



TO: Members of the Committee of the Whole

FROM: Brian Horton, Senior Director, Corporate Services

MEETING DATE: December 8, 2008

SUBJECT: Report CPFRAS08-019
Award of RFP P-42-08 Purchasing Card Services

PURPOSE

A report to recommend the award of Request For Proposals P-42-08 for Purchasing Card Services for the City of Peterborough.

RECOMMENDATIONS

That Council approve the recommendations outlined in Report CPFRAS08-019 dated December 8, 2008, of the Senior Director of Corporate Services, as follows:

- a) That the City of Peterborough enter into an agreement with the U.S. Bank National Association, 120 Adelaide Street West, Suite 2300, Toronto, Ontario, M5H 1T1, for the supply of Purchasing Card Services for the period January 1, 2009 to December 31, 2013.
- b) That subject to satisfactory performance, negotiation and Council approval, the City exercise the option to extend the term for an additional five (5) years January 1, 2014 to December 31, 2018.

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 2007 annual charge volume, the City would have received a \$26,000 performance incentive in 2008.

BACKGROUND

Purchasing Card Program History

The City of Peterborough has had a Purchasing Card Program since 1997. At that time staff were looking to replace an in-house solution to high volume, low dollar procurement called "Systems Contracts". By today's standards, Systems Contracts would be considered antiquated, as it required authorized employees to complete a four-part form - the employee would keep one copy of the form and the other three parts were kept by the store. Once per month, the store forwarded two copies of all systems contract forms received for the prior thirty days to the City and the store retained one copy for their records. System Contracts could only be used with authorized Vendors in the surrounding area. Each individual transaction would be keyed into the Systems Contract sub-system and ultimately a summarized version was entered for payment into the financial software for payment to each vendor. Individual cheques were processed to each vendor on a monthly basis.

At the time, staff estimated that 50% of payment processing time was devoted to payments comprising less than 2-3% of the total dollar value of purchases.

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. RBC continues today to be the City's financial institution. In 2000, U.S. Bank Canada purchased RBC's Visa Purchasing Card portfolio.

Purchasing Card Program Confirmed through Purchasing By-law 06-175

The use of the Purchasing Card is authorized in the City's Purchasing Policy By-law 06-175. Part 6, Section 12 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 \$5,000 or less. For reference purposes, Section 12 of the by-law is restated below:

12. Low Value Procurement - Dollar Threshold: up to \$5,000

(1) Goal of Low Value Procurement Process

The goal of the Low Value Procurement Process is to use an expeditious and cost effective manner to purchase goods and services valued at \$5,000 or less, which may, but does not necessarily, include informal price comparison through phone, supplier advertisements, supplier catalogues or other similar communication methods.

(2) Circumstances when Low Value Procurement Process used

The Low Value Procurement Process is used when goods or services are expected to cost \$5,000 or less, are required on a one time (non-repetitive) basis, and the end user of the goods and services has identified a clear or single solution. Price comparison may be sought from known suppliers; price is the primary factor and is usually not negotiated.

(3) Contractual Arrangement for Low Value Procurement Process

Low Value Procurement may be made by the Purchasing Card or Direct Acquisition method.

(i) Purchasing Card

Based on the approval of the Department Director or Manager and the Purchasing Card Administrator, certain City employees are provided with City Purchasing Cards to be used solely for the purchase of goods and/or services for the City. The employee's immediate supervisor shall review and sign each employee's monthly Purchasing Card transaction listing, and the Purchasing Card Administrator or designate shall review all monthly transactions for compliance.

(ii) Direct Acquisition

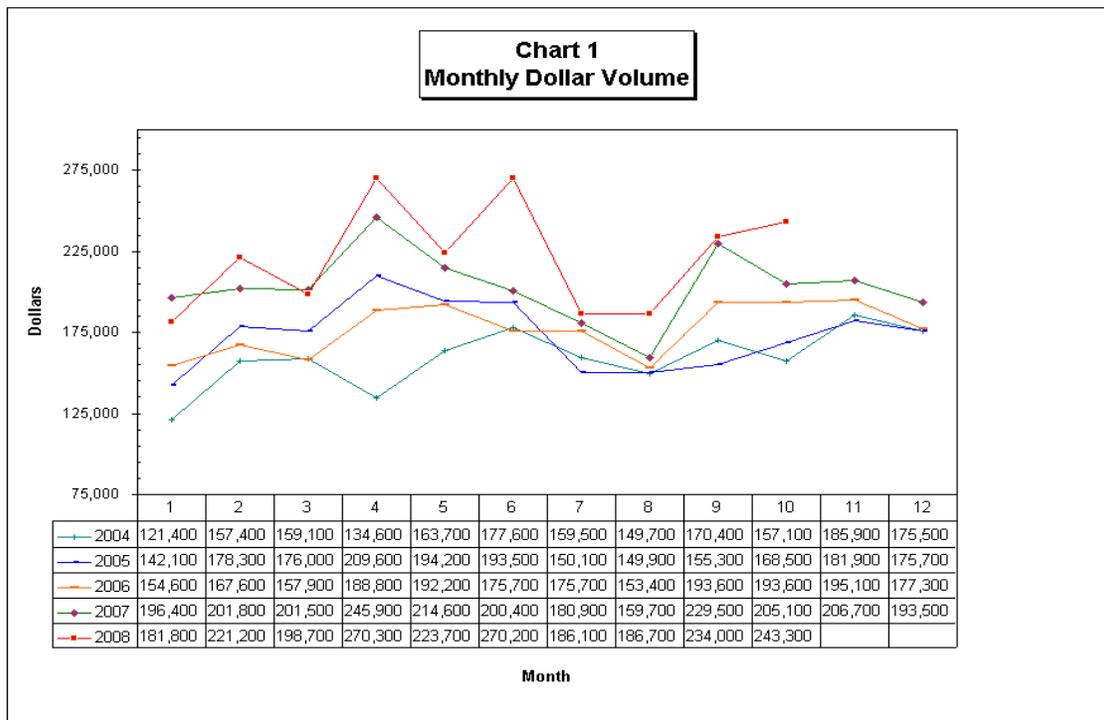
Although the encouraged method of payment for all low value procurement is the Purchasing Card, it is recognized that certain suppliers are not equipped with such functionality. Employees with appropriate authority as set out in this By-law may sign an invoice indicating that the goods have been received and the supplier may be paid.

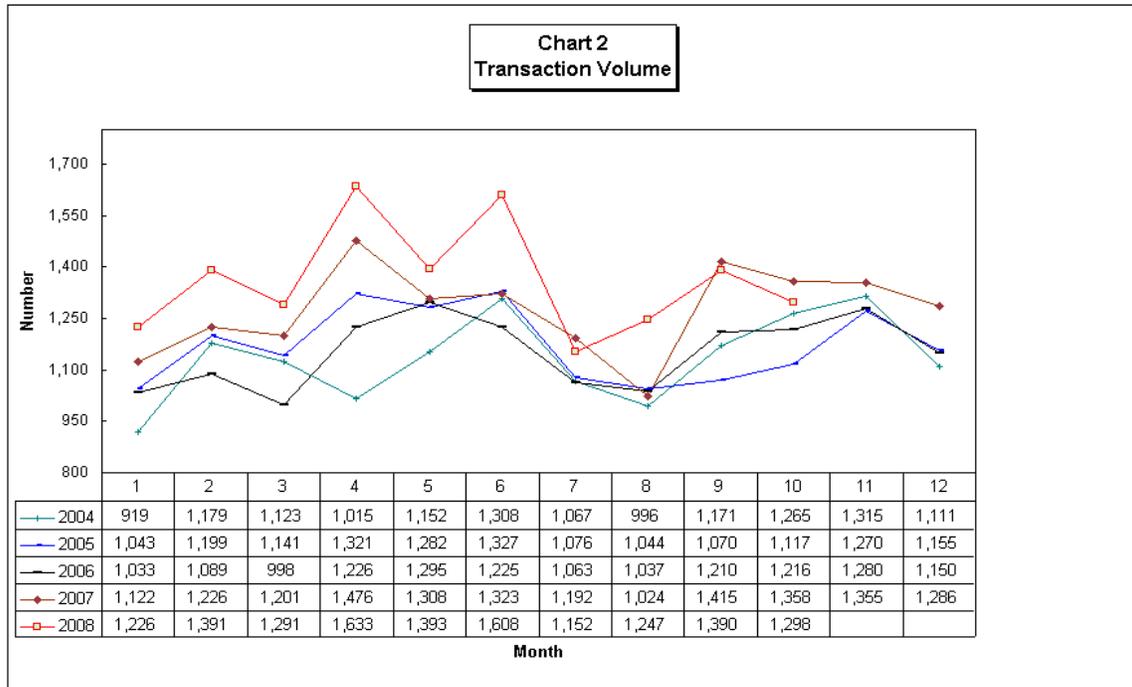
Historical Program Data

The program started small and has grown steadily since 1997. In 1998, the first full year of operation, the average monthly dollar volume was \$60,200 (an average of 596 individual monthly transactions) for \$722,000 (7,154 total transactions) over the 12 months. In 1998 the average transaction size was \$101.

In 2008, the average monthly volume is \$219,200 (an average of 1,370 individual monthly transactions) for an estimated annual volume of \$2,600,000 (estimated 16,440 total transactions) for the year. The average transaction size in 2008 is anticipated to be approximately \$160.

Chart 1 provides monthly dollar volume in the program over the past 5 years. Chart 2 provides individual transaction volume over the same period.





Program Saves Time and Money

On average, the Accounts Payable function within the Financial Reporting and Accounting Division processes 500 supplier invoices for payment every week – producing on average approximately 250 vendor cheques plus 30 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 316 (16,440 / 52) supplier invoices (816 supplier invoices in total or a 63% 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 .5 FTE staff resources, at an annual cost of \$25,000 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.

- 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 \$5,000, the most common being in the neighbourhood of \$1,000.

- 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.
- 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.
- 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:

- Visibility to Data – all transactions are viewable using a software program called Access Direct. Transactions are posted within 24 to 48 hours of the merchant submitting the transaction to its merchant bank.
- 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.
- 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 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.

- The Cardholder Agreement – each cardholder, when they receive their card signs a cardholder agreement. The cardholder agreement is attached as Appendix A.

RFP Details

The Request for Proposals Document P-42-08 was prepared by City staff and issued October 6, 2008 with a closing date of October 30, 2008. Three (3) agencies responded. The submissions were evaluated by four staff: the Purchasing Administrator, the Manager of Financial Reporting and Accounting, the Manager of Information Services, and the Chief Accountant.

RFP statement

This solicitation process was a Request For Proposals where a number of criteria were used to evaluate submissions. The criteria and their relative weighting were clearly set out in the RFP document. Section 15 (3) (ix) of the City's Purchasing By-law 06-175 states that "as price is only one of the criteria evaluated, the award report will show the rating summary for each proponent and the total points. The award report will disclose the price of the recommended supplier but not the price submitted by other proponents."

RFP Evaluation

The three submissions were evaluated based on the criteria listed in the RFP. A short list, consisting of the two highest-ranking submissions, was selected and interviewed. The results are shown in Chart 3.

Chart 3
RFP P-42-08 Purchasing Card Services
Bidder Submission Evaluation Chart

CRITERIA	MAXIMUM SCORE	American Express	BMO Financial Group	U.S. Bank
Services Offered	20	12.25	15.5	17.5
Customer Service and Value Added	15	10.75	13.25	13.25
Experience	15	10	13.75	14
Performance Incentives/Revenue Sharing	25	6.25	19.25	24.25
Reporting	10	8	9.5	9.5
Fees and Charges	15	1.25	12.5	14.25
Totals	100	48.5	83.75	92.75

Recommended bidder

The proposal submitted by US Bank for the provision of Purchasing Card Services for the City of Peterborough has been rated highest by the Selection Committee and meets the requirements of P-42-08.

Performance Volume Incentive

The proposed agreement with U.S. Bank offers the City of Peterborough the opportunity to earn a performance incentive payment based upon net annual charge volume, speed of payment and a 5-year term of agreement.

At the end of each annual period, U.S. Bank Canada will calculate two performance indicators to qualify the City's incentive payment: the net charge volume and speed of payment after the cycle date. The monthly cycle always ends on the 27th of the month, and payment is due at the latest 14 days after the cycle date.

Based upon the performance incentive being offered and the City's 2007 annual charge volume, the City would have received a performance incentive of approximately \$26,000 assuming all monthly payments were made within the 14-day time frame. If these two assumptions hold true over the 5-year term of the agreement, the value of the performance incentive would be \$129,240.

Timelines

As U.S. Bank is the incumbent service provider for the Purchasing Card program; the transition to operating under the new agreement will be seamless from a cardholder perspective. There is an Administrator software update that will be installed; however, the impact will be limited to the Manager of Financial Reporting and Accounting and the Chief Accountant who co-administer the program.

A by-law authorizing the agreement will be required and presented at a future Council meeting.

The resulting contract shall be for the period January 1, 2009 to December 31, 2013 (5 years), with the option to extend the contract period by an additional five (5) years, as approved by City Council, subject to satisfactory performance and the satisfactory negotiations of both parties.

SUMMARY

RFP P-42-08 for Purchasing Card Services for the City of Peterborough has been issued in accordance with the City's Purchasing By-law 06-175.

The Purchasing Card program saves the City time and money and is an effective way to procure low dollar, high volume purchases.

Submitted by

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Appendix A – Purchasing Card Program – Cardholder Agreement

Appendix A
Purchasing Card Program - Cardholder Agreement

Employees:

Your U.S. Bank Canada Visa Purchasing Card represents the City's trust in you. You are empowered as a responsible agent of the City to purchase eligible items only with the card. Your signature below is verification that you have read corporate procedures related to the Purchasing Card Program and any additional local policies and agree to comply with them as well as the following responsibilities. It also acknowledges that you have received Visa Purchasing Card # _____.

1. I understand the card is to be used for eligible purchases as defined in the purchasing card procedures, and I agree not to charge personal purchases. I understand that if I use the card to purchase ineligible items, I must repay the corporation and my card may be revoked.
2. I understand the City has the right to obtain information directly from the U.S. Bank or merchant regarding the nature of any purchase I may make with my card without necessarily informing me, and such action by the City does not represent an invasion of my privacy.
3. If the card is lost or stolen, I will immediately notify U.S. Bank by telephone. I will confirm the telephone call by mail or facsimile with a copy of the notification to the Program Administrator.
4. I agree to surrender the card immediately upon termination of employment, whether for retirement, voluntary or involuntary reasons.
5. As my card is issued in my name, I will not allow any other person to use the card. I am considered responsible for any and all charges against the card.
6. All charges will be billed directly to, and paid directly, by the corporation. The bank cannot accept any monies from me directly; therefore any personal charges billed to the corporation could be considered misappropriation of corporate funds.
7. I will print a monthly statement, which will report all activity during the statement period. Since I am responsible for all charges, but not for payment on the card, I will make the initial contact to resolve any discrepancies by contacting the supplier and/or the bank and will notify a Program Administrator.

8. The charges made against my card will automatically be assigned to one default account, unless I provide an additional distribution on my monthly statement. The default code cannot be changed without prior approval of my supervisor. If changed, this new accounting code will not affect any charges made prior to the change, but will affect future charges.
9. If purchases on my card are required to be allocated to more than one account as they are made (as opposed to the end of the month), I will be required to complete a direct Purchase order for each transaction as a means of charging appropriate account numbers for purchases made on my card.
10. I understand I must reconcile purchases listed on my monthly statement to VISA slips I have on hand and forward a signed copy of my statement, along with the corresponding VISA slips to the Purchasing Administrator within the timeframe specified each month.
11. I understand that if I am on vacation or sick during the critical month-end processing time it is my responsibility to ensure a designate reconciles and forwards my statement to the Purchasing Administrator within the designated time frame.
12. I understand my Purchasing Card has been issued to me based on a need for me to purchase eligible items for the Corporation, and that my card may be revoked based on change of assignment or location. I understand that the card is not an entitlement nor reflective of title or position.

Employee Signature

Employee Name (Printed)

Date