



City of
Peterborough

To: **Members of the Committee of the Whole**

From: **Sandra Clancy, Director of Corporate Services**

Meeting Date: **April 18, 2017**

Subject: **Report CPFS17-014**
Contract Extension – Purchasing Card Services

Purpose

A report to recommend a five-year extension to P-42-08 for Purchasing Card Services to the City of Peterborough.

Recommendation

That Council approve the recommendation outlined in Report CPFS17-014, dated April 18, 2017 of the Director of Corporate Services, as follows:

That the City of Peterborough enter into an agreement with U.S. Bank National Association, 120 Adelaide Street West, Suite 2300, Toronto, Ontario, M5H 1T1, for the supply of Purchasing Card Services for the five-year period May 1, 2017 to April 30, 2022.

Budget and Financial Implications

There is no cost to enter into the agreement with US Bank.

Under the proposed agreement with U.S. Bank and based on 2016 annual charge volume, the City will receive a \$114,750 performance incentive in 2017 (\$107,000 – 2016). The performance incentive is based on a combination of annual spend (both group spend and individual organizational spend), average transaction size, and file turn days.

Background

Purchasing Card Program History

The City of Peterborough has had a Purchasing Card Program since 1997.

In April of 1997, based upon recommendations outlined in a staff report, the City entered into an agreement with the Royal Bank of Canada (RBC) for purchasing card services. In 2000, U.S. Bank Canada purchased RBC's Visa Purchasing Card portfolio. US Bank also provides the Purchasing Card solution for CIBC, the City's current financial institution.

Today, the City's annual volume of transactions through the program is in the range of 26,400 with a total spend of approximately \$9 million.

Program Saves Time and Money

On average, the Accounts Payable function within the Financial Services Division processes 375 supplier invoices for payment every week – producing on average approximately 60 vendor cheques plus 150 vendor direct deposits each week, all of which is supported by 1.2 full time equivalent (FTE) staff resources.

If the Purchasing Card program did not exist, the immediate impact would be to add on average an additional 507 (26,400 / 52) supplier invoices (882 supplier invoices in total or a 135% increase in volume) to be processed for payment every week. A conservative estimate of the budget impact would be the immediate need for an additional 1.0 FTE staff resource, at an annual cost of \$66,050 per year to simply maintain existing customer service to our suppliers.

Unique Features of Purchasing Cards

There are a number of unique features associated with each Purchasing Card.

- a. Cardholder Single Purchase limit – every card has a pre-determined single transaction limit. The amount is determined by the Divisional Manager in consultation with the Program Administrator and is based upon roles and responsibilities of the employee associated with the procurement of goods and services. The amounts range from \$500 up to \$10,000, the most common being in the neighbourhood of \$2,000.
- b. Cardholder Monthly Spending limit - every card has a pre-determined monthly limit. Once again the amount is determined by the Divisional Manager in consultation with the Program Administrator and is based upon roles and responsibilities associated with the procurement of goods and services.

- c. No Cash Advances - the City has the option to allow or disallow cash advances on purchasing cards. From inception of the program, the City has not allowed cash advances against any card.
- d. Liability Protection – each cardholder is automatically covered by complete fraud protection at no cost. Neither the Corporation nor the Cardholder will be held liable for fraudulent charges made to a promptly reported lost or stolen card.

To protect the City against cardholder misuse, U.S. Bank offers liability waiver coverage to a maximum of \$100,000 CDN per cardholder account. There is no charge to the City for this coverage.

Program Controls

The City has a number of key controls in place to guard against inappropriate card use:

- a. The use of the Purchasing Card is authorized in the City's Purchasing Policy By-law 14-127. Part 6 of the by-law makes the following statements in specific reference to the Purchasing Card Program and its relation to low value procurement. Low value procurement is defined in the by-law as the purchase of goods and services valued at \$10,000 or less.
- b. Visibility to Data – all transactions are viewable using a software program called Access Online. Transactions are posted within 24 to 48 hours of the merchant submitting the transaction to its merchant bank.
- c. Cardholder reconciliation - The cardholder must, within strict time frames, reconcile his/her own statement transactions to his/her VISA/sales slips, attach all sales slips to the statement, have the statement signed by their supervisor and forward the statement and slips to the City's Purchasing Administrator.
- d. Review of all Cardholder Transactions by the Purchasing Administrator – Each month, all cardholders forward their reconciled statement to the City's Purchasing Administrator. The Purchasing Administrator (or designate) reviews each transaction to ensure that appropriate documentation has been attached to support the expenditure. Any items requiring further clarification or additional documentation are followed up with the cardholder or supervisor as appropriate.

Although this review can be a time consuming task, it is deemed to be a critical step to ensure that compliance to internal controls within the program are maintained.

- e. The Cardholder Agreement – each cardholder, when they receive their card signs a cardholder agreement.

Kawartha Collaborative Purchasing Group (KCPG)

Since December 1, 2012, various members of the local KCPG have also used US Bank for Purchasing Card Services. Those members include:

- City of Kawartha Lakes
- Kawartha Pine Ridge District School Board
- Northumberland County
- P.V.N.C. Catholic District School Board
- Sir Sandford Fleming College of Applied Arts and Technology
- Trent University
- Trillium Lakelands District School Board

The program has grown significantly since it first started in 2012, and today has an annual spend among group members of over \$17.2 million.

Proposal Requirements and Performance Incentive

Up until now, the City has had its own separate and distinct agreement with US Bank. Moving forward, all organizations will continue to have their own separate agreement, but with this most recent offering, it is now more advantageous for the City, and all the members of the KCPG to come together under a uniform contract.

The requirements of the proposal are as follows:

- A. Group Requirements:
 - § Uniform effective date for all participants
 - § Uniform contract with all participants
 - § If a Participant's annual charge volume is under \$500,000, their spend is not included in the Aggregate Volume
- B. Individual Member Requirements:
 - § Annual charge volume for each Participant must exceed \$500,000
 - § Average transaction size must exceed \$150.00
 - § File turn days must not exceed 29 days

Based upon the above criteria, the City's current program exceeds all of the requirements and based upon 2016 volumes, would earn a performance incentive of \$114,750.

Timelines

The original agreement for P-42-08 was for the period May 1, 2009 to December 31, 2013 (5 years), with the option to extend the contract period by an additional five (5) years, January 1, 2014 – December 31, 2018, subject to satisfactory performance and the negotiations of both parties.

This report is seeking to renew the agreement with a new five-year deal (May 1, 2017 – April 30, 2022), part way through the current arrangement.

As U.S. Bank is the incumbent service provider for the City's program; the transition to operating under the new agreement will be seamless from a cardholder perspective.

Section 17.6.1 a) of Purchasing Bylaw 14-127 states that options to renew an Agreement that will cost more than \$100,000 must be authorized by Council or Administrative Staff Committee, depending on who originally approved the award. As Council approved the original award, Council must authorize this agreement extension.

Summary

The Purchasing Card program saves the City time and money and is an effective way to procure low dollar, high volume purchases, and provides a performance incentive to the City of more than \$100,000.

Submitted by,

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