



## STAFF REPORT INFORMATION ONLY

### 2006 Annual Report on Sole Source Purchasing Activity

<b>Date:</b>	March 14, 2007
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\pmmd\gm07009pmmd (AFS #2335)

#### SUMMARY

---

This report informs the Government Management Committee on the purchasing activities of City divisions in the area of sole source purchasing exceeding the Divisional Purchase Order (DPO) limit of \$7,500.00 for the year 2006 and to provide an analysis of the Sole Source purchases for City divisions. Staff will continue to monitor these purchases with divisions to keep them to a minimum and where possible use the formal competitive process to avoid purchasing through Sole Source.

This report also addresses the checks and balances in place to ensure fairness in awarding Sole Source contracts and ensure the City obtains the best possible price for goods/services purchased on a Sole Source basis.

#### Financial Impact

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

---

#### DECISION HISTORY

The Auditor General in his recommendations from Report No. 1, Clause 8 of the Audit Committee, as adopted by the Council of the City of Toronto at its meeting held on April 14, 15 and 16, 2003 regarding a review of the City's procurement process stated in recommendation 30(ii) that:

*30. The Chief Financial Officer and Treasurer:*

*(ii) report annually to the Administration Committee outlining, by department:*

- *all single source purchases exceeding the Departmental Purchase Order limit and reasons therefore;*
- *percentage of purchase orders processed through the Purchasing Division using single source as justification;*
- *all instances where purchase orders have been issued after the fact.*

City Council at the meeting on July 25th, 26th, 27th, 2006 requested that the City Manager and Deputy City Manager and Chief Financial Officer to report on the process of sole sourcing and checks and balances that are in place to ensure fairness and recommend any changes to the City's Purchasing Policies to ensure the City obtains the best price for goods and services while encouraging competition in the marketplace.

This consolidated report provides the information requested.

## **ISSUE BACKGROUND**

The terms *single* source and *sole* source are often used interchangeably, however, in procurement terminology, they mean different things and the distinction is important.

*Single* source procurement is a non-competitive purchase where there is only one supplier of a product or service and as a result a competitive quotation process is simply not possible. Examples include utility purchases, TTC tokens and suppliers mandated by the Provincial government. Many of the single source situations are now covered by Schedule A of the new Financial Control By-law which lists goods and services that do not have to go through the competitive bid process.

*Sole* source procurement is a non-competitive purchase where there are other suppliers of the product or service available, however for reasons such as emergency, proprietary, matching existing equipment, health and safety concerns, time constraints, etc, the procurement is sourced to a specific vendor. Examples include software purchases, maintenance agreements for software, equipment, parts which if not followed void manufacturers warranty.

Staff have interpreted the recommendation of the Auditor General to mean that staff should report to Committee on *sole* source purchase situations only where competition is available but for reasons explained above the purchase was sole sourced without competition.

## **COMMENTS**

### **Sole Source Process Checks and Balances**

In accordance with the Procurement Process Policy approved by Council in July 2004, and the procedure for Sole Source or Non-Competitive Procurement, City staff must complete a Sole Source form each time they wish to purchase using this process. The form must provide a clear and detailed explanation as to why the purchase must be made through this procurement process. Each form is sent to Purchasing and Materials Management (PMMD) for review before forwarding to the Division Head for final approval. Once reviewed by PMMD, the Sole Source form is then signed by the Section Head and the Division Head. PMMD will not create a formal purchase document (i.e. Purchase Order or Blanket Contract) until the signed original Sole Source form is received together with a signed and authorized Requisition form. This strict adherence to the procedures ensures that Sole Source purchases have the support of the Division Head before processing the purchase.

During the PMMD review process, PMMD:

- ensures detailed explanation is provided for the Sole Source purchase;
- ensures sole sourcing is the correct purchasing method to obtain the needed goods and/or services;
- suggests other methods to obtain the goods and/or services if sole sourcing is judged not to be the best method; and
- where possible, confirms price is in accordance with current market conditions and price offered to other customers.

On a quarterly basis, divisions are provided with statistical reports indicating the total number, total value and purchase category for their Sole Source purchases in order to review their Sole Source activity to keep it to a minimum.

Utilizing the checks and balances outlined above, PMMD ensures that there is adequate justification for each Sole Source purchase and the City is obtaining the best possible price for goods/services purchased on a Sole Source basis.

As the current process ensures that there is adequate justification and approvals before Sole Source purchases can be made, no change to the City's Purchasing Policies is recommended .

### **Sole Source Activity**

The following four tables provide information regarding the 2006 Sole Source activity exceeding the Divisional Purchase Order (DPO) limit of \$7,500. The first table provides a summary of Sole Source activity by purchase category and the second table provides the same activity by cluster. (Attachment 1 to this report provides a summary of the activity by division.) Table three provides a comparison of Sole Source Activity Year

2005 vs Year 2006 and Table 4 provides a comparison of Sole Source Activity with Overall Purchasing Activity.

Table 1 Summary of 2006 Sole Source Purchase Activity by Category

Sole Source Purchase Category	Purchase Orders (PO)	Blanket Contract (BC)	Total POs & BCs	Total Value
Emergency	69	5	74	\$7,339,326.00
Proprietary	153	56	209	\$15,740,756.82
Utilities	2	0	2	\$87,701.46
Match Existing Equipment	30	3	33	\$2,246,887.27
Health & Safety Issues	23	2	25	\$2,974,531.25
Time Constraints	79	13	92	\$7,438,556.38
Other Reasons	78	50	128	\$16,732,051.81
<b>Total</b>	<b>434</b>	<b>129</b>	<b>563</b>	<b>\$52,559,810.99</b>

The types of goods and services being sole sourced include: technology and software, legal and professional advice, emergency repairs, training services, security services, publications and catering.

Table 2 Summary of 2006 Sole Source Purchase Activity by Cluster

Cluster	Purchase Orders (PO)	Total Value – PO	Blanket Contract (BC)	Total Value – BC	Cumulative POs & BCs Issued	Cumulative PO and BC Total
Auditor General's Office	1	\$16,740.00	0	\$0.00	1	\$16,740.00
City Manager	10	\$440,573.13	3	\$270,000.00	13	\$710,573.13
A – Citizen Focused Services	129	\$5,874,883.47	50	\$6,636,437.77	179	\$12,511,321.24
B – Citizen Focused Services	196	\$16,168,299.84	48	\$12,399,195.65	244	\$28,567,495.49
C – Internal Services	73	\$5,763,215.83	16	\$2,259,580.00	89	\$8,022,795.83
Other Programs	25	\$1,741,041.33	12	\$989,843.97	37	\$2,730,885.30
<b>Totals</b>	<b>434</b>	<b>\$30,004,753.60</b>	<b>129</b>	<b>\$22,555,057.39</b>	<b>563</b>	<b>\$52,559,810.99</b>

Table 3 – Comparison of Sole Source Activity Year 2005 vs Year 2006

Cluster	Total PO & Blanket Contracts issued in 2005	Total PO & Blanket Contracts issued in 2006	Percent Change Year 2006 from Year 2005	Total Value of PO & Blanket Contracts issued in 2005	Total Value of PO & Blanket Contracts issued in 2006	Percent Change Year 2006 from Year 2005
Auditor General's Office	0	1	100.00%	\$0.00	\$16,740.00	100.00%
City Manager	33	13	-60.61%	\$1,386,519.27	\$710,573.13	-48.75%

Cluster	Total PO & Blanket Contracts issued in 2005	Total PO & Blanket Contracts issued in 2006	Percent Change Year 2006 from Year 2005	Total Value of PO & Blanket Contracts issued in 2005	Total Value of PO & Blanket Contracts issued in 2006	Percent Change Year 2006 from Year 2005
A- Citizen Focused Services	210	179	-14.76%	\$14,201,755.52	\$12,511,321.24	-11.90%
B – Citizen Focused Services	271	244	-9.96%	\$28,478,492.78	\$28,567,495.49	0.31%
C – Internal Focused Service	105	89	-15.24%	\$10,711,721.40	\$8,022,795.83	-25.10%
Other Programs	23	37	60.87%.	\$822,873.88	\$2,730,885.30	231.87%
Totals	642	563	-12.31%	\$55,601,362.85	\$52,559,810.99	-5.47%

The 2006 total of 563 Sole Source purchases represents a decrease of approximately 12.31% when compared to the 2005 total of 642 Sole Source purchases. This decrease can be attributed to PMMD’s effort in providing corporate courses and training sessions on the purchasing process, consolidating purchases by issuing more Corporate contracts to City divisions and providing quarterly statistical reports to Divisions for review and monitoring in an effort to keep their Sole Source activity to a minimum.

The following table is a comparison of the overall Purchase Orders and Blanket Contracts issued by PMMD for City divisions in 2006 with those that were sole sourced.

Table 4 Comparison of 2006 Sole Source Activity with Overall Purchasing Activity

	PO and BC in 2006	Sole Source PO and BC in 2006	Percentage of PO/BC through Sole Source Process	Sole Source PO and BC Issued after the Fact*	Sole Source Percentage Issued after the Fact*
Total Number	2,428	563	23.19%	22	.91%
Dollar Value	\$999,622,691.82	\$52,559,810.99	5.26%	\$915,228.07	.09%

\* In these cases, goods were received and a purchase order or blanket contract had to be issued for payment to be made.

The 2006 total number of Sole Source Purchase Orders and Blanket Contracts issued after the fact is 22 which represents a decrease from the 2005 total of 46. This can be attributed to the use of:

- Schedule A, which is a list of expenditures that do not require the issuance of a 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.

The sole source process is controlled through a formal process to obtain the necessary approvals and justification before issuing the purchase order or blanket contract. This process has been documented in the Purchasing procedures and communicated to City staff through training sessions conducted by PMMD and posting the procedures on our Internet web site.

During the review of the 2006 Sole Source activity, it has been determined that only 5.26% of the total dollar value of all Purchase Orders and Blanket Contracts were issued using the Sole Source process. Only .91% of the total number of Purchase Orders and Blanket Contracts were issued after the fact, representing .09% of total dollar value of purchases in 2006.

PMMD will continue to work with divisions to keep Sole Sources to a minimum and where possible using the formal competitive process to avoid purchasing through Sole Source.

## **CONTACT**

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

## **SIGNATURE**

---

Cam Weldon  
Treasurer

## **ATTACHMENTS**

Attachment 1: Sole Source Activity by Division

**Attachment 1**  
Sole Source Activity by Division

<b>Division</b>	<b>Purchase Orders (PO)</b>	<b>Total Value – PO</b>	<b>Blanket Contract (BC)</b>	<b>Total Value – BC</b>	<b>Cumulative POs &amp; BCs Issued</b>	<b>Cumulative PO and BC Total</b>
Auditor General's Office	1	\$16,740.00	0	\$0.00	1	\$16,740.00
<b>City Manager - Shirley Hoy</b>						
City's Manager's Office	6	\$215,927.52	1	\$10,000.00	7	\$225,927.52
Executive Management	0	\$0.00	0	\$0.00	0	\$0.00
Human Resources	4	\$224,645.61	2	\$260,000.00	6	\$484,645.61
Internal Audit	0	\$0.00	0	\$0.00	0	\$0.00
Strategic & Corporate Policy	0	\$0.00	0	\$0.00	0	\$0.00
<b>Cluster A Deputy City Manager - Sue Corke</b>						
3-1-1 Project Office	0	\$0.00	0	\$0.00	0	\$0.00
Affordable Housing Office	0	\$0.00	0	\$0.00	0	\$0.00
Children's Services	6	\$160,109.03	1	\$93,213.12	7	\$253,322.15
Court Services	0	\$0.00	0	\$0.00	0	\$0.00
Economic Development, Culture & Tourism	15	\$755,390.40	0	\$0.00	15	\$755,390.40
Emergency Medical Services	5	\$79,530.27	13	\$1,574,514.00	18	\$1,654,044.27
Homes for the Aged	22	\$748,411.31	17	\$765,781.66	39	\$1,514,192.97
Parks, Forestry & Recreation	22	\$1,654,722.28	8	\$2,519,921.99	30	\$4,174,644.27
Public Health	47	\$2,213,792.19	4	\$936,000.00	51	\$3,149,782.19
Shelter, Support & Housing Administration	7	\$108,820.20	7	\$747,007.00	14	\$855,827.00
Social Development, Finance & Administration	2	\$26,000.00	0	\$0.00	2	\$26,000.00
Social Services	3	\$128,117.79	0	\$0.00	3	\$128,177.79
<b>Cluster B Deputy City Manager - Richard Butts</b>						
Building	0	\$0.00	0	\$0.00	0	\$0.00
City Planning	9	\$538,232.00	0	\$0.00	9	\$538,232.00
Clean & Beautiful Secretariat	0	\$0.00	0	\$0.00	0	\$0.00
Fire Services	33	\$1,841,124.97	8	\$708,085.50	41	\$2,549,210.47
Municipal Licensing & Standards	1	\$75,000.00	0	\$0.00	1	\$75,000.00
Policy, Planning, Finance & Administration	3	\$72,835.65	4	\$530,534.88	7	\$603,370.53
Solid Waste Management	14	\$600,443.49	8	\$1,694,950.98	22	\$2,295,394.47

<b>Division</b>	<b>Purchase Orders (PO)</b>	<b>Total Value – PO</b>	<b>Blanket Contract (BC)</b>	<b>Total Value – BC</b>	<b>Cumulative POs &amp; BCs Issued</b>	<b>Cumulative PO and BC Total</b>
Technical Services	19	\$920,857.19	6	\$1,115,859.20	25	\$2,036,716.39
Toronto Water	82	\$8,170,588.02	12	\$7,308,258.09	94	\$15,478,846.11
Transportation Services	34	\$3,926,456.52	10	\$1,041,507.00	44	\$4,967,963.52
Waterfront Secretariat	1	\$22,762.00	0	\$0.00	1	\$22,762.00
<b>Cluster C Internal Services Deputy City Manager &amp; Chief Financial Officer - Joseph Pennachetti</b>						
Accounting Services	4	\$463,400.00	0	\$0.00	4	\$463,400.00
Chief Corporate Officer	0	\$0.00	0	\$0.00	0	\$0.00
Corporate Communications	1	\$20,000.00	0	\$0.00	1	\$20,000.00
Corporate Finance	9	\$947,753.60	2	\$170,160.00	11	\$1,117,913.60
Facilities & Real Estate	26	\$2,210,997.72	0	\$0.00	26	\$2,210,997.72
Finance & Administration	1	\$28,080.00	0	\$0.00	1	\$28,080.00
Financial Planning	1	\$120,000.00	4	\$811,000.00	5	\$931,000.00
Fleet Services	9	\$249,272.33	7	\$868,420.00	16	\$1,117,692.33
Information & Technology	17	\$1,471,705.70	1	\$110,000.00	18	\$1,581,705.70
Pension, Payroll & Employee Benefits	3	\$96,616.80	0	\$0.00	3	\$96,616.80
Purchasing & Materials Management	0	\$0.00	0	\$0.00	0	\$0.00
Revenue Services	1	\$17,389.68	2	\$300,000.00	3	\$317,389.68
Special Projects	1	\$138,000.00	0	\$0.00	1	\$138,000.00
Treasurer	0	\$0.00	0	\$0.00	0	\$0.00
<b>Other:</b>						
City Clerk's Office	21	\$1,329,306.13	1	\$21,280.00	22	\$1,350,586.13
Legal Services	4	\$411,735.20	11	\$968,563.97	15	\$1,380,299.17
<b>Total</b>	<b>434</b>	<b>\$30,004,753.60</b>	<b>129</b>	<b>\$22,555,057.39</b>	<b>563</b>	<b>\$52,559,810.99</b>