



## STAFF REPORT INFORMATION ONLY

### Quarterly Treasurer's Report on Activities of the Accounting Services and the Purchasing & Materials Management Divisions – March 31, 2007

<b>Date:</b>	May 29, 2007
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\acc\gm07011acc (AFS # 3404)

#### **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 (PMMD).

This report provides a brief analysis of the performance indicators for Accounting Services and the Purchasing and Materials Management Divisions for the 1<sup>st</sup> quarter of 2007. 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 as a result of this report.

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#### **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 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 Division. This report was sent to the July 12, 2005 Audit Committee meeting with the recommendation that this information be reported to the Government 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 eighth report submitted and covers the 1<sup>st</sup> quarter of 2007 ending March 31, 2007 and has been expanded to 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 March 31, 2007 is presented in the table below with comparatives as at March 31, 2006.

<b>City of Toronto Statement of Financial Position</b>		
<b>City Only</b>		
	<b>March 2007 (\$000)</b>	<b>March 2006 (\$000)</b>
Cash and Short-term Investments	229,111	16,165
Accounts Receivable	347,625	662,241
Property Taxes Receivable	1,609,475	1,582,237
Other Assets	2,364	722
Investments	2,602,390	2,252,164
Notes Receivable – Toronto Hydro	980,231	980,231
Receivables from Toronto School Board	49,707	58,021
Investment in GBE'S	1,134,187	1,012,567
<b>Total Financial Assets</b>	<b>6,955,090</b>	<b>6,564,348</b>
Accounts Payable and Accruals	1,560,201	1,655,704
Deferred Revenue	1,241,737	996,534
Other Liabilities	178,371	193,675
Landfill Post Closure Liabilities	128,724	125,025
Net Long Term Debt	2,211,905	1,963,469
Employee Liabilities	1,894,657	1,803,447
<b>Total Liabilities</b>	<b>7,215,595</b>	<b>6,737,854</b>

<b>Net Financial Assets</b>	(260,505)	(173,506)
Inventories and Prepaid expenses	2,700	64,659
<b>Net Liabilities</b>	<b>(257,805)</b>	<b>(108,847)</b>
Operating Fund	3,160,192	3,353,531
Capital Fund	(212,338)	(368,417)
Reserves and Reserve Funds	1,092,200	900,028
<b>Total Funds</b>	<b>4,040,054</b>	<b>3,885,142</b>
Amounts to be recovered from:		
Reserves and Reserve Funds on hand	(289,641)	(283,287)
Future Revenues	(4,008,218)	(3,710,702)
Total Amounts to be Recovered	(4,297,859)	(3,993,989)
<b>Total Municipal Position</b>	<b>(257,805)</b>	<b>(108,847)</b>

This Statement of Financial Position (Balance Sheet) is prepared on an unconsolidated basis and does not include the accounts of eighty-eight of the City's agencies, boards and commissions (ABCs).

The decrease in Accounts Receivable is the result of timing differences in the accrual and receipt of government subsidies. Increases in cash and investments are the result of favourable 2006 operating results and a debenture issue in November 2006.

The total net municipal position continues to be in negative position and has increased over the balance at March 31, 2006, due to the increase in liabilities to be recovered from future revenues. The increase in liabilities was driven by a net increase in debentures issued in 2006 and by increases to the employee benefit liabilities. Limited funding has been set aside for these liabilities as they come due over an extended period of time and are to be funded as they come due.

### **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**

In the first 3 months of 2007, 91.3% of the City’s vendor invoices/accounts payable related interfaces were paid within the City’s standard payment term of 60 days.

	<b>0 – 30 days</b>	<b>31 – 60 days</b>	<b>61 – 90 days</b>	<b>91 – 180 days</b>	<b>180+ days</b>
No. of Invoices processed	71,522	14,158	3,507	3,320	1,410
2007 – March 31 <sup>st</sup>	76.2%	15.1%	3.7%	3.5%	1.5%
2006 – March 31 <sup>st</sup>	74.0%	16.0%	4.0%	3.0%	2.0%

- A 2.2% improvement in payments processed within 30 days from the same time last year.
- A 1.3% improvement in payments processed within 60 days from the same time last year.

**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, it is the City’s standard that the discount period cannot be less than 15 days.

	<b>Discounts Earned</b>	<b>Discount Capture Rate</b>	<b>Discounts Missed</b>	<b>Late Payment Penalties Paid</b>
2007 – March 31 <sup>st</sup>	\$ 180,039	76%	\$ 58,355	\$3,432
2006 – March 31 <sup>st</sup>	\$ 131,912	76%	\$ 41,016	\$ 2,220

The Corporate Accounts Payable unit in the Accounting Services Division, along with city divisions/programs continue to actively pursue all early payment discounts offered by city vendors. Since April 2005, when active efforts were put in place, the City has captured \$1.2 million in early payment discounts. There has been a 37% increase in the amount of early payment discounts captured for the same period last year. In addition, with the collaboration of PMMD, the number of vendors offering early payment discounts has increased by 108% from last year. There are now 391 vendors participating in this program.

With more vendors participating in the early payment discount program, the increased volume of time sensitive invoices has been a challenge. The Corporate Accounts Payable unit has been working with divisions/programs with an assertive follow up process on discount invoices, sharing performance statistics on a quarterly basis by division/program, identifying areas of concern (where discounts are being missed) and looking for ways to improve workflow in order to process payments in the most efficient manner. In order to reduce the payment cycle and increase early payment discounts the Corporate Document Management System and Accounts Payable Invoice Imaging project which will allow for electronic routing and approval of invoices is well underway and is expected to be implemented in the 1<sup>st</sup> quarter of 2008.

Late payment charges paid in the amount of \$3,432 are very minor in relation to the 93,917 invoices processed, representing a dollar value of \$1.3 billion during the 1<sup>st</sup> quarter of 2007.

### **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) and 19 % (6% in 2005) of payments made by the City. The success of this program continues to build as vendors continue to show interest and are converting over to direct deposit each payment cycle. During the 1<sup>st</sup> quarter of 2007, the number of vendors on direct deposit increased to 5,450, representing 30% of vendor payments and 48% of dollar value paid during the period.

A summary of the activity for the 1<sup>st</sup> quarter of 2007 is provided below:

	<b>Amount Paid By Direct Deposit (in \$millions)</b>	<b># of Direct Deposit Payments</b>	<b>Total all Payments in the period</b>	<b>% of Payments made by Direct Deposit</b>
<b>1<sup>st</sup> Quarter 2007</b>	<b>\$657</b>	<b>22,305</b>	<b>73,420</b>	<b>30%</b>
1 <sup>st</sup> Quarter 2006	\$71	4,415	56,074	8%

## Purchasing Card (P-Card) Program

The P-Card program was launched in June 2005 and as of March 31, 2007, 812 cards have been issued. The table below summarizes the P-Card purchases during the 1<sup>st</sup> quarter ended March 31, 2007.

	#of transactions	Total Dollar Value (\$)
<b>1st Quarter of 2007</b>	<b>3,989</b>	<b>642,000</b>
1st Quarter of 2006	1,733	360,000

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 PMMD. The policies and procedures are posted on the City's intranet site so it is easily accessible to all City staff for guidance and clarification of issues as they arise.

As of March 31, 2007, twenty-one divisions are participating in the P-Card Program including Parks, Recreation and Forestry, Toronto Water, Emergency and Medical Services, Solid Waste, City Clerk's and Auditor General's Office.

## 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 Aged Listing below represents amounts billed directly by City divisions where divisions are responsible for making a decision to extend credit. This excludes Police, ABC's, and property tax and water billings, federal and provincial subsidies. 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 schedule also indicates that the aging of accounts receivable at March 31, 2007 has improved as compared to March 31, 2006.

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.

<b>AGED ACCOUNTS RECEIVABLE</b>					
<b>As at March 30, 2007</b>					
<b>(\$000)</b>					
	<b>Total as of Mar 30<sup>th</sup>, 2006</b>	<b>Total as of Mar 30<sup>th</sup>, 2007</b>	<b>Aging as of March 30<sup>th</sup>, 2007</b>		
			<b>From 0 to 30</b>	<b>From 31 to 180</b>	<b>From 181</b>
<b>CITIZEN FOCUSED SERVICES A</b>					
Parks Program Registration	2,562	2,373	1,011	588	774
Parks Other Services & Programs	4,163	4,821	638	907	3,276
Emergency Medical Services	287	139	37	75	27
Public Health	23	28	0	3	25
Former CNS Programs	200	172	115	40	17
<b>CITIZEN FOCUSED SERVICES B</b>					
Municipal Licensing & Standards	308	124	(7)	63	68
Fire	823	1,054	173	805	76
Transportation	4,057	7,447	144	5,983	1,320
Solid Waste Management	3,638	4,776	296	3,040	1,440
Water Pollution	288	288	7	127	154
Water Services	2,299	1,262	2,631	(559)	(810)
Technical Services	494	156	16	140	0
<b>INTERNAL FOCUSED SERVICES</b>					
Facilities and Real Estate	1,551	1,890	169	740	981
Other Corporate Divisions	1,568	1,260	54	245	961
Pension Admin & Employee/Retiree Benefits	1,662	1,515	(40)	(121)	1,676
<b>Totals</b>	<b>23,923</b>	<b>27,305</b>	<b>5,244</b>	<b>12,076</b>	<b>9,985</b>
<b>Aging at March 30, 2007</b>		<b>100%</b>	<b>19%</b>	<b>44%</b>	<b>37%</b>
<b>Aging at March 30, 2006</b>	<b>100%</b>		<b>19%</b>	<b>22%</b>	<b>57%</b>

## Commodity Tax Recoveries

The Tax Compliance Unit (Tax Unit) of the Accounting Services Division was established in 2003, to oversee the City's commodity tax processing function, establish policies and procedures and train staff. The Tax Unit also reviews tax legislation on a regular basis, provides advice and written updates on an ongoing basis to ensure that any changes that will have impact on City operations, such as non-resident withholding tax and self assessment of GST are clearly communicated and addressed by City staff. It also ensures that appropriate forms are revised and posted in the Accounting Services Division's intranet site for use by all City staff.

The Tax Unit also identifies and processes commodity tax recovery opportunities. During the 1<sup>st</sup> quarter of 2007, \$185,000 of commodity tax recoveries were processed.

### **Payee Match Program**

Beginning in January 2007, the Accounting Services Division, implemented payee match software, in conjunction with the City's bank. This program allows the payee (vendor or entity to whom the City is making payment), 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 that time the cheque is presented to the bank for payment. This allows cheques that have been fraudulently altered to be detected prior to the 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. To date, this process has detected over \$200,000 worth of physically altered cheques.

### **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 2006 and the statistics for the period January 1 to March 31, 2007 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 Indicator Year to Date as of -March 31, 2007						
Indicator	2002	2003	2004	2005	2006	Jan 1 – Mar 31, 2007
Calls Issued	2,223	2,164	1,991	1,900	1,819	390
Average # of calls per buyer	91	88	81	73	70	13
Purchase requisition to PO average cycle time	36.27	31.73	32.52	36.41	34.48	39.95
<b>Purchase Orders:</b>						
Issued	2,279	2,344	1,977	1,841	1,721	320
Dollar value ('000s)	\$473,478	\$430,754	\$346,218	\$408,105	\$536,269	\$53,560
<b>Blanket Contracts:</b>						
Issued	1,575	1,647	1,198	1,116	877	236
Dollar value ('000s)	\$508,995	\$661,976	\$526,984	\$723,313	\$472,274	\$100,191
Total dollar value processed by PMMD ('000s)	\$982,473	\$1,092,730	\$873,202	\$1,131,418	\$1,008,543	\$153,751
Average cost to purchase \$100 of goods and services	\$0.24	\$0.21	\$0.30	\$0.24	\$0.29	\$0.50
<b>Divisional Purchase Orders:</b>						
Issued	65,487	77,144	79,597	88,099	80,091	19,837
Dollar value ('000s)	\$66,402	\$72,637	\$74,820	\$80,819	\$74,846	\$16,924
<b>Stores</b>						
Dollar value purchased (000s)	\$8,512	\$11,517	\$8,566	\$7,668	\$6,885	\$1,595
Dollar value issued ('000s)	\$7,932	\$9,202	\$8,183	\$7,590	\$6,850	\$1,699
Turnover rate	2.41	2.89	3.25	4.85	4.5	1.02

The annual average cost to purchase \$100 of goods and services ranged from \$0.21 in 2003 to \$0.29 in 2006. For the first 3 months of 2007 the cost is \$0.50, which is an average from January 1 to March 31, 2007, not an annual average cost, and is largely influenced by the dollar value of orders processed. The 1<sup>st</sup> quarter amount of \$0.50 is expected to decline by the fourth quarter to the range experienced in prior years.

The annual average cycle time to process an order ranges from approximately 32 days to approximately 35 days for the years 2003 to 2006. For the first 3 months of 2007, the average cycle time is 39.95 days. It is expected that the 2007 annual average cycle time will show a decrease by end of year to the range experienced in prior years.

The number of Divisional Purchase Orders (DPOs) decreased from 2005 to 2006 and can be attributed to the use of:

- Schedule A of the Financial Control By-law, 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.

In 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. Additionally, PMMD also 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 by the end of 2007. For the 1<sup>st</sup> quarter of 2007, 19,837 DPO's were processed. The dollar value of DPO's processed in the 1<sup>st</sup> quarter of 2007 decreased by approximately \$350,000 from the same period in 2006.

With respect to stores, inventory turnover has improved since 2002 due to better management of the orders and distribution system. For the first 3 months of 2007 the turnover rate is 1.02 and it is expected that by year end the turnover rate will be 4.5.

The Warehouse Rationalization Project is almost complete. The implementation of corporate processes and conversion of tracking systems to SAP have been completed in 8 of the 14 locations included in the project, three will be converted in June and the remainder will be converted in September of this year.

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

In the first 5 months of 2007, PMMD sought and received Council's approval to increase the authority of the Bid Committee to award contracts up to \$20 million, a revision of Schedule A of the Financial Control By-law to allow additional purchases to be processed without a Purchase Order or Sole Source Request, and a revised Policy for Consultant Services which streamlines the process for hiring consultants. PMMD and Corporate I & T are working together to allow bidders to purchase and download call documents online. The project is in the testing phase and a communication plan is being developed for the expected roll out this fall. It is expected that the impact of these initiatives will 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](mailto:molewis@toronto.ca)

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

### **SIGNATURE**

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Cam Weldon  
Treasurer