



## STAFF REPORT INFORMATION ONLY

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

<b>Date:</b>	November 15, 2007
<b>To:</b>	Government Management Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\acc\gm07022acc (AFS #3425)

#### **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 nine 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**

This report has been sent to Council on a quarterly basis since July, 2005 as a result of several information requests about Purchasing, Accounts Receivable and Accounts Payable from the Audit Committee and the Government Management Committee (formerly the Administration Committee). All of these areas fall under the Office of the Treasurer. This report covers the first nine months of 2007 ending September 30, 2007.

## COMMENTS

### Statement of Financial Position (Unconsolidated and Unaudited)

The City's unconsolidated Statement of Financial Position (Balance Sheet) as at September 30, 2007 is presented in the table below with comparatives as at September 30, 2006.

City of Toronto Statement of Financial Position		
City Only		
	September 2007 (\$000)	September 2006 (\$000)
Cash and Short-term Investments	46,852	16,705
Accounts Receivable	318,892	324,526
Property Taxes Receivable	497,265	487,916
Other Assets	599	3,583
Investments	3,550,316	3,757,805
Notes Receivable – Toronto Hydro	980,231	980,231
Receivables from Toronto School Board	49,707	55,708
Investment in GBE'S	1,134,189	1,012,567
<b>Total Financial Assets</b>	<b>6,578,051</b>	<b>6,639,041</b>
Accounts Payable and Accruals	1,455,367	1,598,926
Deferred Revenue	1,373,091	820,496
Other Liabilities	179,951	159,827
Landfill Post Closure Liabilities	128,724	125,025
Net Long Term Debt	2,391,814	2,322,224
Employee Liabilities	1,894,657	1,803,447
<b>Total Liabilities</b>	<b>7,423,604</b>	<b>6,829,945</b>
<b>Net Financial Assets</b>	<b>(845,553)</b>	<b>(190,904)</b>
Inventories and Prepaid expenses	68,647	56,078
<b>Net Liabilities</b>	<b>(776,906)</b>	<b>(134,826)</b>
Operating Fund	3,077,938	3,069,559
Capital Fund	(416,886)	56,533
Reserves and Reserve Funds	1,039,807	1,074,299
<b>Total Funds</b>	<b>3,612,536</b>	<b>4,200,391</b>
Amounts to be recovered from:		
Reserves and Reserve Funds on hand	(297,633)	(283,287)
Future Revenues	(4,180,132)	(4,051,930)
Total Amounts to be Recovered	(4,477,765)	(4,335,217)
<b>Total Municipal Position</b>	<b>(776,906)</b>	<b>(134,826)</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 is in a negative position of \$777 million at September 30, 2007 and has increased by \$642 million as compared to September 30, 2006. The increase in the deferred revenue liability of \$553 million accounts for 70% of this increase.

The majority of the deferred revenue balance relates to money advanced by the Province to fund transit initiatives under programs such as the Canadian Strategic Infrastructure Fund (\$212 million) and the Public Transportation Capital Fund (\$148 million). These amounts are recorded as deferred revenue liability, since to date this money has not been spent and in accordance with funding criteria, if not spent on specific projects, the money must be returned to the Province. It is anticipated that by year-end that a significant amount of money will be spent on these projects and the deferred revenue liability will be much lower.

The increase in Net Long-term Debt of \$70 million and a \$91 million increase in Employee Benefit Liabilities also contribute to the increase in the negative municipal position, 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 nine months of 2007, 89% 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	228,773	75,602	16,591	13,260	5,395
2007 – September 30 <sup>th</sup>	67%	22%	5%	4%	2%
2006 – September 30 <sup>th</sup>	71%	19%	5%	3%	2%
2005 – September 30 <sup>th</sup>	67%	21%	6%	5%	1%

- Numerous invoices beyond 90+ days remain “in dispute” and Corporate Accounts Payable is working with respective Divisions and Vendors to address these items and bring final resolution.

### 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.

September 30 <sup>th</sup>	<b>Discounts Earned</b>	<b>Discounts Missed</b>	<b>Late Payment Penalties Paid</b>
<b>2007</b>	\$ 583,737	\$117,194	\$ 10,612
<b>2006</b>	\$ 446,607	\$ 104,252	\$ 3,198
<b>2005</b>	\$ 151,411	\$ 70,000	\$ 2,248

- Early payment discounts captured have increased by \$137,130 (31%) as compared to same period last year.
- Discounts missed increased by \$12,942 (12%) as compared to same period last year, of which \$10,000 (incurred 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. Excluding this one vendor, discounts missed would have increased by \$2,942 (2.8%), which is very small compared to increased discounts earned of \$137,130 to date this year.
- Late payment charges paid in the amount of \$10,612 are very minor in relation to the volume of 338,627 invoices processed, representing a dollar value of \$2.6 billion in vendor payments during the first nine months of 2007. The increase in late payment fees was primarily caused by \$9,093 charges on invoices from a specific vendor. Staff has identified and corrected the issue, therefore these charges will not be incurred in the future. Excluding this specific vendor, the late payment charges as of September 30<sup>th</sup> 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 2008 is another initiative that will further enhance the Accounts Payable function and reduce payment cycle time.

### **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. Over the past three years staff has been diligently recruiting vendors to the new program. Excellent progress has been made and during the first nine months of 2007, the number of vendors on direct deposit increased to 5,743 (4,100 in 2006) representing 30% of vendor payments and 68% of dollar value paid during the period.

In addition, payments previously processed through wire transfers such as property tax remittances to the Toronto District School Board, payments to Toronto Hydro and OMERS have been converted to direct deposit, significantly reducing the amount of manual intervention required to generate these payments.

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

<b>September 30<sup>th</sup></b>	<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>2007</b>	<b>\$3,124</b>	<b>\$4,590</b>	<b>68%</b>	<b>51,536</b>	<b>177,588</b>	<b>30%</b>
2006	\$697.7	\$2,537	27%	28,066	163,737	17%

### **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 and prevented the cashing of \$307,470 worth of physically altered cheques.

### **Purchasing Card (P-Card) Program**

The P-Card program was launched in June 2005 and as of September 30, 2007, 993 cards have been issued. The table below summarizes the P-Card activity during the first nine months of 2007, as compared to 2006. Over the past year, the number of cards in circulation and number of transactions have increased by 2.3 times and the dollar value of P-Card purchases has almost doubled.

<b>September 30<sup>th</sup></b>	<b># of cards issued</b>	<b>#of transactions</b>	<b>Total Dollar Value (\$000)</b>
<b>2007</b>	<b>989</b>	<b>14,902</b>	<b>2,528</b>
2006	426	6,530	1,369

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 September 30, 2007, twenty-six divisions (twelve divisions at September 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.

In July of 2006, Accounting Services implemented a detailed procedure with the billing Division outlining the collection steps that must be taken when accounts fall in arrears. This procedure outlines the progressive contact steps and timelines before the account is turned over to a collection agency, Legal Services or where applicable, Revenue Services for adding the accounts to the tax rolls. For most receivables, these final steps in the collection process are taken once the account is 90 days in arrears. For commercial tenants, the timeline is much shorter at 50 days.

Accounting Services is also preparing a report as requested by the Audit Committee in first quarter of 2008 regarding the various deposits paid to the City. Deposits are an excellent tool to mitigate arrears. This report will provide a comprehensive list, including the purpose, amount and the policies and procedures related to the collection and refunding of deposits.

The Aged Listing below represents amounts billed directly by City Divisions where Divisions are responsible for making the 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. The schedule below shows a significant improvement in the age of the City's accounts receivable balances, due to the extensive effort of the Divisions over the past number of months in this area.

<b>AGED ACCOUNTS RECEIVABLE</b>					
<b>As September 30, 2007</b>					
<b>(\$000)</b>					
	<b>Total as of Sept 30<sup>th</sup>, 2006</b>	<b>Total as of Sept 30<sup>th</sup>, 2007</b>	<b>Aging as of September 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	<b>1,383</b>	846	232	305
Parks Other Services & Programs	5,496	<b>4,686</b>	733	416	3,537
Emergency Medical Services	175	<b>193</b>	58	91	44
Public Health	25	<b>34</b>	-	5	29
Former Community and Neighbourhood Services Programs	1,314	<b>340</b>	181	110	49
<b>CITIZEN FOCUSED SERVICES B</b>					
Municipal Licensing & Standards	147	<b>73</b>	50	5	18
Fire	834	<b>1,675</b>	811	771	93
Transportation	8,654	<b>12,217</b>	7,573	3,421	1,223
Solid Waste Management	2,434	<b>2,456</b>	2,031	256	169
Water Pollution	474	<b>591</b>	289	135	167
Water Services	362	<b>5,328</b>	4,635	288	405
Technical Services	313	<b>112</b>	54	54	4
<b>INTERNAL FOCUSED SERVICES</b>					
Facilities and Real Estate	1,754	<b>1,745</b>	171	402	1,172
Other Corporate Divisions	1,935	<b>1,371</b>	189	103	1,079
Pension Administration & Employee/Retiree Benefits	1,696	<b>1,664</b>	74	-	1,590
<b>Totals</b>	<b>27,308</b>	<b>33,868</b>	<b>17,695</b>	<b>6,289</b>	<b>9,884</b>
<b>Aging at September 30, 2007</b>		<b>100%</b>	<b>53%</b>	<b>18%</b>	<b>29%</b>
Aging at September 30, 2006	100%		22%	32%	46%

## 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 nine months of 2007, \$635,800 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 September 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 were added in the 2006 budget in part to reach that target.

Purchasing and Material Management Division (PMMD) Performance Indicator Year to Date as of September 30, 2007						
Indicator	2002	2003	2004	2005	2006	Jan 1 – Sept 30, 2007
Calls Issued	2,223	2,164	1,991	1,900	1,819	1,181
Average # of Calls per buyer	91	88	81	73	70	39
Purchase requisition to PO average cycle time	36.27	31.73	32.52	36.41	34.48	N/A
Average time for preparation and approval of Call document	-	-	-	-	-	33.61
Average time between Call issue date and Call closing date	-	-	-	-	-	18.96
Average time for divisions to evaluate bids/proposals received and recommend successful bidder/proponent	-	-	-	-	-	24.98
Average time from receipt of recommendation to award to issuance of Purchase Order (includes time to prepare and execute legal agreements, where required)	-	-	-	-	-	20.42
<b>Purchase Orders:</b>						
Issued	2,279	2,344	1,977	1,841	1,721	1,062

Purchasing and Material Management Division (PMMD) Performance Indicator Year to Date as of September 30, 2007						
Indicator	2002	2003	2004	2005	2006	Jan 1 – Sept 30, 2007
Dollar value ('000s)	\$473,478	\$430,754	\$346,218	\$408,105	\$536,269	\$393,220
<b>Blanket Contracts:</b>						
Issued	1,575	1,647	1,198	1,116	877	681
Dollar value ('000s)	\$508,995	\$661,976	\$526,984	\$723,313	\$472,274	\$348,123
Total dollar value processed by PMMD ('000s)	\$982,473	\$1,092,730	\$873,202	\$1,131,418	\$1,008,543	\$741,343
Average cost to purchase \$100 of goods and services	\$0.24	\$0.21	\$0.30	\$0.24	\$0.29	\$0.32
<b>Divisional Purchase Orders:</b>						
Issued	65,487	77,144	79,597	88,099	80,091	55,645
Dollar value ('000s)	\$66,402	\$72,637	\$74,820	\$80,819	\$74,846	\$48,572
<b>Stores</b>						
Dollar value purchased (000s)	\$8,512	\$11,517	\$8,566	\$7,668	\$6,885	\$4,572
Dollar value issued ('000s)	\$7,932	\$9,202	\$8,183	\$7,590	\$6,850	\$4,805
Turnover rate	2.41	2.89	3.25	4.85	4.5	2.94

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 nine months of 2007 the cost is \$0.32, which is an average from January 1 to September 30, 2007, not an annual average cost, and is largely influenced by the dollar value of orders processed. The first nine months of 2007 amount of \$0.32 is expected to decline by the fourth quarter to the range experienced in prior years.

### Revised Measure

In previous reports, the annual average cycle time to process an order was reported as ranging from approximately 32 days to approximately 35 days for the years 2003 to 2006.

Upon review of this measure, staff has determined that this is not an accurate way to measure cycle time as it did not take into account activities performed outside of PMMD. A more comprehensive indicator should measure the time spent on the various tasks involved from the receipt of a purchasing request to the issuance of a Purchase Order. These tasks include:

- 1) Average time for preparation and approval of Call document
- 2) Average time between Call issue date and Call closing date
- 3) Average time for divisions to evaluate bids/proposals received and recommend successful bidder/proponent
- 4) Average time from receipt of recommendation to award to issuance of Purchase Order (includes time to prepare and execute legal agreements, where required)

On a going forward basis, the Purchase Requisition to Purchase Order cycle time measure will be replaced with the above four measures.

An analysis of the average time to perform these tasks from January 1, 2007 to September 30, 2007 has shown the following:

The average time between the preparation and approval of a Call document was 33.61 days. In order to reduce this time frame PMMD has developed RFQ and RFP templates and is in the process of preparing a standard Tender template. These documents will allow clients to have a guide in the preparation of Call documents to reduce the preparation time.

The average time between Call issue date and Call closing date is 18.96 days. This time frame is reasonable as bidders/proponents must be given a reasonable amount of time to prepare a response to a Call. Also, the Agreement on the Opening of Public Procurement for Ontario and Quebec requires that the time given to respond to Calls be a minimum of 15 days.

The average time for divisions to evaluate bids/proposals received and recommend a successful bidder/proponent is 24.98 days. PMMD has no control over this time as the length of time to evaluate a response depends on the complexity of the purchase and priority given by divisions. However, in order to help reduce this time frame to prepare a document and the time frame to complete an evaluation, PMMD has contracted with an outside consultant for the preparation of two training courses, one on RFQ and Tender Preparation and Evaluation and one on RFP Preparation and Evaluation. By ensuring that divisional staff know how to prepare Calls and evaluate submissions, these time frames should decrease. The courses will be prepared by the outside consultant, but will be given and updated by PMMD staff.

The average time from receipt of recommendation to award to the time a Purchase Order is issued is 20.42 days. This number includes the time to obtain authority to award, in accordance with the Purchasing By-law, Municipal Code, Chapter 195 (i.e. Bid Committee, Standing Committee or Council) and the time to prepare and execute a legal agreement by the client division and Legal Services, and receipt of signed agreement, bonding and insurance from the successful bidder, where necessary. The average time to obtain authority to award by PMMD was 3.68 days of the 20.42 days.

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 2007 PMMD 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 nine months of 2007, 55,645 DPO's were processed. The number of DPO's issued in the first nine months of 2007 has decreased by 3069 and the dollar value of DPO's processed decreased by approximately \$4,918,825 in the first nine months of 2007 when compared to 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 nine months of 2007 the turnover rate is 2.94 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 11 of the 14 locations included in the project, the remainder will be converted in November of this year.

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

In 2007, PMMD:

- sought and received Council's approval to increase the authority of the Bid Committee to award contracts up to \$20 million
- revised of Schedule A of the Financial Control By-law to allow additional purchases to be processed without a Purchase Order or Sole Source Request
- revised the Policy for Consultant Services which streamlines the process for hiring consultants.
- conducted pilot tests in three divisions of an increased DPO limit of \$50,000.
- Planned to roll out the higher limit DPO to all divisions.
- Worked with Corporate Information & Technology are to allow bidders to purchase and download Call documents online for rollout in late 2007.

It is expected that the impact of these initiatives will be reflected in the 2008 performance indicators.

## **Cooperative Purchasing**

Purchasing and Materials Management Division conducts cooperative purchasing with other agencies, specifically Toronto District School Board, University of Toronto, York University, Trent University, Ryerson University, Toronto Police Services, Toronto Zoo, Board of Governors of Exhibition Place, the Province of Ontario and the Toronto Transit Commission.

Co-operative or joint purchases allows Calls to be issued for combined requirements of all participants which results in greater bulk price discounts for smaller participants and reduction of administrative costs in the preparation and issuing of Call documents. Examples include gasoline and diesel fuels, bulk road salt, bagged rock salt, garbage bags, grass seeds, fertilizer and fine paper.

The Province of Ontario has negotiated volume pricing for Oracle and Microsoft licences, hardware maintenance, photocopiers and fax machines. With the approval of Council, the City takes advantage of these contracts and volume pricing obtained by the Province by also purchasing from these Provincial Agreements.

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### **SIGNATURE**

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