



General Services Administration

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GSA SMARTPAY SMART BULLETIN

**U.S. GENERAL SERVICES ADMINISTRATION
FEDERAL ACQUISITION SERVICE
SMART BULLETIN NO. 023**

GSA SmartPay–Third Party Payment Processors

EFFECTIVE DATE: From Issuance until superseded.

BUSINESS LINE(S) AFFECTED:

Purchase and Integrated (purchase)

INTRODUCTION:

The Center for Charge Card Management (CCCM) frequently receives inquiries from customer agencies on the use of third party payment processors. Third Party Payment processors (e.g., PayPal, Square, etc.) offer e-commerce/internet payment solutions for commercial transactions. The processors own merchant accounts that allow them to accept and process charge card orders on behalf of other companies. Many merchants choose to utilize third party payment processors in order to accept payments without having to establish a merchant account through a bank. Some merchants find that this is a more cost effective option, especially if they do not process enough transactions to establish their own merchant account to accept charge cards. Merchants pay third party processors a transaction fee for these services rather than processing transactions through a merchant bank.

Transactions made with unknown or unusual merchants using third party payment platforms are considered to be high-risk transactions (see http://www.fincen.gov/statutes_regs/guidance/pdf/FIN-2012-A010.pdf) and alternative methods of payment should always be considered. However, if a merchant is well-known or there is prior purchase history with the merchant, third party payment methods are generally safe. Cardholders should still ensure any processing terms and conditions remain advantageous to the Government.

CONSIDERATIONS:

When deciding on appropriate use of third party payment platforms, agencies should instruct cardholders to take into consideration the following issues:

1) Account Establishment Requirement

In some instances, the cardholder may be required to establish an account in order to make a purchase through a third party payment processor. The individual may be asked to provide detailed information and also to agree to commercial terms and conditions provided by the processor. Cardholders are prohibited to establish accounts and agree to commercial terms and conditions without consent from their legal counsel. Cardholders that agree to commercial terms and conditions without the proper authority or approval may be in violation of the Anti-Deficiency Act.

2) Account Verification Limits

In some instances, third party payment processors require account verification after a certain dollar threshold has been reached during an established period of time (e.g. one month, one year). These limits vary depending on the third party payment processor. The third party payment processor will not process payments above that threshold until the cardholder provides the payment processor with a bank account number to verify that the cardholder is the actual owner of the card. This feature is in place to help prevent and detect fraud, however, GSA SmartPay Government charge cards are not linked to commercial or individual bank accounts. Therefore, it is impossible for cardholders to provide this information. This could result in a limitation on cardholders' abilities to make timely purchases or, the cardholder may be asked to create a business account which does not require bank account information but, may have fees associated with it. It's important that cardholders be aware of which accounts may or may not be created and that they have proper authority from their legal counsel to create an account.

3) Disputes

The dispute process for third party payment systems differs from those of VISA and MasterCard processes. In a typical dispute process, the issuing bank works with the merchant directly to resolve a disputed transaction. The merchant is directly responsible for dispute resolution and any associated payments. When a third party payment processor has been utilized, however, the processor works with the issuing bank as an intermediary on behalf of the merchant. In some instances, when using a third party payment process the dispute process may differ greatly from that of the issuing bank dispute process. Cardholders should be instructed to read and thoroughly understand the third party payment processors dispute policy prior to making the purchase.

4) Merchant Name

While truncation of merchant name is happening less and less with third payment systems, it is still something for cardholders to consider when using these tools. The truncated merchant name may create difficulty for reporting, reconciliation, and oversight purposes.

5) Data

There is often less Level II and Level III transactional data available when utilizing a third party payment processor. The cardholder may only receive the merchant name and dollar amount of the transaction when making a purchase with a third party payment processor.

ACTION:

CCCM suggests that each agency/organization develop and issue internal guidance for the use of third party payment systems. This guidance should include criteria for when and why these transactions are authorized as well as the requirement of relevant documentation to demonstrate that other vendors and payment options were considered. Agency/Organization Program Coordinators (A/OPCs) shall ensure that all charge cardholders are educated on agency-specific policy relating to the use of third party payment processors.

Erin VanDagna
Branch Chief, Service Delivery
Center for Charge Card Management

If you have any questions or comments regarding this Smart Bulletin, please contact CCCM at 703-605-2808 or via email at: gsa_smartpay@gsa.gov