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Communication	
COUNCIL:	<u>Mar 20/18</u>
FAA Rpt. No. <u>3</u>	Item <u>3</u>

DATE: March 19, 2018

TO: Mayor and members of Council

FROM: Laura Mirabella, Chief Financial Officer & City Treasurer

RE: Finance, Administration and Audit Committee meeting March 5, 2018 Item 3,
Report 3 "Procurement Activity Report Q4"

This communication is in response to the questions received from members of Council during the Finance, Administration and Audit Committee meeting on March 5, 2018 about the City of Vaughan's P-Card program, including the program's key features, controls and the results of an internal audit that was presented to the Finance, Administration and Audit Committee on November 6, 2017.

Background

On October 30, 2012, Council approved the recommendation from staff that a Purchasing Card Policy be developed as a process improvement for more cost-effective and efficient method of processing low value goods/services.

Low dollar purchases generally result in high transaction volumes with low total dollar spending, and tends to be expensive to process payments through the Accounts Payable system. The City was using a manually intensive paper-based process (Field Purchase Orders or cheque requisitions) to facilitate payments for low dollar purchases, making the monitoring, reporting and control of these purchases challenging, costly and inefficient.

In June 2013, Council approved the P-Card pilot program which began in September 2013 with the participation of 13 staff from 5 departments. Eight (8) training sessions were conducted for all program participants, including cardholders, approvers, reconcilers, Financial Services staff and Internal Audit.

The pilot program was subsequently expanded in February 2014 to include 27 staff from 16 departments. Thirty (30) additional training sessions were conducted to accommodate the training needs for the additional pilot participants. Internal Audit was involved with the P-Card Pilot program and provided recommendations throughout the pilot period, including the recommendation to fully implement the P-Card program corporate-wide.

In June 2015, following a successful pilot program, Council approved the corporate-wide roll out of the P-Card program to take advantage of the benefits associated with the program.

A Purchasing Card Program is utilized by many municipalities and other public and private sector organizations as an effective payment tool, improving the efficiencies of the process for low dollar purchases. The City of Vaughan entered into a contract with the U.S. Bank National Association, operating through its Canadian branch, and joining York Region through the York Purchasing Co-Operative initiative.

Key Features and Benefits of the P-Card Program

1. Program Controls, Monitoring and Audit

The P-Card program incorporates systems controls and preventive/detective controls.

System controls include a single transaction limit, monthly spending limits and merchant category blocks for each cardholder. Single item purchase limits, the lowest when compared to other municipalities, are limited to pre-authorized transaction thresholds with a monthly maximum accumulation outlined in the Corporate Procurement Policy.

Any employee authorized to use a P-Card may purchase low-value goods and services within approved budgets, and in accordance with the rules and guidelines detailed in the Corporate Procurement Policy, Purchasing Card Policy and any policies that govern the reimbursement of employee expenses.

Preventive/Detective controls include the submission of a P-Card Application Form approved by the Department Head and Director of Procurement Services, indicating:

- i. The business need for the P-Card
- ii. Merchant access appropriate for their job function, including DCM/Chief approval for specific optional merchant classifications, and
- iii. Spending limits in accordance with Corporate Procurement Policy

Additional preventive/detective controls include:

- i. Mandatory training and signing a Cardholder Agreement prior to issuing a card to an employee,
- ii. Monthly department head review and approval of all purchases charged under their area of responsibility,
- iii. Monitoring by Accounts Payable of timely document submissions and appropriate account coding,
- iv. Monthly review of P-Card transactions by the P-Card Administrator and
- v. Monthly General Ledger variance report generated by Financial Planning for departmental review of expense performance

2. Administrative/Transactional Savings

The traditional procure-to-pay process for low value purchases was a manual and time-consuming process, with limited reporting and audit capabilities. The P-Card program significantly enhanced the governance of low value purchases, and has reduced overall transaction time, while improving transparency, visibility, monitoring and reporting.

During the pilot phase, the City issued only eighteen (18) cheques as payment for more than 1,000 transactions. In contrast, without the P-Card, those 1,000 transactions would have necessitated hundreds of cheque payments to multiple vendors.

During fiscal 2017, the City processed 9,981 P-Card transactions worth \$4.0 million, averaging \$405 per transaction. Analysis shows that over 50 percent of the P-Card transactions were for low value operating supplies, advertising, professional memberships, training, seminars, conferences and travel-related services. As a result, utilizing the P-Card significantly reduced the issuance of cheque payments to multiple vendors and employee reimbursements.

3. Spend Analysis

Spend data is readily accessible through more robust reports enabling Procurement and client departments to analyze spend patterns, volumes and merchant sources with the goal of consolidating purchases, rerouting purchasing activities to more appropriate procurement methods and leveraging the City's buying capacity to obtain best value for money spent.

4. Revenue Sharing

The City is eligible for a 1% rebate based on minimum performance requirements, such as, on-time monthly payments, meeting both a minimum annual transaction value and minimum average transaction value. For the twelve (12) months ending September 30, 2017, the City earned a \$39,177 rebate based on meeting, and exceeding, minimum volume and performance thresholds.

Current Status

As of December 31, 2017, there were 280 approved P-Card holders throughout the City of Vaughan and Vaughan Public Libraries.

During fiscal 2017, City departments processed 9,981 P-Card transactions worth \$4.0 million, averaging \$405 per transaction. Analysis shows that over 50 percent of the P-Card transactions were for low value operating supplies, advertising, professional memberships, training, seminars and travel-related services.

In addition to the performance and volume rebate for the twelve (12) months ending September 30, 2017, administrative costs were avoided by not having to process close to 10,000 separate accounts payable transactions.

Post-Implementation Audit

The Director of Internal Audit reports functionally to Council through the Finance, Administration and Audit Committee of Council. The Internal Audit department is completely independent and not restricted in the scope, performance or communication of its work, and has unrestricted access to all records, physical properties, functions and personnel necessary to effectively discharge its responsibilities.

An audit was conducted to evaluate the adequacy and effectiveness of internal controls, processes and procedures in place to mitigate risks associated with administration of the City's P-Card program. The audit was part of the 2015-2018 Risk Based Internal Audit Plan previously approved by the Finance, Administration and Audit Committee.

The audit approach included a review of City's policies and procedures, data analyses of P-Card transactions, physical sampling of P-Card transactions, reconciliations and payments, and interviews with staff and management.

The scope of this audit included P-Card activity for the period of June 1, 2015 to April 30, 2017, and the final audit report was presented at the November 6, 2017 Finance, Administration and Audit Committee meeting.

The audit did not identify any evidence of inappropriate or irregular transactions for the period under review. However, some improvements are required to ensure risks related to the

administration of the Purchasing Card (P-Card) program are efficiently and effectively mitigated. Management has developed action plans to address opportunities for improvement identified in the audit recommendations as follows:

1. Leveraging advances in technology to enhance P-Card administrative processes including approval, reconciliation, review and management oversight.

Staff is working with the U.S bank to assess the feasibility of leveraging latest technology, and recommendations will be presented within the agreed-upon timelines.

2. Providing more clarity on roles, responsibilities and expectations of staff as it relates to P-Card administration, policy and procedures.

P-Card procedures are under review to further clarify roles and responsibilities, and implementation is expected within the agreed-upon timelines.

Reporting

Procurement Services generates monthly P-Card spend reports by department to allow Procurement Services and client groups to review and monitor spend patterns, and help facilitate the departments' procurement needs while leveraging the City's buying capacity to obtain best value for money spent.

On a quarterly basis, Procurement Services provides a Procurement Activity Report to the Finance, Administration and Audit Committee, summarizing the procurement awards to Council, including P-Card statistics.

Conclusion

The Corporate-wide implementation of the Purchasing Card Program has reduced administrative effort and improved flexibility and control over low dollar value purchases and payments. Continuing benefits include, but are not limited to:

- Robust system driving process savings, efficient, effective, convenient and easy to use
- Adjustable controls, restrictions, enhanced monitoring and reporting/analysis
- Improved transparency, visibility and accountability
- Administrative and transactional savings
- Revenue sharing opportunity where the City is eligible for a 1% rebate
- Enhanced spend analysis capabilities that enable Procurement Services and client departments to analyze spend patterns, volumes and sources with the goal of consolidating purchases and rerouting activity to more appropriate procurement methods

Procurement Services continues to review business processes to identify improvement opportunities and proactively develop sustainable solutions to meet customer service needs.

Respectfully submitted,



Laura Mirabella
Chief Financial Officer & City Treasurer