency should then redistribute activities from Fund 2600 to the fund or funds to which they pertain.

26. Several factors may affect the appearance of a transaction on the merchant billing statement or the credit card bank account statement. There are, as well, additional issues that determine how a given transaction needs to be analyzed and posted. Among these considerations are:

26.1. Whether the card issuer, processing financial institution or authorized agent uses the gross or net remittance method.

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- 26.2. Whether the transfer from the credit card payment bank account to the State servicing bank account represents a positive or negative adjustment.
- 26.3. Whether the agency's revenues and expenditures are to be allocated to a single fund or multiple funds.
- 26.4. Whether the transaction relates to a 90/10 board activity.
- 26.5. Whether the remittances from the card issuers, processing financial institution or the authorized agents with which the agency deals are posted to the payment card bank account as individual or composite transactions.