



STAFF REPORT ACTION REQUIRED

2014 Annual Treasurer's Report on activities of the Accounting Services and the Purchasing & Materials Management Divisions

Date:	March 17, 2015
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2015\Internal Services\acc\ gm15003acc (AFS 18664)

SUMMARY

This report provides a summary of the activities and performance indicators for the Accounting Services (AS) Division and the Purchasing and Materials Management Division (PMMD) for the year ending December 31, 2014 with previous year comparisons, where applicable.

RECOMMENDATIONS

The Treasurer recommends that:

1. Government Management Committee receive this report for information.

Financial Impact

There are no financial implications as a result of this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its Special Meeting held on February 21 to March 1, 2005 City Council requested that the Chief Financial Officer and Treasurer report to the Administration Committee (now Government Management Committee), every six (6) months, on:

- (1) the percentage of invoices that are paid according to terms; and
- (2) the number of invoices that have been paid past the term and the penalty that is incurred.

(re: Policy and Finance Committee Report 3, Clause 1 titled “City of Toronto 2005 Budget Advisory Committee Recommended Capital Budget and 2006 – 2014 Capital Plan”). To view this decision on-line, follow the link below:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050221/pof3rpt/cl001.pdf>

At its meeting of January 17, 2005, the Audit Committee requested the Chief Financial Officer and Treasurer to provide a quarterly report to the Audit Committee, in chart form, on performance indicators for the Purchasing and Materials Management Division [re: Audit Committee Report 1, Clause 6(d) received by Council for information at its meeting of February 1, 2 and 3, 2005]. To view this report on-line follow the link below:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050201/au1rpt/cl006.pdf>

At its meeting held on July 19, 20, 21 and 26, 2006, Council adopted a recommendation that future reports on Performance Indicators for Purchasing and Materials Management Division be forwarded only to the Administration Committee (now Government Management Committee) [re: Audit Committee Report 3, Clause 13 “Performance Indicators for the Purchasing and Materials Management Division”]. To view this report on-line follow the link below:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050719/au3rpt/cl013.pdf>

At its meeting held on April 17, 2008, the Government Management Committee adopted a recommendation that the Treasurer’s Accounting Services and PMMD activity report be submitted on a semi-annual basis in the future [re: GM13.10]. To view this report on-line follow the link below:

<http://www.toronto.ca/legdocs/mmis/2008/gm/decisions/2008-04-17-gm13-dd.pdf>

These requests have been consolidated into one report.

As in prior election years, the June 30 semi-annual report was not issued in the fall of 2014, as there was no fall Government Management Committee meeting. This report covers the year ending December 31, 2014.

ISSUE BACKGROUND

As all of these areas fall under the Office of the Treasurer, these requests have been consolidated into one report and provided to the Committee on a semi-annual basis. In addition to the information requested by Council, this report has been expanded to also include a summary of key activities and initiatives of the Accounting Services and Purchasing and Materials Management Divisions.

COMMENTS

Statement of Financial Position (unconsolidated and unaudited)

The City's unconsolidated Statement of Financial Position (Balance Sheet) as at December 31, 2014 is presented in Table 1, below, with comparatives as at December 31, 2013. The statement is unaudited, is prepared on an unconsolidated basis and does not include the accounts of over 100 agencies and corporations.

Table 1
City of Toronto Statement of Financial Position
as at December 31, 2014 (unaudited)

	December 2014 \$'000s	December 2013 \$'000s
CASH AND SHORT-TERM INVESTMENTS	275,032	373,499
ACCOUNTS RECEIVABLE	1,027,251	854,981
PROPERTY TAXES RECEIVABLE	320,946	239,516
OTHER ASSETS	36,817	37,235
INVESTMENTS	4,266,998	4,381,143
RECEIVABLES FROM TORONTO SCHOOL BOARD	17,014	22,410
INVESTMENT IN GBE'S	1,836,423	1,836,423
TOTAL FINANCIAL ASSETS	7,780,481	7,745,207
BANK INDEBTEDNESS	43,100	22,315
ACCOUNTS PAYABLE AND ACCRUALS	2,627,025	2,785,651
DEFERRED REVENUE	1,989,073	1,597,578
OTHER LIABILITIES	444,558	442,591
LANDFILL POST CLOSURE LIABILITIES	123,773	123,773
NET LONG TERM DEBT	3,476,556	3,176,456
EMPLOYEE BENEFIT LIABILITIES ¹	2,737,520	2,523,618
TOTAL LIABILITIES	11,441,605	10,671,982
NET DEBT	(3,661,124)	(2,926,775)
TANGIBLE CAPITAL ASSETS ¹	13,785,353	13,244,267
INVENTORIES AND PREPAIDS	209,051	187,465
TOTAL NON FINANCIAL ASSETS	13,994,404	13,431,732
ACCUMULATED SURPLUS	10,333,280	10,504,957

¹ At the time of completion, tangible capital asset values were not updated for the current year. 2013 amounts have been adjusted to actual, while amounts shown for 2014 are estimates.

Government Finance Officers Association (GFOA) Award for Financial Reporting

In early 2015, staff were notified that the City's 2013 Annual Financial Report was awarded the prestigious GFOA Canadian Award for Financial Reporting. This represents eight (8) consecutive years that the City has been recognized for achieving the high program standards for Canadian Government accounting and financial reporting.

Accounts Payable

Accounts Payable (AP) is responsible for receiving vendor invoices, scanning the invoices and entering them into the City's financial system, ensuring the proper approval is obtained before they are paid.

Recording and paying invoices on time ensures that the City's financial records are up to date. This also ensures that the City maintains a positive image with vendors that conduct business with the City and allows the City to take advantage of early payment discounts and minimize late payment interest and penalties. Key performance indicators for Accounts Payable are provided in Tables 2 and 3.

A significant milestone was achieved in 2013 with the successful implementation of the Three Way Match (3WM) payable process on a corporate wide basis. Under 3WM the purchase document, receiving document and invoice are electronically matched prior to payment. All City Divisions now follow 3WM, and the City pays approximately 90% of invoices through this fully electronic, well controlled, best practice process.

Payment Cycle Time

In 2014, 87% of the City's vendor invoices were paid within the City's standard payment term of 60 days.

Table 2: Payment Cycle Time

Year	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
# of Invoices processed in					
2014	351,367	91,238	31,303	23,378	11,271
2014	69%	18%	6%	5%	2%
2013	68%	19%	6%	5%	2%
2012	73%	17%	6%	3%	1%

The percentage of invoices paid within 60 days remains relatively the same as the previous year. However, in comparison to 2012, it is down by approximately 3% (from 90% in 2012 to 87% in 2013 and 2014). Corporate Accounts Payable is working with key Divisions to improve their approval processes to be more efficient and timely, and to determine root causes for late payments. Additional reporting was implemented in 2014 and is being expanded in 2015 to include additional follow up for Divisions below the Corporate standard.

The Corporate Accounts Payable section along with City divisions/programs continue to work on AP transformational enhancements that will improve the submission, handling, processing and approval of vendor invoices. Corporate Accounts Payable Key Performance Indicators (KPIs) have been established and shared with City divisions to

support awareness of performance/output and help support continuous improvements in payable operations.

Discounts and Late Payment Penalties

The City's standard purchase order terms and conditions generally do not specify late payment penalties. With respect to early payment discounts, it is the City's standard that the discount period should not be less than 15 days.

Table 3: Discounts and Late Payment Penalties

Year	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2014	\$1,276,205	\$304,985	\$27,488
2013	\$1,041,663	228,563	\$15,241
2012	\$900,596	\$221,573	\$7,006

Through active management, early payment discounts earned increased in 2014 by 23% (or \$234,542) from the previous year with a capture rate of 81% (2013: 82%) of all discounts offered. Corporate Accounts Payable continues to work with PMMD and Divisions to ensure that discounts offered are achievable and that actions are taken to improve capture of all discounts.

In 2014, late payment charges increased primarily due to billing issues and manual processing efforts required with a utility provider. Corporate Accounts Payable is working with Corporate I&T, City Divisions and the vendor to streamline the billing and payment process for utility vendors, to provide required information and oversight, while avoiding late charges.

Direct Deposit Program

The Direct Deposit Program was launched in December 2005 as part of the City's continuing efforts to improve customer service and reduce the potential for fraudulent cheque activity. During 2014, the number of vendors on direct deposit increased to 9,128 (from 8,373 in 2013) representing 40% of Canadian vendor payments and 85% of the total Canadian dollar value paid during the period.

A summary of the activity to December 31st for the year 2014, with 2013 comparisons, is provided in Table 4.

Table 4: Direct Deposit Activity

Year	Amount Paid By Direct Deposit (\$ millions)	Total Amount of Canadian Payments (\$ millions)	% of Dollar Value of Canadian Payments	# of Direct Deposit Payments	Total # of all Canadian Payments in the Period	% of Payments made by Direct Deposits
As at Dec 31, 2014	\$9,451	\$11,152	85%	81,848	205,429 ^{*1}	40%
As at Dec 31, 2013	\$8,608	\$10,235	84%	75,697	182,440	41%

*1: The total number of payments for the year 2014 includes over 10,000 Election cheques which also affected the % of the total number of payments made by direct deposit. Excluding the election cheques, the percentage of payments made by direct deposit in 2014 would be consistent with 2013.

Payee Match Program

Accounting Services Division implemented payee match software in January 2007. This software allows the Bank to verify the payee, the cheque number, date and amount printed on cheques to be compared against the data file contained in the City's records for authenticity, at the time the cheque is presented to the bank for payment. Altered cheques are detected prior to money being drawn from the City's bank account, thus significantly reducing the possibility of the bank or the City incurring losses as a result of cashing fraudulent cheques.

In the 12 months ended December 31, 2014, the Payee Match process detected and prevented \$1,273,300 worth of exceptions. The exceptions include 30 fraudulent items such as physically altered cheques and reproductions of actual cheques issued with a value of \$279,761.

Table 5 summarizes the exceptions reported for Payee Match in the twelve-months ended December 31, 2014, with comparisons to exceptions reported in the 2013 calendar year.

Table 5: Payee Match

Year	# of Exceptions Reported	Value of Reported Exceptions (\$000)	# of Exceptions Returned (fraud etc.)	Value of Exceptions (fraud etc.) (\$000)
2014	338	1,273	30	280
2013	248	1,734	22	142

Purchasing Card (PCard) Program

The PCard Program was launched in June 2005 and as at December 31, 2014 there are 1,535 cards in circulation, representing a 17% increase from 2013. Table 6, below, summarizes the PCard activity for the year ending December 31, 2014, as compared to the same period in 2013. The table shows an increase of 9.8% in the number of transactions, and an increase of 29% in the dollar value of PCard purchases.

Table 6: PCard / Commercial Fuel Card Activity

Year	# of Active Cards	Increase (decrease) over previous year	# of Transactions	Increase (decrease) over previous year	Total Dollar Value (\$000)	Increase (decrease) over previous year
2014	1,535	17.0%	44,166	9.8%	9,399	29.0%
2013	1,312		40,211		7,289	

As identified by the Auditor General in his review of the program in 2009, the City's PCard program is an efficient, cost-effective alternative for Divisions to make low dollar value purchases. Now that the PCard system has been upgraded and the controls recommended by the Auditor General's office have been automated, the program is being expanded to more Divisions and higher usage will be promoted among the participating Divisions. In 2014, the PCard Program Strategy framework was drafted by Accounting Services which includes three main areas of focus: Compliance and Control, Reporting and Transparency, and Program Optimization. The full PCard strategy will be rolled out by Accounting Services beginning in early 2015.

PMMD produces quarterly PCard transaction reports which are reviewed and analyzed with Divisions and the City's Purchasing Working Group to identify opportunities for further efficiencies such as the use of blanket contracts and City Stores.

PCard transactions are posted on the City's Intranet, as well as the external facing Open Data site on a monthly basis.

Accounts Receivable

Due to the broad range of services provided and the diverse lines of businesses it operates, the City of Toronto uses a decentralized billing and collection model. Under this model, the decision to grant credit is a divisional responsibility. In June 2006, Council received a report outlining the accounts receivable procedures and collection protocols developed by staff, in conjunction with program divisions, which established corporate standards and guidelines to improve accounts receivable collection results. These guidelines are regularly reviewed and were last updated in December 2012.

The Aged Listing in Table 7 represents amounts billed directly by Divisions where Divisions are responsible for making a decision to extend credit. This excludes Police, agencies, property tax, water billings, payments in lieu of taxes (PILTs), Provincial Offences Act (POA) fines, long term loans, and federal and provincial subsidies.

Accounting Service staff work closely with Divisions and Legal Services to ensure that the City's receivables are collected and the City's financial exposure is minimized. All amounts over \$1,000 are forwarded to Legal Services for collection action which may include litigation or small claims court action. Amounts under \$1,000 are sent to two (2) collection agencies. If the first collection agency is unsuccessful within six (6) months the amount is sent to the second collection agency for another six (6) months.

Table 7 shows a decrease in the overall balance of the City's accounts receivables, as compared to 2013.

Table 7: AGED ACCOUNTS RECEIVABLE as of December 31, 2014 (\$000)

	Total as of Dec. 31, 2013	Total as of Dec. 31, 2014	Aging as of Dec. 31, 2014		
			From 0 to 30	From 31 to 180	From 181
CITIZEN FOCUSED SERVICES A					
Children's Services, Homes For The Aged & Social Development	1,104	853	716	4	133
Recreation Program Registration	2,324	2,160	1,552	608	0
Parks	6,475	5,004	400	1,463	3,141
Economic Development & Culture	335	323	224	63	36
Toronto Paramedic Services	384	381	37	131	213
Public Health	77	80	2	1	77
CITIZEN FOCUSED SERVICES B					
Municipal Licensing & Standards, City Planning and Toronto Building	4,854	3,974	463	1,034	2,477
Fire	3,201	1,424	953	316	155
Transportation	14,119	11,344	9,027	1,001	1,316
Solid Waste Management	5,700	5,963	5,963	0	0
Water Pollution	5,466	5,204	3,687	221	1,296
Water Services	2,895	2,550	775	55	1,720
Technical Services	196	84	77	0	7
INTERNAL FOCUSED SERVICES					
Facilities & Real Estate	8,358	9,244	2,886	153	6,205
Other Corporate Divisions	276	278	190	75	13
Accounting/Other Divisions, Employee/Retiree Benefits	285	162	58	0	104
Totals	56,049	49,028	27,010	5,125	16,893
Aging at December 31, 2014		100%	56%	10%	34%
Aging at December 31, 2013 (\$)	56,049		30,870	6,384	18,795
Aging at December 31, 2013 (%)		100%	55%	11%	34%

Overall the Accounts Receivable balance as at December 31, 2014 (for amounts billed directly by City Divisions) has decreased by 13% or \$7 million in comparison to 2013. Basically, all but two program areas experienced decreases. The two areas that experienced an increase are:

- Facilities & Real Estate increased by \$0.8 million largely due to outstanding rents, including outstanding property taxes due to the City through its rent / lease agreements;
- Solid Waste Management increased by \$0.3 million largely due to a receivable for cost recovery/reimbursement for 2014 hydro usage at the Disco transfer station.

Receivables outstanding for more than 180 days are primarily related to disputed claims with regards to:

- Leases (approximately \$6.2 million), including amounts owing for additional rent related to property taxes. A portion of these outstanding amounts is expected to be reduced through the settlement of outstanding property assessment appeals and related negotiations.
- \$3.1 million in Parks, primarily related to outstanding rent, property taxes and maintenance cost recovery fees in dispute.
- Third party sign tax accounts (approximately \$2.4 million). The disputed charges were upheld in the City's favour as a result of the Ontario Court of Appeal ruling in 2012. Collection activities continue on outstanding balances.
- Cut and watermain repairs, \$1.3 million, in litigation. Residential water main construction accounts sent to collections, \$0.3 million.

Commodity Tax Recoveries

Retroactive tax recoveries of \$3,801,479 were processed in 2014, broken down as follows:

- 1) 2013 GST/HST rebates for in-house pension plans in the amount of \$179,825,
- 2) provincial fuel tax rebate for City's fleet in the amount of \$81,701, and
- 3) HST retroactive recovery on various matters in the amount of \$3,539,953.

The Tax Unit answered 673 tax queries during 2014, and provided six (6) refreshment courses to 136 City employees, covering Harmonized Sales Tax (HST), non-resident withholding tax, and donation income tax receipts.

Purchasing and Materials Management

A high-functioning municipal purchasing operation is one that is characterized by a significant number of Blanket Contracts, Purchase Orders and a minimum number of individual Calls and Divisional Purchase Orders (DPOs). Large value Blanket Contracts allow the City to take advantage of its purchasing power while making it more efficient for divisions to source and order goods and services.

For the warehouse and stores portion of the operation, high functioning characteristics include a balance between the value of stock issued and the value of goods received, and an optimal inventory turnover rate for goods (too low may indicate risk of obsolescence, too high may indicate a risk of “stock outs”). The indicators and their values from 2010 to 2014 are provided in Table 8.

Currently the Purchasing and Materials Management Division collects, monitors, and reports on various performance metrics contained within the Semi-Annual Treasurer's Report, the Ontario Municipal Benchmark Index (OMBI) report and the Annual Operating Budget Analyst Notes. In 2015, the Division will conduct an internal review of their reported service levels and the appropriate corresponding performance metrics.

The recommended revisions to the PMMD's service levels will be included within the 2016 Operating Budget Analyst Notes. Details concerning the revised performance metrics will be included in the next Semi-Annual Treasurer's Report. PMMD strives to establish service levels and performance metrics that accurately reflect their primary operations.

Table 8: PMMD Performance Indicators as at December 31, 2014

Indicator	2010	2011	2012	2013	2014
Purchasing					
Calls Issued	1,159	1,071	1,010	994	980
Average # of Responses Received	4.4	4.3	4.2	4.5	4.2
Average # of Calls per buyer	37	35	37 (based on filled position) 33 (based on FTE alone)	35.54(based on filled position) 33 (based on FTE alone)	32.7 (based on filled position) 30 (based on FTE alone)
Average time for Call preparation and approval (days)	31.78	27.23	31.40	34.24	34.39
Average time for Call (days)	22.13	20.52	20.93	21.63	22.15
Average time for divisions to evaluate bids/proposals (days)	34.54	34.45	30.14	33.50	37.70
Average time from receipt of recommendation to award to issuance of Purchase Order (days)	33.23	31.06	29.13	33.32	35.45
Purchase Orders:					
Issued	1,075	1,087	1,043	1,024	1,117
Dollar value ('000s)	\$1,360,655	\$686,685	\$608,004	\$952,432	\$1,242,259
Blanket Contracts:					
Issued	687	826	782	624	715
Dollar value ('000s)	\$615,643	\$415,106	\$810,496	\$648,939	\$691,614
Total dollar value processed by PMMD ('000s)	\$1,976,298	\$1,101,791	\$1,418,500	\$1,601,371	\$1,933,872
Average cost to purchase \$100 of goods and services	\$0.15	\$0.27	\$0.20	\$0.20	\$0.17
Divisional Purchase Orders:					
Issued	34,376	19,256	15,292	14,953	14,144
Dollar value ('000s)	\$78,981	\$52,085	\$47,013	\$51,906	\$52,321
Materials Management & Stores					
Dollar value purchased (000s)	\$5,992	\$5,842	\$6,757	\$6,603	\$9,009
Dollar value issued ('000s)	\$6,108	\$6,159	\$6,616	\$6,273	\$11,788
Turnover rate *1	4.33	4.35	4.19	3.82	3.44

*1: The turnover calculation was revised in 2013 (based on a recommendation from the Auditor General) to exclude drop shipments from the calculation. The years 2010 to 2012 have been adjusted to reflect the exclusion of drop shipments.

Number of Calls

The number of Calls issued during the year has decreased slightly since 2010, stabilized at approximately one-thousand Calls. PMMD continually works with City Divisions to amalgamate requirements for goods and services to effectively reduce the number of Calls issued. Combining the requirements of goods and services across Divisions provides overall benefits by increasing the likelihood that the City will receive better prices based on higher quantities in each Call. Combining the requirements also had a positive impact on the number of Calls per buyer and allowed them to spend more time on improving the quality of the Call documents. The target number of Calls issued per buyer annually is 30 based on a survey of other municipalities. PMMD's approved Full Time Equivalent (FTE) position complement for buyers in 2014 was 33 positions. Based on the number of approved FTE positions of 33 in 2014, the average number of calls of 30 per buyer has been met. However for the year 2014, there were only 30 filled buyer positions, resulting in an average of 32.7 calls per buyer, which exceeds the annual target. PMMD continues to ensure all vacancies are filled in a timely manner.

Average Number of Responses Received

PMMD has set a target of receiving on average five (5) responses per Call closed in each year. In 2014, PMMD received 4.24 responses per Call. Table 9 below indicates how many calls received zero (0) responses and how many calls received a low number of responses (one (1) or two (2) responses).

Table 9: Breakdown of Number of Responses by Call Type* in 2014

Description	Request for Quotations (RFQs)	Request for Proposals (RFPs)	Tenders	Cumulative Total	Percentage
Number of calls that received no responses	8	2	0	10	1%
Number of calls that received 1 or 2 responses	115	33	38	187	23%
Number of calls that received 3 or more responses	220	153	253	626	76%
Grand Total	343	188	292	823	100%

*The above table represents the total number of Tenders, RFQs and RFPs issued and closed by the City in 2014. It does not include pre-qualifications, requests for expressions of interests, requests for information, low value quotes or sales quotes.

The reason why a particular Call may have received a low number of responses depends on the particular facts of the Call itself. For example, a Call may have received a lower

number of responses for any of the following reasons (but not necessarily limited to these reasons):

- a pre-qualification was used which limited the number of potential bidders / proponents;
- the market contains only a specified number of bidders / proponents who meet the mandatory requirements of the Call;
- the specifications or the terms and conditions that the Division may require due to the complexity of their operations may limit competition;
- the timing of the issuance of the Call impacted the market's response; or,
- the market was being tested.

When a low number of responses are received on a Call, PMMD follows up with vendors who chose not to respond in an effort to determine why they may not have chosen to participate. The Call will also be reviewed to identify any specific specification or term of the contract that may have impacted the number of responses. In this circumstance, PMMD identifies those issues for the Division for further review and consideration for future calls.

Average Cost to Purchase \$100 of Goods and Services

The annual average cost to purchase \$100 of goods and services ranged from a high of \$0.27 in 2011 to a low of \$0.15 in 2010. In 2014, the cost to purchase \$100 of goods and services was \$0.17 and is largely influenced by the dollar value of orders processed within this period. The average cost fluctuates based on either the increase or decrease of the amount of money the City awards through procurement and the increase or decrease to PMMD's operating budget (actuals). While PMMD's operating budget has been relatively stable over the last number of years, the dollar value of goods and services purchased by the City in a given year has fluctuated, as reflected in Table 8 accordingly.

Average Cycle Times

The annual average cycle time has been broken down into four (4) major events:

- preparation and approval of a Call document;
- time period between the Call issue date and Call closing date;
- Divisional evaluation of bids/proposals received; and
- time period from receipt of recommendation to award to issuance of Purchase Order (and legal agreements where required).

The average time between the preparation and approval of a Call document was 34.39 days in 2014. The average time has increased slightly from 34.24 days in 2013 to 34.39 days in 2014 which is due to call complexity and the development and approval of detailed specifications.

The average time for a Call (between Call issue date and Call closing date) was 22.15 days in 2014. This time frame is reasonable as bidders / proponents must be given a reasonable amount of time to prepare a response to a Call. The average time has increased slightly from 21.63 days in 2013 to 22.15 days in 2014.

The average time for divisions to evaluate received bids / proposals and recommend a successful bidder / proponent was 37.70 days in 2014, compared to 33.50 days in 2013. The length of time to evaluate a response depends on the complexity of the purchase, any issues of non-compliance and priority given by divisions.

The average time from receipt of recommendation to award from the Division to the time a Purchase Order/Blanket Contract is issued by PMMD was 35.45 days in 2014. This number includes the time to obtain authority to award, in accordance with the Purchasing By-law (i.e. Bid Committee, Standing Committee or Council), the time to prepare and execute a legal agreement by the client division and Legal Services, and receipt of a signed agreement, security and insurance requirements from the successful bidder, where necessary. The average time increased from 33.32 days in 2013 to 35.45 days in 2014.

Divisional Purchase Orders (DPOs)

In 2007, PMMD started a Purchasing Working Group with representatives of each cluster to proactively review their DPO activity to determine areas where it could be reduced through the amalgamation of requirements for commonly used goods and services or better use of existing Blanket Contracts. Further, PMMD also meets with Divisions to help reduce DPO usage where possible. There was a reduction of 809 DPOs in 2014 compared to 2013. The dollar value of purchases made by DPOs increased by \$414,908 from \$51,906,340 in 2013 to \$52,321,248 in 2014.

Materials Management and Stores

With respect to Material Management and Stores, the method of calculating the inventory turnover rate was revised in 2013 to exclude drop shipments from the calculation based on recommendations made by the Auditor General and adopted by City Council at its meeting on November 27, 2012 (re: AU9.10 "City Stores: Maximize Operating Capacity to be More Efficient"). For comparative purposes, the turnover rates for 2009 through 2012 have also been re-calculated to remove drop shipments from the calculation.

Since 2009, the inventory turnover rate has fluctuated between 3.44 and 4.35, with the 2014 ratio at 3.44. In 2014 for the second year in a row, PMMD's product line and client list increased significantly (the majority of the City's clothing requirements are now obtained through Materials Management & Stores). In addition, the Division is continuing to consolidate and rationalize its warehouse operations in 2015 along with the remodelling construction of the main warehouse anticipated to be complete by the end of the second quarter 2015. Once we gain experience with consumption levels for the new products, along with a better understanding of consumption patterns from our newer clients, and once the warehouse remodelling construction project is complete, the turnover rate is expected to return to slightly above four (4) turns per year, which is an acceptable turnover rate for a Maintenance, Repair and Operations (MRO) organization such as the City of Toronto.

Materials Management has been involved in the following initiatives in 2014 as follows:

- Implemented the Material Receiving Inspection process in SAP such that when the material is waiting for inspection or is being inspected it is shown as a blocked stock "hold for inspection" quantity in SAP allowing warehouse, materials management and inspection staff to account for it until it is accepted into the receiving warehouse inventory;
- Continued a Significant Inventory Study as recommended by the Auditor General and approved by Council (AU7.12) to determine if Divisions who are holding significant inventory (either in quantity or dollar value) have proper inventory controls in place and to determine if the inventory should be overseen directly by Materials Management. Current Divisions being reviewed include Parks Forestry & Recreation; Long-Term Care Homes & Services; Transportation; Toronto Water; Shelter, Support and Housing Administration; and, Toronto Public Health;
- Worked with Divisions to rationalize Divisional warehouses including Toronto Water and Toronto Public Health; and,
- Moved into our new warehouse at 799 Islington Avenue and began the remodelling construction effort which is scheduled to be complete by April 2015. The move has consolidated two (2) operational warehouses and will consolidate two (2) pandemic warehouses upon construction completion, into one (1) warehouse.

Purchasing & Materials Management Division Outreach, Training and Other Initiatives

During 2014, PMMD:

- Participated in a number of outreach events including:
 - Canadian Aboriginal and Minority Supplier Council (CAMSC) Diversity Fair on April 16, 2014 and Summit Conference on September 24, 2014;
 - Enterprise Toronto Event – Three (3) Levels of Government Vendors on May 1, 2014 and Small Business Forum on October 23, 2014;
 - Discovery Ontario Centre of Excellence on May 12 – 13, 2014 organized by the Ontario Centres of Excellence to showcase key players from industry, academia, government, the investment community as well as entrepreneurs and students to pursue collaboration opportunities.
 - City Career Information Event at the Toronto Reference Library on October 21, 2014;
 - Supply Ontario Forum on November 4, 2014;
- Conducted a number of specialized training for PMMD and Divisional staff including:
 - Contractor Performance Information Sessions;
 - Competition Bureau Information session;
 - Ontario Public Buyer Association in house training courses; and,
 - Legal aspects of Purchasing;
- Continued the Volume Rebate Program where PMMD received \$98,759 in 2014. The total year-to-date collected from 2008 to the end of 2014 is \$553,935. The volume rebate is included as part of the Call document and bidders are invited to include a percentage volume rebate as part of their bid based on estimated spend. The volume rebate is only included in calls where the supplier is expected to be a distributor of various manufacturers' goods/services; and,

- Launched a Program Review of PMMD's services and organizational structure to assess PMMD's capabilities to move to a strategic sourcing procurement model to help facilitate further shared services between the City and its agencies. The Program Review consists of two parts:
 - 1) using internal resources to conduct a current state assessment of PMMD, including its organizational structure, legislative requirements, services it currently provides and the resources to support those services and stakeholder feedback; and
 - 2) using an external consultant, conduct a spend analysis, provide leading/best models, a fit gap analysis between the desired model and the current state and an implementation roadmap to move to the desired model.
- Completed a fit-gap analysis on potential technology to improve the end-to-end procurement process and began the development for a business case to implement new technology.

Cooperative Purchasing

PMMD conducts cooperative purchasing activities with other agencies and corporations to maximize on the best value and large volume discounts for the City of Toronto. In addition, PMMD conducts cooperative purchasing with other public organizations, specifically:

- Toronto District School Board,
- University of Toronto,
- York University,
- Humber College,
- McMaster University,
- Ryerson University, and
- Province of Ontario i.e. Education Municipal Purchasing Group (EMPG).

As of September 2013, the City of Toronto and its agencies established a formalized new group called the "Cooperative Purchasing Group" (CPG) to continue to work collaboratively to identify common procurement opportunities. The agencies involved include the:

- Toronto Public Library (TPL),
- Toronto Community Housing Corporation (TCHC),
- Toronto Transit Commission (TTC),
- Board of Governors of Exhibition Place (EP)
- Toronto Police Services (TPS),
- Toronto Parking Authority (TPA), and
- Toronto Zoo.

The CPG has been meeting monthly to review, streamline, consolidate and collaborate on procurement opportunities, where feasible. The goal is to identify the common purchases of goods and services in order to conduct a joint procurement and to align future contracts such that the City and the agencies can benefit from economies of scale in larger purchases. Once a joint procurement opportunity is identified, the agencies and the

City will meet outside the CPG's meeting in order to further analyze the requirements of the opportunity to ensure that it is an appropriate opportunity to collaborate on. The CPG monthly meetings are also used to discuss emerging issues in the purchasing field, exchange ideas, share tools and best practices.

Appendix 1 provides a list of the purchases done jointly with one or more agencies and/or where an agency has piggy-backed off the City's contract.

The City also reviews the Province's Vendor of Record contracts to see if the City can take advantage of negotiated volume pricing done by the Province.

Policy for Access to Information to Members of Council at Various Stages of the Procurement Process – Councillor Requests

In July 2005, Council approved a policy that expanded Council's access to procurement information at various stages of the procurement process. To ensure transparency in this process, PMMD staff is required to report regularly to Council with specific information about these requests by Councillors to access confidential procurement information. For the year 2014, no requests were received from Councillors to view confidential procurement information.

Use of subcontractors in Custodial Services Contracts

At its meeting held on July 16 - 19, 2013, City Council, as part of EX33.2 "Quality Jobs, Living Wages and Fair Wages in Toronto" delegated to Division Heads the ability to approve the use of subcontractors in Custodial Services contracts where in the Division Heads' determination, the use of subcontractors is appropriate due to extenuating circumstances. Council also required Division Heads to report semi-annually to the Government Management Committee on the exercise of such delegation. Since that report in 2013, no Division with custodial services contracts (Facilities Management, Fire Services and Parks, Forestry and Recreation), have approved the use of subcontractors. Staff will continue to monitor whether subcontractors are used in extenuating circumstances for custodial services and will report semi-annually only when a Division exercises such delegation.

CONTACTS

Mike St. Amant, Director, Accounting Services, (416) 397-4438, mstaman@toronto.ca
Michael Pacholok, Director, Purchasing and Materials Management Division
(416) 392-7312, mpachol@toronto.ca

SIGNATURE

Giuliana Carbone
Treasurer

Attachment:

Appendix 1: Summary of Cooperative Purchases

APPENDIX 1: Summary of Cooperative Purchases

The following two tables identify the cooperative purchases completed to date (either through a joint procurement where agency requirements are built into the City's call before issuance or through piggy-backed procurement where an agency entered into a contract with the City's vendor after the fact) and identify future opportunities identified by the CPG for further analysis to become joint procurements.

Any purchases noted in Table 1 are automatically considered for future opportunities for Table 2. In addition, future opportunities will continue to grow as more analysis on common spending is done through the CPG.

Table 1 – Joint and Piggy-Backed Purchases Done to Date

Description of Product/Service	Organizations Participating with the City
Antifreeze	TPS
Automotive Chassis Springs & Suspension Parts	TPS
Automotive Rust Control	TPS
Bagged Salt	Education Municipal Purchasing Group
Banking	Zoo
Benefit Consulting	TTC
Cisco Network Equipment	TTC, TPL
Collections	TPS
Custom Broker	TPL
Data Network Services	TPL
Desktop Equipment	TPL
Doors and Maintenance	EP
Employee and Pensioner Health Benefits	TTC, TPS
Envelopes	TCHC, TPS
Executive Search Services	TTC
Fertilizers	Education Municipal Purchasing Group
Fire Extinguisher Maintenance	TPS
Fire Hydrant Maintenance	TCHC, TPS
Fine Paper	TTC, EP, TPL, Zoo, TPS
Flags	EP
Fuel	TTC, TPS, Zoo, EP, TPL, TDSB, York University, Humber College
Fuel Site Maintenance & Repair	TPS
Garbage Bags	University of Toronto, York University, Ryerson University
Garment Cleaning and Rental	TPS, EP
Graffiti Removal Services	TCHC
Grass Seeds	York University

Description of Product/Service	Organizations Participating with the City
Honda Parts	TPS
Hydro & Natural Gas	TPL
Industrial Supplies	EP
IT Resources Roster	TTC, TCHC
Janitorial Supplies	TPL
Maintenance of Signal Equipment	TTC
Metals	TTC, EP, TPS
Moving Services	TTC, TPL
New Signal Installation	TTC
Over the Phone Language Interpretation	TPS, TCHC, TTC
Painting Services	TPS
Paper products - wipes, towels, toilet	TTC
Pest Control	TTC
Pick up and Recycling of Lamps	EP
Picnic Tables	TPS
Plumbing Supplies	TTC, EP, TCHC
Purchasing Card	TTC, TPL
Rental of Mops	EP
Rock Salt	TTC, EP, Zoo, TCHC, University of Toronto, McMaster University, York University
Safety Shoes	TPS
Servers & Warranty	TPL
Stationary	TTC, EP, TCHC, TPL
Supply & Install of Transit Shelters	TTC
Symantec Veritas Licenses & Support	TPL
Training Courses	EP
Various Lumber	TTC, EP
Vehicle Maintenance	TPS
Walk Off Mats	TCHC
Waste Oil Removal	TPS
Welding Gases	TPS, EP
Wireless Telecommunications Services/Equipment	TTC, TPL, TCHC, EP

Table 2 – Future Opportunities Not Identified in Table 1

Description of Product/Service
ARC Resistant Clothing (Orange)
Auto Parts
Chain Link Fencing
Electrical Components
Electrical Supplies
Emergency Generators – Testing & Repair
Freon R22
Hand Cutting Tools
Headsets, Supply & Repair
Lubricating Oils - transmission fluids, hydraulic oils, gear oil & greases
Misc. Hardware and Bldg Products
Office Equipment Repairs
Office Furniture Repairs
Parts Cleaning Stations - Service
Pumps & Electric Motors
Safety Prescription Eyewear
Safety Products/Equipments
SAP Licenses
Shredder Service
Snow Plowing
Time & Attendance Mgt System
Towels
Towing Services
Work Clothing