



TTC Purchasing Card Program Contract – Procurement Amendment Authorization

Date: February 10, 2022
To: TTC Board
From: Chief Financial Officer

Summary

As a joint purchasing venture with the City of Toronto and its Agencies and Corporations, the TTC entered into an agreement with the Bank of Montreal (BMO), the Province of Ontario's Vendor of Record, with a total upset limit amount of \$16,000,000, including applicable taxes for the delivery of services for the TTC's Purchasing Card (PCard) program for approximately five years (May 16, 2018 to March 31, 2023) and an option to exercise two additional two-year extensions. The TTC receives annual rebates from the PCard provider based on the aggregate value charged to the purchasing cards used by the TTC during the previous year.

This report seeks Board approval to increase the contract limit for Contract PU-370753 – Purchasing Card Program with the BMO for Purchasing Card services by \$7.368 million for the remaining year of the five-year contract term that expires March 31, 2023, to sustain the increased usage of the TTC's Purchasing Card (PCard) Program. The TTC's PCard program provides an efficient and cost-effective means for TTC authorized cardholders to directly purchase and receive non-repetitive, low-dollar value, non-stock, goods and services valued at \$5,000 or less, including all applicable taxes. All goods and services provided under established contracts are excluded from the PCard program.

Since 2018, the purchasing card has come to replace the use of purchase orders as the method to authorize and process low-value transactions for eligible expenses with a transaction limit initially set at \$250. In accordance with the Auditor General's recommendations from her 2017 audit of the TTC's PCard program, the use of purchasing cards has expanded with the subsequent increase in the transaction limit to \$5,000 in 2020; the decision to make PCards mandatory for all eligible expenses; and the implementation of enhanced monitoring and control mechanisms.

Over four years of this five-year contract term, the TTC has seen the PCard program result in the following:

- A 113.5% increase in the annual transaction value or "spend" level from \$2.858 million in year one to a projected \$6.101 million by March, 2022;
- A 32% increase in the number of PCard transactions from 5,724 in year one to a projected 7,555 transactions by March, 2022;
- A 77.4% decrease in the number of purchase orders from 2,217 in year one to a projected 501 purchase orders by March, 2022; and,

- An increase in Procurement staff’s capacity to focus its efforts on strategic, value-added procurement and category management activities rather than the transactional tasks associated with the procurement of this category of expenses.

Given the resultant expanded use and success of this program, it is necessary to increase the value of the contract limit with BMO as the provider of PCard services to support the PCard program to the end of the contract term of March 2023. Staff will review actual activity in advance of any decision to exercise the contract’s optional extension to determine what contract value will be required to support this program.

Recommendations

It is recommended that the TTC Board:

1. Authorize a contract amendment to the Bank of Montreal for Contract PU-370753 - Purchasing Card Program, to increase the upset limit amount by \$7.368 million (including taxes) that will bring the total upset limit amount to \$23.368 million to the end of the contract term on March 31, 2023.

Financial Summary

Over the life of this contract, purchasing cards have replaced the use of purchase orders as the method to authorize and process eligible low-value transactions, consistent with the Auditor General’s recommendations made in 2017. To account for this increase in activity, a \$7.368 million upset limit increase is required to address anticipated spending to the end of the contract term on March 31, 2023, inclusive of an additional \$0.250 million provision for one-time emergency requirements related to the TTC’s COVID-19 response, as summarized in the table below.

Pcard Projected Spend over Fixed 5-Year Term					
	Current Contract Period (Initial 5-Year Contract Term)				
Fiscal Year	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Contract Reporting Period	May 16, 2018 - Mar. 31, 2019	Apr. 1, 2019 - Mar. 31, 2020	Apr. 1, 2020 - Mar. 31, 2021	Apr. 1, 2021 - Mar. 31, 2022	Apr. 1, 2022 - Mar. 31, 2023
Actual/Projected Monthly Average Spend	\$ 272,190	\$ 280,989	\$ 386,282	\$ 508,499	\$ 533,398
Actual/Projected Annual Average Spend	\$ 2,857,994	\$ 3,371,872	\$ 4,635,379	\$ 6,101,984	\$ 6,400,771
Total Upset Limit Required	\$ 23,368,000				
Original Upset Limit	\$ (16,000,000)				
Requested Upset Limit Increase	\$ 7,368,000				

The contract upset limit was based on historical spending rates and a 25% growth contingency, with annual purchasing card spending anticipated to be \$3.3 million annually. However, with the program's expansion, spending activity has now reached approximately \$6.1 million per year. This is broadly consistent with the decrease in non-stock purchase order spending which has declined from approximately \$3.5 million annually at the start of the contract to approximately \$0.75 million per year currently. Based on the projected spend rate for the period ending March 31, 2022, the requested amendment to the upset limit anticipates an average monthly spending rate of \$0.533 million or \$6.4 million for the last year of the contract term. There is no financial impact arising from this requested increase, as the upset limit increase is substantially a re-allocation from non-stock purchase orders to the purchasing card contract

The financial impact is limited to an allowance of \$0.250 million to address any emergency expenses that may arise as part of the TTC's COVID-19 response that would be processed using a purchasing card. Funding for COVID-19 response expenses are incorporated in the total COVID impacts included in the 2022 Operating Budget approved by the Board on December 20, 2021, and to be considered by City Council on February 17, 2022.

The shifting of small purchase requirements to purchasing cards has resulted in an increase in annual rebates received by the TTC, from approximately \$33,000 in the first year of the contract to \$60,000 per year currently. Given that the current contract was established as a joint purchasing venture with the City of Toronto (City) and its Agencies and Corporations, the annual rebate percentages offered by the PCard provider are based on the aggregate TTC and City expenditures.

PCARD SPEND METRICS								
Year	Actual Reporting Period	Number of Cards in Circulation	Y/Y Progress Against Previous Calendar Period	Total No of Trans.	Total P-Card Spend for Actual Reporting Period	Avg Monthly Pcard Spend	Avg Monthly Pcard Spend (Incl. 10% Contingency)	Financial Institution P-Card Rebates \$(000)
2021 YTD	April 2021 to Nov. 2021	294	5.0%	4,407	\$3,698,172	\$462,271.50	\$508,498.65	\$46
2020	April 2020 to March 2021	284	19.8%	6,283	\$4,635,379	\$386,281.56		\$60
2019	April 2019 to March 2020	237	18.5%	5,933	\$3,371,872	\$280,989.33		\$39
2018	May 2018 to March 2019	200	2.0%	5,724	\$2,857,994	\$238,166.17		\$33

Rebate returns are projected to increase as other Provincially Funded Organizations join the provincial consortium, resulting in greater combined expenditure amounts and higher tiered rebate

Finally, the transition from processing purchase order requisitions to the use of purchasing cards has resulted in productivity gains, enabling Procurement and Category Management staff to increase its capacity on strategic, value-added procurement activities and away from the transaction tasks for this group of purchasing requirements.

Equity/Accessibility Matters

There are no equity or accessibility impacts.

Decision History

At its meeting held on October 2, 2017, City Council authorized staff to enter into a Provincially Funded Organizations Consortium Agreement with the Province of Ontario and BMO, as well as an agreement with BMO for the delivery of services relating to a PCard program from the date of approval to March 31, 2023, with two, two-year extension options.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.GM22.16>

With the TTC's existing contract with National Bank set to expire on April 30, 2018, the TTC sought authority from the Board to leverage, in conjunction with the City, the Province of Ontario's Vendor of Record arrangement for PCard services. This strategy would present an opportunity to realize greater rebates; to lower fees; and to provide the required internal management controls regarding spending/transaction limits, restricting purchases by Merchant Management Codes (MCCs) for certain suppliers and management reporting and analytics.

The TTC Board approved the PCard contract award authorizing:

1. The TTC to enter into a Provincially Funded Organizations Consortium Agreement with the Province of Ontario and the Bank of Montreal for the use of Ontario's Vendor of Record Agreement (#OSS-00559105); and
2. The TTC to enter into an agreement with the Bank of Montreal, the Province of Ontario's Vendor of Record, in the total upset limit amount of \$16,000,000 including applicable taxes for the delivery of services relating to the Purchasing Card Program for approximately five years (from the date of approval to March 31, 2023), with two extension options of two years each, on the same or similar terms and conditions as the Province of Ontario's Agreement, and in a form satisfactory to TTC's General Counsel.

https://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Board/2018/January-18/9_Purchasing_Cards.pdf?rev=debb49cee5884ecf886e2a2b5893e4a3&hash=7666CD216894C369810EFA719CE7B0FE

Issue Background

Purchasing Cards provide an organization with the ability to utilize credit cards for authorized users as a cost-efficient means to purchase and process low dollar value, non-stock, non-repetitive eligible expenses.

Eligible expenses are limited to the following expense categories:

- Office supplies (Non-Standard) and which are not available through Corporate Contracts;
- External training courses within the GTA, as approved by the Director of Employee Development;
- Subscriptions;
- Items normally purchased with Petty Cash;
- Non-repetitive purchases generally not available through corporate contracts or held inventory, such as small repair, equipment or supplies; and
- Items required to respond to emergency events on a case by case basis.

Purchasing Cards are restricted from being used for:

- Cash advances, airline tickets; travel accommodations, meals
- Repetitive purchases;
- Services provided within TTC properties that require a standard terms and conditions and proof of insurance;
- Computer hardware and software;
- Non-Approved workplace hazardous products and safety materials;
- Personal Use and Memberships;
- Parking Fees and Fines; and
- Purchase Splitting.

The TTC's PCard program has evolved since its initiation in 2012, with a focused effort on the program's expanded use since 2018. Up to 2017, the threshold for eligible purchases was set at \$250, and the use of purchasing cards rather than purchase orders was optional, thereby resulting in its limited use, approximating \$1.9 million in total spending activity. In addition, the then Materials and Procurement Department employed one part-time administrator to oversee the PCard program based on the historical program activity level. In 2017, the City's Auditor General reviewed the TTC's PCard program and recommended the following actions be taken:

1. Review current methods of centrally procuring low-dollar purchases;
2. Expand the use of the PCard program to improve the efficiency of purchasing functions;
3. Review the dollar thresholds of the PCard program; and
4. Enhance the monitoring and controls of the PCard Program.

In response to the Auditor General's recommendations, TTC staff implemented a series of changes beginning in 2018 and throughout 2020 with the express intent to expand the use of the PCard program. In July 2021, the Auditor General reviewed the changes made to the PCard program and deemed the recommendations fully implemented as a result of the specific changes noted below:

- Awarded a new contract to the BMO for PCard services for a five-year term, that would increase rebates, lower fees and provide management controls and reporting
- Enhanced Training and Controls:
 - Hired a full-time Purchasing Card Administrator to manage all PCard program activities, beginning in November 2019;
 - Delivered educational and awareness training to TTC staff;
 - Revised non-compliance protocols;

- Strengthened process controls; and
 - Enhanced internal management reporting.
- Expanded the use of Purchasing Cards:
 - Increased the PCard Limit from \$250 to \$5,000 per transaction;
 - Made the use of PCards mandatory for purchasing and processing eligible non-stock, non-repetitive transactions valued up to \$5,000 per transaction;
 - Established that any emergency use require the approval of the Chief Financial Officer, and any exception require the approval of the Chief Executive Officer; and
 - Updated PCard policy and procedures.
 - Strengthened Reporting and Controls to support:
 - Monthly PCard spending activity reporting to Department Heads;
 - Monthly transaction spot-audits;
 - Quarterly declined transaction audits; and
 - Semi-Annual PCard registered user validation audits.

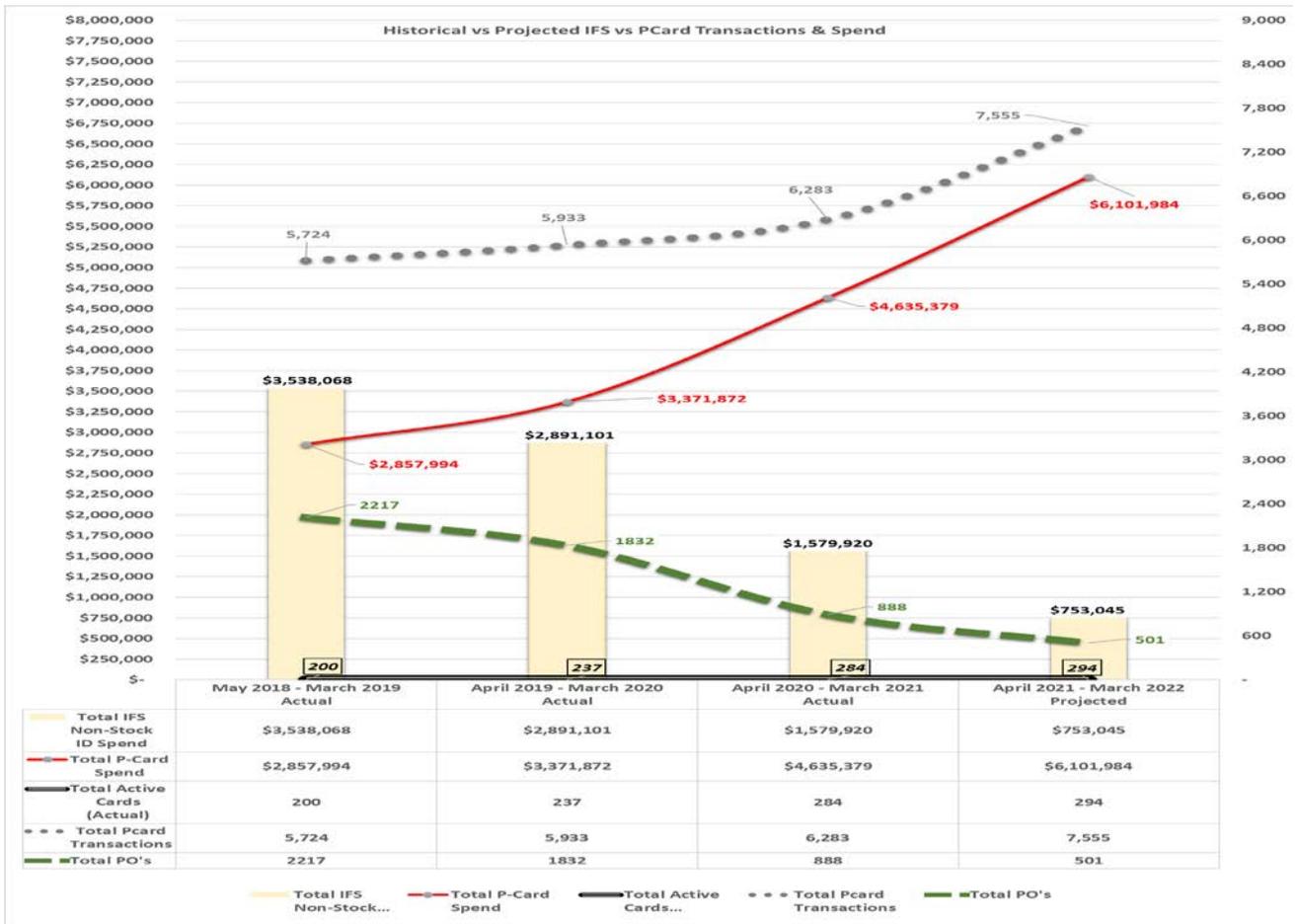
Combined, the implemented actions to date have increased the total PCard purchase spending activity. To reflect this change, the contract's upset limit needs to be increased to permit the program's continuation to the contract expiry date of March 31, 2023.

Comments

The TTC entered into an agreement with the Bank of Montreal, the Province of Ontario's Vendor of Record, with a total upset limit amount of \$16,000,000 including applicable taxes for the delivery of services relating to the Purchasing Card program for approximately five years (May 16, 2018 to March 31, 2023).

The current contract was established based on a joint purchasing venture with the City and its Agencies and Corporations, and the annual rebate percentages offered by the PCard provider are based on the aggregate TTC and City expenditures.

The contract upset limit for the five-year contract term was based on historical spend rates from the previous five-year period plus a 25% contingency to account for projected growth of the program or approximately a \$3.3 million projected annual spend rate using the purchasing card mechanism. In response to the recommendations arising from the Auditor General's audit of the PCard program in 2017 to consider threshold limits and expand the program, the TTC: (a) increased the maximum value per transaction from \$250 to \$5,000 and (b) made purchasing cards the mandatory method of processing all eligible transactions up to \$5,000. These two factors have seen the PCard program's activity increase over the life of the contract, as noted in the graph below.



- Over four years of this five-year contract term, the TTC has seen the PCard Program result in:
- A 113.5% percent increase in the transaction value or “spend” from \$2.858 million in year one to a projected \$6.101 million by March, 2022;
 - A 32% percent increase in the number of PCard transactions from 5,724 in year one to a projected 7,555 transactions by March, 2022;
 - A 77.4% percent decrease in the number of purchase orders from 2,217 in year 1 to a projected 501 purchase orders by March, 2022; and
 - An increase in Procurement staff’s capacity to focus its efforts on strategic, value-added procurement and category management activities rather than the transactional tasks associated with the procurement of this category of expenses.

The PCard program is also complemented by BMO data analytics and spending/transaction limit reports, inactive PCard reports, and restricted purchases by Merchant Category Code. This reporting is supplemented by, internal monitoring, and reporting and controls that provide monthly reports for Department Heads to review and action accordingly. The analytical data also supports the monthly audit activities, permitting the Purchasing Card Administrator to adjust and target monthly completed audits, which align with reporting trends observed by Procurement and Category Management staff. To ensure the proper use of the PCard program, employees must follow the PCard policies and procedures, including audit requirements.

Given the current PCard activity, an increase in the upset limit of \$7.368 million is required to the end of the five-year contract term set to expire March 31, 2023 to support the projected value of transactions to be processed. Staff will review actual activity in advance of exercising the contract's first of two, two-year extensions to determine what contract value will be required to support the PCard program post 2023.

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Signature

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