



## STAFF REPORT INFORMATION ONLY

### Quarterly Treasurer's Report on Activities of the Accounting Services and the Purchasing & Materials Management Divisions – June 30, 2007

<b>Date:</b>	August 30, 2007
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\acc\gm07015acc (AFS #3405)

#### **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 first six months 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.

#### **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 ninth report submitted and covers the first six months of 2007 ending June 30, 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 June 30, 2007 is presented in the table below with comparatives as at June 30, 2006.

<b>City of Toronto Statement of Financial Position</b>		
<b>City Only</b>		
	<b>June 2007 (\$000)</b>	<b>June 2006 (\$000)</b>
Cash and Short-term Investments	12,808	28,554
Accounts Receivable	344,396	469,282
Property Taxes Receivable	2,668,976	2,511,320
Other Assets	2,375	87
Investments	2,632,533	2,641,882
Notes Receivable – Toronto Hydro	980,231	980,231
Receivables from Toronto School Board	49,707	55,708
Investment in GBE'S	1,134,188	1,012,567
<b>Total Financial Assets</b>	<b>7,825,214</b>	<b>7,699,631</b>
Accounts Payable and Accruals	1,985,926	2,014,560
Deferred Revenue	1,253,164	1,117,998
Other Liabilities	166,786	214,190
Landfill Post Closure Liabilities	128,724	125,025
Net Long Term Debt	2,154,152	1,951,473
Employee Liabilities	1,894,657	1,803,447
<b>Total Liabilities</b>	<b>7,583,409</b>	<b>7,226,693</b>

<b>Net Financial Assets</b>	241,805	472,938
Inventories and Prepaid expenses	2,103	64,311
<b>Net Assets</b>	<b>243,908</b>	<b>537,249</b>
Operating Fund	3,875,143	3,749,403
Capital Fund	(492,908)	(269,905)
Reserves and Reserve Funds	1,101,777	1,042,057
<b>Total Funds</b>	<b>4,484,012</b>	<b>4,521,555</b>
Amounts to be recovered from:		
Reserves and Reserve Funds on hand	(283,287)	(283,287)
Future Revenues	(3,956,817)	(3,701,019)
Total Amounts to be Recovered	(4,240,104)	(3,984,306)
<b>Total Municipal Position</b>	<b>243,908</b>	<b>537,249</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 total municipal position balance of \$243.9 million is in a positive position at June 30, 2007, but has decreased by \$293 million as compared to June 30, 2006. This decrease is due to the increase in Net Long-term Debt of \$203 million and a \$90 million increase in Employee Benefit Liabilities, both of which are to be recovered from future revenues. Currently, sufficient funds have not been set aside to match these long-term liabilities since it is anticipated that these liabilities will come due over an extended period of time (rather than all at once) and will be funded as they become due. This funding practice 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 minimize late payment interests and penalties. Key performance indicators for the Accounts Payable are provided in Tables 1 and 2.

### Table 1 - Payment Cycle Time

In the first six months of 2007, 90% of the City's vendor invoices/AP 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>
Invoices processed	156,011	48,783	9,957	8,816	3,773
2007 – June 30 <sup>th</sup>	69%	21%	4%	4%	2%
2006 – June 30 <sup>th</sup>	71%	19%	5%	3%	2%
2005 – June 30 <sup>th</sup>	67%	21%	6%	5%	1%

- Outstanding invoices beyond 180+ days remain “in dispute” and Corporate Accounts Payable is collectively working with respective divisions/programs and city vendors to address and resolve these items.

### 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>Discounts Missed</b>	<b>Late Payment Penalties Paid</b>
2007 – June 30 <sup>th</sup>	\$ 456,706	\$ 77,973	\$ 3,823
2006 – June 30 <sup>th</sup>	\$ 306,463	\$ 41,694	\$ 2,806
2005 – June 30 <sup>th</sup>	\$ 151,411	\$ 70,000	\$ 2,248

- Early payment discounts captured have increased by \$150,243 (49%) as compared to the previous year.
- Discounts missed increased by \$36,279 as compared to the previous year, of which \$10,000 in the second quarter relates to a specific vendor. Staff contacted the vendor in order to clarify process and to ensure that in the future payments can be made within the discount period.
- Late payment charges paid in the amount of \$3,823 are very minor in relation to the volume of 227,000 invoices processed, representing a dollar value of \$2.6 billion during the first six months of 2007. The increase in late payment fees was primarily caused by \$2,304 charges on two invoices from one vendor. Staff are reviewing this issue in order to ensure that these charges can be avoided in the future. Excluding these invoices, the late payment charges as of June 30 would have been \$1,519, well below levels experienced in previous years.

The implementation of the Corporate Document Management System and Accounts Payable Invoice Imaging project in the first quarter of 2008 is another initiative that will further enhance the Accounts Payable function.

### 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 first six months of 2007, the number of vendors on direct deposit increased to 5,642 representing 30% of vendor payments and 62% of dollar value paid during the period.

A summary of the activity for the first six months of 2007 is provided below:

	<b>Amount Paid By Direct Deposit (\$ millions)</b>	<b>Total Amount of Payments in the (\$ millions)</b>	<b>% of Dollar Value of Payments</b>	<b># of Direct Deposit Payments</b>	<b>Total all Payments in the period</b>	<b>% of Payments made by Direct Deposit</b>
<b>At June 30, 2007</b>	<b>\$1,651</b>	<b>\$2,663</b>	<b>62%</b>	<b>34,656</b>	<b>113,924</b>	<b>30%</b>
At June 30, 2006	\$331.3	\$1,661	20%	13,107	109,270	13%

### Payee Match Program

The Accounting Services Division implemented payee match software, in January 2007. This software 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. Therefore, altered cheques are 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 of cashing fraudulent cheques. To date, this process has detected over \$204,000 worth of physically altered cheques.

## Purchasing Card (P-Card) Program

The P-Card program was launched in June 2005 and as of June 30, 2007, 862 cards have been issued. The table below summarizes the P-Card activity during the first six months of 2007, as compared to 2006. Over the past year, the number of cards in circulation and number of transactions have increased by 2.5 times, and the dollar value of P-card purchases has doubled.

	# of cards issued	#of transactions	Total Dollar Value (\$000)
<b>At June 30, 2007</b>	<b>862</b>	<b>9,836</b>	<b>1,650</b>
At June 30, 2006	333	3,898	840

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 June 30, 2007, twenty-four divisions (ten divisions at June 30, 2006) 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. 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.

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. Accounting Services is also preparing a report as requested by the Audit Committee in November regarding the various deposits paid to the City. The report will provide a comprehensive list, including the purpose, amount and the policies and procedures related to the collection and refunding of deposits.

<b>AGED ACCOUNTS RECEIVABLE</b>					
<b>As at June 30, 2007</b>					
<b>(\$000)</b>					
	<b>Total as of June 30<sup>th</sup>, 2006</b>	<b>Total as of June 30<sup>th</sup>, 2007</b>	<b>Aging as of June 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	1,695	1,123	513	-	610
Parks Other Services & Programs	4,446	4,409	101	1,286	3,022
Emergency Medical Services	99	189	80	43	66
Public Health	25	32	2	3	27
Former Community and Neighbourhood Services Programs	551	273	216	-	57
<b>CITIZEN FOCUSED SERVICES B</b>					
Municipal Licensing & Standards	215	120	64	23	33
Fire	1,044	1,401	780	521	100
Transportation	4,065	2,490	212	461	1,817
Solid Waste Management	3,021	4,501	2,270	590	1,641
Water Pollution	307	535	205	151	179
Water Services	4,354	464	-	139	325
Technical Services	303	19	8	11	-
<b>INTERNAL FOCUSED SERVICES</b>					
Facilities and Real Estate	1,241	1,568	31	342	1,195
Other Corporate Divisions	2,008	1,189	33	41	1,115
Pension Administration & Employee/Retiree Benefits	1,623	1,542	-	-	1,542
<b>Totals</b>	<b>24,997</b>	<b>19,855</b>	<b>4,515</b>	<b>3,611</b>	<b>11,729</b>
<b>Aging at June 30, 2007</b>		<b>100%</b>	<b>23%</b>	<b>18%</b>	<b>59%</b>
Aging at June 30, 2006	100%		36%	17%	48%

## **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 Goods and Services Tax (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 first six months of 2007, \$333,600 of commodity tax recoveries were processed.

## **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 June 30, 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 issued per buyer annually is 30 based on a survey of other municipalities. Staff was added in the 2006 budget in part to reach that target.



Purchasing and Material Management Division (PMMD) Performance Indicator Year to Date as of June 30, 2007						
Indicator	2002	2003	2004	2005	2006	Jan 1 – Jun 30, 2007
Calls Issued	2,223	2,164	1,991	1,900	1,819	839
Average # of calls per buyer	91	88	81	73	70	28
Purchase requisition to PO average cycle time	36.27	31.73	32.52	36.41	34.48	42.74
<b>Purchase Orders:</b>						
Issued	2,279	2,344	1,977	1,841	1,721	702
Dollar value ('000s)	\$473,478	\$430,754	\$346,218	\$408,105	\$536,269	\$251,267
<b>Blanket Contracts:</b>						
Issued	1,575	1,647	1,198	1,116	877	507
Dollar value ('000s)	\$508,995	\$661,976	\$526,984	\$723,313	\$472,274	\$269,950
Total dollar value processed by PMMD ('000s)	\$982,473	\$1,092,730	\$873,202	\$1,131,418	\$1,008,543	\$521,217
Average cost to purchase \$100 of goods and services	\$0.24	\$0.21	\$0.30	\$0.24	\$0.29	\$0.30
<b>Divisional Purchase Orders:</b>						
Issued	65,487	77,144	79,597	88,099	80,091	38,851
Dollar value ('000s)	\$66,402	\$72,637	\$74,820	\$80,819	\$74,846	\$33,623
<b>Stores</b>						
Dollar value purchased (000s)	\$8,512	\$11,517	\$8,566	\$7,668	\$6,885	\$3,185
Dollar value issued ('000s)	\$7,932	\$9,202	\$8,183	\$7,590	\$6,850	\$3,365
Turnover rate	2.41	2.89	3.25	4.85	4.5	2.15

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 six months of 2007 the cost is \$0.30, which is an average from January 1 to June 30, 2007, not an annual average cost, and is largely influenced by the dollar value of orders processed. The first six months of 2007 amount of \$0.30 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 six months of 2007, the average cycle time is 42.74 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 TTC 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 first six months of 2007, 38,851 DPO's were processed. The dollar value of DPO's processed in the first six months of 2007 decreased by approximately \$1,800,000 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 six months of 2007 the turnover rate is 2.15 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 five 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.

With the approval of the City Manager, PMMD conducted pilot tests in three divisions on an increased DPO limit of \$50,000. Internal Audit assisted PMMD in the monitoring of the tests. The pilots were successful and approval has been received by the City Manager to roll out the higher limit DPO to all divisions. The rollout will be phased in over the next year to allow PMMD to train divisional staff. This initiative will allow faster purchase and delivery of smaller dollar purchases required by divisions and allow PMMD staff to focus on the larger dollar purchases by reducing the number of calls issued per Buyer.

PMMD and Corporate Information & Technology 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 2008 performance indicators.

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### **SIGNATURE**

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Cam Weldon  
Treasurer