



## STAFF REPORT INFORMATION ONLY

### Quarterly Treasurer's Report on Activities of the Accounting Services and the Purchasing & Materials Management Divisions – September 30, 2006

<b>Date:</b>	January 10, 2007
<b>To:</b>	General Government
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\ACC\gg07001acc (AFS#3430)

#### **SUMMARY**

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The purpose of this report is to inform the Committee and Council on activities of the Accounting Services and the Purchasing and Materials Management Divisions.

This report provides a brief analysis of the performance indicators for Accounting Services and the Purchasing and Materials Management Divisions through the first nine months of 2006. Staff will continue to monitor these indicators in assessing the success of the improvement initiatives that are currently underway.

#### **Financial Impact**

There are no financial implications to the City of Toronto as a result of this report.

#### **DECISION HISTORY**

At the February 2005 Council meeting on the 2005 budget, the following resolution was passed:

“That the Chief Financial Officer and Treasurer be requested to report to the Administration Committee, every six 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 cost that is incurred.”

At its meeting of January 17, 2005, the Audit Committee advised the Chief Financial Officer and Treasurer to provide to the Audit Committee a quarterly report, in chart form, on the performance indicators for the Purchasing and Materials Management Division. This report was sent to the July 12, 2005 Audit Committee recommending that this information be reported to the Administration Committee on an ongoing basis.

## ISSUE BACKGROUND

As all of these areas fall under the Office of the Treasurer, which was created during the corporate reorganization approved by Council in April 2005, these requests have been consolidated into one report and provided to Committee on a quarterly basis at the same time the budget variance reports are submitted. This is the sixth report submitted and covers the first nine (9) months of 2006 and has been expanded to include a summary of key activities and initiatives of the Accounting and Purchasing and Materials Management Divisions

## COMMENTS

### Interim Unconsolidated Balance Sheet

The City's interim unconsolidated balance sheet as at September 30, 2006 is presented in the table below with comparatives as at June 30, 2006 and March 31, 2006.

#### City of Toronto Statement of Financial Position

	September 2006 (\$000)	June 2006 (\$000)	March 2006 (\$000)
CASH AND SHORT-TERM INVESTMENTS	16,705	28,554	16,165
ACCOUNTS RECEIVABLE	324,526	469,282	662,241
PROPERTY TAXES RECEIVABLE	487,916	2,511,320	1,582,237
OTHER ASSETS	3,583	87	722
INVESTMENTS	3,757,805	2,641,882	2,252,164
NOTES RECEIVABLE - TORONTO HYDRO	980,231	980,231	980,231
RECEIVABLES FROM TORONTO SCHOOL BOARD	55,708	55,708	58,021
INVESTMENT IN GBE'S	1,012,567	1,012,567	1,012,567
<b>TOTAL FINANCIAL ASSETS</b>	<b>6,639,041</b>	<b>7,699,631</b>	<b>6,564,348</b>
ACCOUNTS PAYABLE AND ACCRUALS	1,598,926	2,014,560	1,655,704
DEFERRED REVENUE	820,496	1,117,998	996,534
OTHER LIABILITIES	159,827	214,190	193,675
LANDFILL POST CLOSURE LIABILITIES	125,025	125,025	125,025
NET LONG TERM DEBT	2,322,224	1,951,473	1,963,469
EMPLOYEE LIABILITIES	1,803,447	1,803,447	1,803,447
<b>TOTAL LIABILITIES</b>	<b>6,829,945</b>	<b>7,226,693</b>	<b>6,737,854</b>

<b>NET FINANCIAL ASSETS</b>	(190,904)	472,938	(173,506)
INVENTORIES AND PREPAIDS	56,078	64,311	64,659
<b>NET LIABILITIES</b>	<b>(134,826)</b>	<b>537,249</b>	<b>(108,847)</b>
OPERATING FUND	3,069,559	3,749,403	3,353,531
CAPITAL FUND	56,533	(269,905)	(368,417)
RESERVES AND RESERVE FUNDS	1,074,299	1,042,057	900,028
<b>TOTAL FUNDS</b>	<b>4,200,391</b>	<b>4,521,555</b>	<b>3,885,142</b>
AMOUNTS TO BE RECOVERED			
FROM RESERVES AND RESERVE FUND ON LAND	(283,287)	(283,287)	(283,287)
FROM FUTURE REVENUES	(4,051,930)	(3,701,019)	(3,710,702)
TOTAL AMOUNTS TO BE RECOVERED	(4,335,217)	(3,984,306)	(3,993,989)
<b>TOTAL MUNICIPAL POSITION</b>	<b>(134,826)</b>	<b>537,249</b>	<b>(108,847)</b>

This balance sheet is prepared on an unconsolidated basis and does not include the accounts of approximately 80 of the City's agencies, boards and commissions.

The increase in property taxes receivable as at June 30, 2006 relates to the final billing of property taxes during the second quarter of 2006. As of September 30<sup>th</sup>, the taxes receivable balance has been decreased significantly due to tax collection during the period and is reflected in the significant increase in the investments line of the Balance Sheet.

Balances as at September 30, 2006 for investments in Government Business Enterprises, landfill post closure liabilities and employee benefit obligations are unchanged from 2005 year-end balances as entries related to these accounts are processed on an annual basis only.

### Accounts Payable

Accounts payable is responsible for receiving vendor invoices, entering them into the City's financial system and ensuring the proper approval is obtained before they are paid. Given the City's size and decentralized operations, obtaining the appropriate approvals from operating Divisions is the single most challenging aspect of paying invoices on time.

Recording and paying invoices on time ensures that the City's financial records are up to date, ensures that the City has a positive image with vendors that conduct business with the City and allows the City to take advantage of early payment discounts and avoids late payment interest and penalties.

As illustrated in tables 1 and 2 below, the vendor invoice cycle time continues to improve. This has resulted in an increase in the amount of early payment discounts the City is receiving, an increase in the number of vendors willing to offer early payment discounts and a reduction in late payment penalties paid.

### Table 1 Payment Cycle Time

In the first nine months of 2006, maintained service level 90% of the City's vendor invoices/AP interfaces were paid within the City's standard payment term of 60 days.

	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
Invoices processed	238,952	56,468	15,562	13,173	5,461
2006 – Sept. 30 <sup>th</sup>	72.5%	17.1%	4.7%	4%	1.7%
2005 annual	59%	29%	6%	4%	2%
2004 annual	62%	24%	7%	5%	2%

- There has been a 7.2% increase in the total amount of invoices/interfaces paid to city vendors within 30 days from the same time last year (65.3%)
- There has been a 2.6% improvement of invoices being paid beyond 60 days from the same time last year (13%)

### Table 2 - Discounts and Late Payment Penalties

The City's standard purchase order terms and conditions generally do not state a specific late payment penalty. With respect to early payment discounts, the City's standard discount period is 15 days.

	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2006 – Sept. 30 <sup>th</sup>	\$ 446,607	\$104,252	\$ 3,198
2005 annual	\$ 390,000	\$ 117,121	\$ 8,885
2004 annual	\$ 119,000	\$ 280,000	\$ 9,945

- Total dollar value of invoices processed to September 30, 2006 is \$2.5 billion.
- There has been a 72% increase in the total amount of early payment discounts captured from the same time last year (\$259,411)
- Discount capture rate at September 30<sup>th</sup> is 77%. During the year \$53,000 in Discounts missed due to a misunderstanding in the terms of the agreement with the City related to a specific vendor. The issue has been resolved. Excluding the specific vendor our discount capture rate is 88.5%, (2005- 78% capture rate)
- Additional Accounts Payable processing steps/measures have been implemented with specific operating divisions/programs to assist in the maximization of early payment discounts offered by city vendors
- Late payment penalties paid are significantly lower by 64% in Q3 compared to 2005, and by 68% from 2004. Also, late payments charges paid are very minor in relation to the 327,000 invoices processed, representing a dollar value of \$2.5 billion during the nine month period ending September 30<sup>th</sup>, 2006.

## Direct Deposit Program

In December 2004, the City launched its Direct Deposit Pilot Program as part of the City's continuing efforts to improve customer service and reduce the potential for fraudulent cheque activity. In February, 2006 the program was opened up to all City of Toronto and Toronto Police Services vendors. This action has resulted in the dollar volume of vendors paid through direct deposit in the first 9 months of 2006 totalling \$697.7 million (representing 4,000 vendors) which is more than four times the total for the entire year in 2005. Also, 17 % of payments made by the City are now being made through direct deposit. A summary of the activity for the first nine (9) months of 2006 is provided below:

	Amount Paid (in \$millions)	# of Direct Deposit Payments	Total all Payments in the period	% of Payments made by Direct Deposit
1 <sup>st</sup> 9 months 2006	\$697.7	28,066	163,737	17.1%
1 <sup>st</sup> 9 months 2005	\$99.5	9,745	166,254	5.9%
Full year 2005	\$148.5	13,107	222,554	5.9%

## Purchasing Card (P-Card) Program

The P-Card program was launched in June 2005, as of September 30, 2006, 426 cards have been issued. The table below summarizes the P-Card purchases during the first nine (9) months of 2006.

	#of transactions	Total Dollar Value (\$million)
1 <sup>st</sup> 9 months of 2006	6,530	1.369
2 <sup>nd</sup> 6 months of 2005 (June – December)	1,650	0.340

Prior to the launch of the P-Card program, policies and procedures and a training program were developed by Accounting Services with input from operating divisions, Internal Audit and staff from Purchasing and Materials Management Division (PMMD).

Staff has reviewed the P-Card comments made by the Auditor General of Ontario in the review of Hydro One, Ontario Power Generation and four School Boards. Council should be advised that the City program has very strict policies and procedures in place to protect the City's interest such as:

- The City's transaction and monthly credit limits are lower as compared to these entities.
- Cash advances and cheque writing privileges are strictly prohibited.

- Hotel, restaurant and fuel purchases features are only activated in very limited cases and are closely monitored.
- Prior to any issue of a card, the cardholder and his/her supervisor must complete P-Card training. The cardholder is expected to maintain a Transaction Log of P-Card purchases along with supporting documentation and to submit the log and documentation to his/her supervisor for approval on a monthly basis.
- In addition, monthly reviews of all P-Card transactions are conducted by Accounting Services and PMMD staff to help ensure compliance with P-Card policies and to identify opportunities for blanket contracts that may exist.
- P-Card transactions are also reviewed by Internal Audit Division of the City Manager's Office on a regular basis and their findings reported to appropriate Division Head, including strict timelines for submitting written responses.

### **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 approved an Accounts Receivable Procedures and Collection Protocol as developed by Accounting Services in conjunction with the program divisions, which established corporate standards and guidelines.

The table below provides the Miscellaneous Aged Accounts Receivable Listing as of September 30, 2006. This listing represents amounts billed directly by City Divisions where Divisions are responsible for making a decision to extend credit and excludes Police, ABC's, property tax and water billings, federal and provincial subsidies.

At September 30, 2006, the miscellaneous accounts receivable balance was \$24.1 million (\$18.3 million at June 30, 2006), of which \$5.3 million (\$4.0 million June 30, 2006) was less than 30 days. It is the City's practice to set up a provision for all amounts outstanding more than six (6) months. The balance of \$11 million (\$11 million June 30, 2006) which is 181 days and older has been included in the provision for doubtful accounts and reflected in the operating results of the appropriate Divisions.

A large portion of the amounts outstanding in excess of 180 days (6 months), relate to amounts that are subject to litigation or contractual agreements with extended payment terms. Accounting staff is continuing to work with Divisions and Legal Services in order ensure that these outstanding amounts are collected and the City's financial exposure is minimized.

<b>AGED ACCOUNTS RECEIVABLE</b>					
<b>As at September 30, 2006</b>					
			<b>Aging as of September 30<sup>th</sup></b>		
	<b>Total as of June 30<sup>th</sup></b>	<b>Total as of Sept. 30<sup>th</sup></b>	<b>From 0 to 30</b>	<b>From 31 to 180</b>	<b>From 181</b>
<b><i>CITIZEN FOCUSED SERVICES A</i></b>					
Parks Program Registration	1,695	1,972	792	909	271
Parks Other Services & Programs	4,446	5,496	679	1,018	3,799
<b><i>CITIZEN FOCUSED SERVICES B</i></b>					
Municipal Licensing & Standards	215	150	5	5	140
Transportation	4,065	8,654	2,868	4,398	1,388
Solid Waste Management	3,021	2,433	525	1,006	902
<b><i>INTERNAL FOCUSED SERVICES</i></b>					
Facilities and Real Estate	1,241	1,754	355	208	1,191
Other Corporate Divisions	2,008	1,935	52	102	1,781
Pension Admin & Employee/Retiree Benefits	1,623	1,696	48	61	1,587
	<b>18,314</b>	<b>24,090</b>	<b>5,324</b>	<b>7,707</b>	<b>11,059</b>
Aging at September 30 <sup>th</sup>		100%	22%	32%	46%
Aging at June 30 <sup>th</sup>	100%		22%	18%	60%
Aging at March 31 <sup>st</sup>	100%		12%	22%	66%

## Commodity Tax Recoveries

The Tax Compliance Unit of the Accounting Services Division identified and processed commodity tax recoveries in the nine months of 2006 totaling \$2.67 million. The amounts and programs ultimately being credited with these recoveries are listed below:

Cost Centre	Activity	Amount (\$000)
Non Program	PST claim for the period from July 2002 to November 2005	152.7
Toronto Water – Capital Project	PST claim from a vendor for the supply and install job at a wastewater treatment plant	48.4
Fleet Division	Fuel tax rebate claim for gasoline usage by unlicensed equipment and diesel fuel usage by power take-off equipment	45.7
Fire Division	PST claim for the Fire Boat's repairs	16.9
Ferry Operations	PST claim from a vendor for the ferry boat repair	4.0
Reserve	GST rebate claim from real estate agents' fees in the real property transactions	0.2
	<b>Total this quarter</b>	<b>267.9</b>
	<b>Total year to date</b>	<b>2,673.8</b>

## Purchasing and Material Management

A high-functioning municipal purchasing operation is one that is characterized by a significant number of blanket contracts and a minimum number of individual calls and divisional purchase orders (DPO's). Large value blanket contracts allow the City to take advantage of its purchasing power and they also make it easier 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 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 2002 to 2005 and the statistics for the period January 1 to September 30<sup>th</sup> of 2006 are provided in the Table below.

The number of calls issued during the year have been decreasing steadily since 2002 and is the result of standardization of goods and services purchased by various divisions which allows for amalgamation of requirements and a reduction in the number of calls. This has a positive impact on the number of calls per buyer and allows them to spend more time on improving the quality of the call documents. The target for the number of calls per buyer is 30 based on a survey of other municipalities. Staff were added in the 2006 budget in part to reach that target.



<b>PMMD Performance Indicators</b>					
<b>Year to Date as of September 30, 2006</b>					
<b>Indicator</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 Jan 1 to Sept 30</b>
Calls Issued	2,223	2,164	1,991	1,900	1,339
Average # of calls per buyer	91	88	81	73	52
Purchase requisition to PO average cycle time	36.27	31.73	32.52	36.41	36.26
<b>Purchase Orders:</b>					
Issued	2,279	2,344	1,977	1,841	1,214
Dollar value ('000s)	\$473,478	\$430,754	\$346,218	\$408,105	\$356,786
<b>Blanket Contracts:</b>					
Issued	1,575	1,647	1,198	1,116	606
Dollar value ('000s)	\$508,995	\$661,976	\$526,984	\$723,313	\$303,202
Total dollar value processed by PMMD ('000s)	\$982,473	\$1,092,730	\$873,202	\$1,131,418	\$659,988
Average cost to purchase \$100 of goods and services	\$0.24	\$0.21	\$0.30	\$0.24	\$0.34
<b>Divisional Purchase Orders:</b>					
Issued	65,487	77,144	79,597	88,099	58,714
Dollar value ('000s)	\$66,402	\$72,637	\$74,820	\$80,819	\$53,491
<b>Stores</b>					
Dollar value purchased (000s)	\$8,512	\$11,517	\$8,566	\$7,668	\$5,395
Dollar value issued ('000s)	\$7,932	\$9,202	\$8,183	\$7,590	\$5,136
Turnover rate	2.41	2.89	3.25	4.85	3.47

The number of blanket contracts issued have also decreased and is primarily the result of more consolidation of orders as evidenced by the increase in dollar value covered by these contracts and also due to the fact that more contracts are being issued on a multi-year basis.

The annual average cost to purchase \$100 of goods and services ranges from 21 to 30 (the 34 cents is the average from January 1 to September 30, 2006, not an annual average cost) cents and is largely influenced by the dollar value of orders processed. The third quarter amount of 34 cents is expected to decline in the fourth quarter to the range experienced in prior years as a large part of PMMD's work comes in the last quarter. The cycle time to process an order ranges from approximately 32 days to approximately 36

days. With the implementation of the “quick” bid process in 2006, it is expected that the 2007 annual average cycle time will show a decrease.

The number of Departmental purchase orders (DPOs) continues to climb and raises a concern as to whether some of those purchases could best be processed as Contract Release Orders against a Blanket Contract resulting from a competitive call process, ensuring best price possible for the City. In the summer of 2006, PMMD began to provide divisions with quarterly reports on their DPO activities for them to review their activity and reduce their DPO usage, wherever possible.

PMMD will be starting a working group with representatives of each cluster to proactively review their DPO activity and determine areas where it can be reduced through PO's and Blanket Contracts, amalgamation of requirements for common use items/services from the clusters or the use of existing Blanket Contracts. It is anticipated that these initiatives will result in a reduced usage of DPO's in 2007.

With respect to stores, inventory turnover has improved due to better management of the orders and distribution system. The third quarter turnover rate of 2006 is comparable to the third quarter turn over rate in 2005 and it is expected that the average turnover rate for 2006 as a whole will be 4.6.

## **Other Purchasing & Materials Management Division Activities**

PMMD staff have delivered a number of tools to assist Divisions in obtaining better service. These include the implementation of a “quick” bid process for calls under \$50,000 and the preparation of templates for Request for Proposals (RFP's) and Request for Quotations (RFQ's). PMMD has also been assisting Accounting Services in delivering the Purchasing Card program. It is expected that the impact of these initiatives will likely be reflected in the 2006 and 2007 performance indicators.

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### **SIGNATURE**

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Cam Weldon  
Treasurer