



**STAFF REPORT
INFORMATION ONLY**

**Quarterly Treasurer’s Report on Activities of the
Accounting Services and the Purchasing & Materials
Management Divisions – December 31, 2006**

Date:	March 21, 2007
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2007\Internal Services\acc\gm07008acc (AFS# 3402)

SUMMARY

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 for the year ended December 31, 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 a quarterly report to the Audit Committee, in chart form, on performance indicators for the Purchasing and Materials Management Divisions. This report was sent to the July 12, 2005 Audit Committee meeting with the recommendation that this information be reported to the General Management Committee (formerly 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 the Committee on a quarterly basis at the same time the budget variance reports are submitted. This is the seventh report submitted and covers the year ended December 31, 2006 and has been expanded to include a summary of key activities and initiatives of the Accounting 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, 2006 is presented in the table below with comparatives as at December 31, 2005.

	December 2006 (\$000)	December 2005 (\$000)
Cash and Short-term Investments	39,667	33,885
Accounts Receivable	686,393	746,544
Property Taxes Receivable	221,617	266,735
Other Assets	1,716	1,325
Investments	2,562,934	2,298,192
Notes Receivable – Toronto Hydro	980,231	980,231
Receivables from Toronto School Board	49,707	58,021
Investment in GBE's	1,012,567	1,012,567
TOTAL FINANCIAL ASSETS	5,554,832	5,397,500
Accounts Payable and Accruals	1,636,482	1,706,863
Deferred Revenue	793,022	805,993
Other Liabilities	258,587	214,437
Landfill Post Closure Liabilities	128,724	125,025
Net Long Term Debt	2,211,908	1,963,469
Employee Liabilities	1,894,658	1,803,447
TOTAL LIABILITIES	6,923,381	6,619,234

	December 2006 (\$000)	December 2005 (\$000)
NET FINANCIAL ASSETS	(1,368,549)	(1,221,734)
Inventories and Prepaid	70,154	64,536
NET LIABILITIES	(1,298,395)	(1,157,198)
Operating Fund	2,186,011	2,170,425
Capital Fund	(188,553)	(224,530)
Reserves and Reserve Funds	1,049,799	890,896
TOTAL FUNDS	3,047,257	2,836,791
AMOUNTS TO BE RECOVERED		
From Reserves and Reserve Funds on Land	(289,641)	(283,287)
From Future Revenues	(4,056,011)	(3,710,702)
Total Amounts to be Recovered	(4,345,652)	(3,993,989)
TOTAL MUNICIPAL POSITION	(1,298,395)	(1,157,198)

This Statement of Financial Position (Balance Sheet) is prepared on an unconsolidated basis and does not include the accounts of approximately eighty of the City's agencies, boards and commissions and is subject to year-end audit adjustments.

Balances as at December 31, 2006 for investments in Government Business Enterprises, are unchanged from 2005 year-end balances as entries related to these accounts have not been finalized since the annual audit and year-end procedures are still underway.

The total net municipal position continues to be in negative position and has increased slightly over the balance at December 31, 2005, due to the increase in Long-term Liabilities to be recovered from future revenues. These long-term liabilities relate to increase in Employee Benefit Liabilities and Landfill Post Closure Liabilities. The municipal fund position is negative because sufficient funds have not been set aside to match these long-term liabilities since it is anticipated that these liabilities will come due over a very extended period of time (rather than all at once) and will be funded as they become due. The accounting requirement to recognize these liabilities is a relatively new Financial Reporting requirement and this funding practice for these types of liabilities is consistent among Canadian municipalities and not unique to the City of Toronto.

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. 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 avoid late payment interests 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

For the year 2006, 89% of the City's vendor invoices/AP interfaces were paid within the City's standard payment term of sixty days.

	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
Invoices processed	317,233	130,321	26,989	20,631	9,520
2006 annual	63%	26%	5%	4%	2%
2005 annual	59%	29%	6%	4%	2%
2004 annual	62%	24%	7%	5%	2%

- Total percentage of invoices/interfaces paid to city vendors in 2006 within 60 days is 89% vs. 88% in 2005.

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 annual	\$ 626,702	\$136,355	\$3,252
2005 annual	\$ 390,000	\$ 117,121	\$ 8,885
2004 annual	\$ 119,000	\$ 280,000	\$ 9,945

- Total dollar value of invoices processed in 2006 is \$2.7 billion.
- There has been a \$236,702 (61%) increase in the total amount of early payment discounts captured last year.
- Discount capture rate for the year was 82%. 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. With this specific vendor excluded, the 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 compared to 2005 and 2004. Total late payment charges paid in the amount of \$3,252 are very minor in relation to the 327,000 invoices processed, representing a dollar value of \$2.7 billion in 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 year 2006 totalling \$1.15 billion (representing 4,100 vendors) which is significantly higher than 2005 levels. In 2006, 19 % of payments made by the City are now through direct deposit (6% in 2005). The success of this program continues to build as vendors continue to show interest and are converted over to direct deposit at each payment cycle.

A summary of the activity for the year 2006 is provided below:

	Amount Paid (in \$millions)	# of Direct Deposit Payments	Total all Payments in the period	% of Payments made by Direct Deposit
Full year 2006	\$1,151.0	44,039	231,899	19.0%
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 and as of December 31, 2006, 761 cards have been issued. The table below summarizes the P-Card purchases during the year ended December 31, 2006.

	#of transactions	Total Dollar Value (\$million)
12 months of 2006	9,675	2.037
2 nd 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).

As of December 31, 2006, seventeen divisions are participating in the P-Card Program with the largest users being Parks, Recreation and Forestry, Toronto Water, Emergency and Medical Services, Solid Waste and City Clerk.

In the first quarter of 2007, the other divisions such as Homes for the Aged, Technical Services and Auditor General's Office will be joining the P-Card Program.

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 the Accounting Services Division in conjunction with program divisions which established corporate standards and guidelines.

The table below provides the Miscellaneous Aged Accounts Receivable Listing as of December 31, 2006.

AGED ACCOUNTS RECEIVABLE					
As at December 31, 2006					
			Aging as of December 31st, 2006		
	Total as of Dec 31st, 2005	Total as of Dec 31st, 2006	From 0 to 30	From 31 to 180	From 181
<i>CITIZEN FOCUSED SERVICES A</i>					
Parks Program Registration	3,623	3,492	1,187	1,152	1,153
Parks Other Services & Programs	7,706	6,965	2,877	392	3,696
Emergency Medical Services	556	341	190	143	8
Public Health	23	28	2	2	24
Former CNS Programs	1,178	191	134	40	17
<i>CITIZEN FOCUSED SERVICES B</i>					
Municipal Licensing & Standards	322	127	24	25	78
Fire	1,174	1,802	174	1,514	114
Transportation	8,835	14,535	7,010	5,815	1,710
Solid Waste Management	9,544	8,605	6,913	425	1,267
Water Pollution	2,720	2,995	2,410	451	134
Water Services	5,187	8,308	7,947	201	160
Technical Services	636	300	290	1	9
<i>INTERNAL FOCUSED SERVICES</i>					
Facilities and Real Estate	1,579	2,135	825	160	1,150
Other Corporate Divisions	2,521	1,667	317	295	1,055
Pension Admin & Employee/Retiree Benefits	1,858	1,743	84	46	1,613
Totals	47,462	53,234	30,384	10,662	12,188
Aging at December 31, 2006		100%	57%	20%	23%
Aging at December 31, 2005	100%		55%	16%	28%

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 December 31, 2006, the miscellaneous accounts receivable balance was \$53.2 million (\$47.5 million at December 31, 2005), of which \$30.3 million or 57% (\$26.1 million or 55% at December 31, 2005) 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 \$12.8 million or 23% (\$13.3 million or 28% at December 31, 2005) 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. This report indicates that the aging of accounts receivable has improved as compared to 2005 year-end balances.

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. In cases where collection efforts have been exhausted, an annual staff report recommending the amounts to be written off (over \$10,000) is prepared and presented to Council for approval. This report entitled “2006 Accounts Receivable Write-off” which is also going forward to the April 12, 2007 General Management Committee meeting, recommends that \$619,000 of the \$12.8 million outstanding for more than 180 days at December 31, 2006 be written off, effective immediately.

Accounting Services staff continues to work with divisions and Legal Services to ensure that these outstanding amounts are collected and the City’s financial exposure is minimized.

Commodity Tax Recoveries

The Tax Compliance Unit of the Accounting Services Division identified and processed commodity tax recoveries in the year 2006 totaling \$3.65 million. The amounts and programs ultimately being credited with these recoveries are listed below:

Cost Centre	Activity	Amount (\$000)
Non-program	CPP refund for the specific period from Jan 1, 2002 to March 17, 2003, re seasonal employees	421.4
Legal	GST/PST claims from reviewing the payments to one consultant from 2003 to 2006	3.0
Non-program	GST claim on Adjuster’s Trust reimbursement	16.7
Non-program	GST claim on the contract settlement payment to a specific vendor	532.6
	Total this quarter	973.7
	Total year to date	3,647.5

Purchasing and Materials 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 December 31st of 2006 are provided in the Table below.

The number of calls issued during the year has 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 was added in the 2006 budget in part to reach that target.

PMMD Performance Indicators Year to Date as of December 31, 2006					
Indicator	2002	2003	2004	2005	2006
Calls Issued	2,223	2,164	1,991	1,900	1,819
Average # of calls per buyer	91	88	81	73	70
Purchase Requisition to PO average cycle time	36.27	31.73	32.52	36.41	34.48
Purchase Orders:					
Issued	2,279	2,344	1,977	1,841	1,721
Dollar value ('000s)	\$473,478	\$430,754	\$346,218	\$408,105	\$536,269
Blanket Contracts:					
Issued	1,575	1,647	1,198	1,116	877
Dollar value ('000s)	\$508,995	\$661,976	\$526,984	\$723,313	\$472,274
Total dollar value processed by PMMD ('000s)	\$982,473	\$1,092,730	\$873,202	\$1,131,418	\$1,008,543
Average cost to purchase \$100 of goods and services	\$0.24	\$0.21	\$0.30	\$0.24	\$0.29
Divisional Purchase Orders:					
Issued	65,487	77,144	79,597	88,099	80,091
Dollar value ('000s)	\$66,402	\$72,637	\$74,820	\$80,819	\$74,846
Stores					
Dollar value purchased (000s)	\$8,512	\$11,517	\$8,566	\$7,668	\$6,885
Dollar value issued (' 000s)	\$7,932	\$9,202	\$8,183	\$7,590	\$6,850
Turnover rate	2.41	2.89	3.25	4.85	4.5

The number of Blanket Contracts issued has also decreased and is primarily the result of more consolidation of orders 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 with a 2006 average of 29 cents and is largely influenced by the dollar value of orders processed. The cycle time to process an order ranges from approximately 32 days to approximately 36 days with a 2006 average of 34.48 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 Divisional Purchase Orders (DPOs) has decreased and can be attributed to the use of:

Schedule A, which is a list of expenditures that do not require the issuance of a DPO/Purchase Order before payment can be made, such as Utilities, Federal, Provincial and Municipal mandated programs and TCC tokens; an informal bid process for calls under \$50,000; and regular analysis of procurement activity to identify Blanket Contract opportunities

Additionally, 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 has started 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 further reduction in usage of DPO's in 2007.

With respect to stores, inventory turnover has improved since 2002 due to better management of the orders and distribution system. The final turnover rate for 2006 is 4.5 and is comparable to the turnover rate for 2005.

Other Purchasing & Materials Management Division Activities

PMMD staff has 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 2007 performance indicators.

CONTACT

Mo Lewis
Director, Accounting Services
Tel: (416) 397-4438
Fax: (416) 392-8003
Email: molewis@toronto.ca

Lou Pagano
Director, Purchasing and Management
Management Division
Tel: (416) 392-7312
Fax: (416) 392-0801
Email: lpagano@toronto.ca

SIGNATURE

Cam Weldon
Treasurer