



STAFF REPORT ACTION REQUIRED

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

Date:	April 4, 2008
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\acc\gm08005acc (AFS# 6251)

SUMMARY

The purpose of this report is to inform Government Management Committee 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 year ended December 31, 2007 with previous year comparisons, where applicable. Staff will continue to monitor these indicators in assessing the success of the improvement initiatives that are currently underway.

RECOMMENDATIONS

1. That the Treasurer's Accounting Services and PMMD activity report be submitted on a semi-annual basis in the future.

Financial Impact

There are no financial implications as a result of this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

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.

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 are provided to the Committee on a quarterly basis. In addition to the information requested by Council, the report includes a summary of key activities and initiatives of the Accounting Services and Purchasing and Materials Management Divisions. This report covers the year ending December 31, 2007

Staff are recommending that the reporting frequency of this report return to the semi-annual frequency as originally recommended by Council.

COMMENTS

Statement of Financial Position (Unconsolidated and Unaudited)

The City’s unconsolidated Statement of Financial Position (Balance Sheet) as at December 31, 2007 is presented in Table A with comparatives as at December 31, 2006. The statement 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 \$1.67 million at December 31, 2007 and has increased by \$372 million as compared to December 31, 2006, primarily as a result of increases to the City’s long term debt (\$214 million) and to the Employee Benefit Liability (\$60 million). Both of these long term liabilities will be recovered from future revenues as they become due. This funding practice is consistent among Canadian municipalities and not unique to the City of Toronto.

The Deferred Revenue Liability increased as a result of 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). The funds held explain, in part, the increase in Investments (\$550 million). Investments also

increased as a result of the first installment of the Note Receivable received from the Toronto Hydro (\$245 million).

Table A

City of Toronto Statement of Financial Position		
City Only		
	December 2007 (\$000)	December 2006 (\$000)
Cash and Short-term Investments	15,577	39,667
Accounts Receivable	678,851	686,393
Property Taxes Receivable	220,372	221,617
Other Assets	432	1,716
Investments	3,113,287	2,562,934
Notes Receivable – Toronto Hydro	735,173	980,231
Receivables from Toronto School Board	46,003	49,707
Investment in GBE'S	1,134,189	1,012,567
Total Financial Assets	5,943,884	5,554,832
Accounts Payable and Accruals	1,833,699	1,636,482
Deferred Revenue	1,168,315	793,022
Other Liabilities	171,119	258,587
Landfill Post Closure Liabilities	127,305	128,724
Net Long Term Debt	2,425,550	2,211,908
Employee Liabilities	1,954,167	1,894,658
Total Liabilities	7,680,155	6,923,381
Net Financial Assets	(1,736,271)	(1,368,549)
Inventories and Prepaid expenses	65,776	70,154
Net Assets	(1,670,495)	(1,298,395)
Operating Fund	2,047,562	2,186,011
Capital Fund	(283,416)	(188,553)
Reserves and Reserve Funds	1,143,677	1,049,799
Total Funds	2,907,823	3,047,257
Amounts to be recovered from:		
Reserves and Reserve Funds on hand	-	(289,641)
Future Revenues	(4,578,318)	(4,056,011)
Total Amounts to be Recovered	(4,578,318)	(4,345,652)
Total Municipal Position	(1,670,495)	(1,298,395)

Accounts Payable

Accounts Payable (AP) 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 Accounts Payable are provided in Tables 1 and 2.

Table 1 – Payment Cycle Time

In 2007, the City maintained the cycle time level set in 2006 by paying 89% of vendor invoices within the City's standard payment term of 60 days. There was a 4% improvement of invoices paid within 30 days.

Year	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
Invoices processed	338,689	111,008	26,090	20,435	8,829
2007	67%	22%	5%	4%	2%
2006	63%	26%	5%	4%	2%
2005	59%	29%	6%	4%	2%
2004	62%	24%	7%	5%	2%

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.

Year	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2007	\$ 808,877	\$ 166,586	\$ 14,766
2006	626,702	136,355	3,252
2005	390,000	117,121	8,885
2004	119,000	280,000	9,945

- The \$808,877 in early payment discounts in 2007 is a new City record for the amount captured in a year and is 29% higher than the previous year.
- The capture rate on early payment discounts was 83% in 2007, which is a 1% improvement over 2006 (3% over 2005 and 53% increase over 2004). Collective

effort by all city divisions to pursue early payment discounts, launched in 2005, continues to demonstrate success by providing savings to the City and maintaining a positive business relationship with vendors.

- Discounts missed increased by \$30,231 as compared to 2006, 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 future payments can be made within the discount period.
- Late payment charges paid in 2007 totalled \$14,766 which is very minor in relation to the volume of 505,000 invoices processed, representing a dollar value of \$4.5 billion in vendor payments during 2007. The increase in late payment fees was primarily caused by \$10,242 charges on invoices from a specific vendor during the 3rd quarter. Staff identified and corrected the issue, therefore these charges will not be incurred in the future. Excluding this specific vendor, the total late payment charges for 2007 would have been \$4,524, marginally higher than 2006, but well below levels experienced in 2005 and 2004.

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. During 2007, the number of vendors on direct deposit increased to 5,743 representing 30% of vendor payments and 71% of dollar value paid during the period.

A summary of the activity for the year 2007 with 2006 comparisons is provided below:

Year	Amount Paid By Direct Deposit (\$ millions)	Total Amount of Payments in the (\$ millions)	% of Dollar Value of Payments	# of Direct Deposit Payments	Total all Payments in the period	% of Payments made by Direct Deposit
2007	\$4,755	\$6,650	71%	69,320	230,210	30%
2006	\$1,151	\$2,900	40%	44,039	231,899	19%

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. For the year 2007, this process has detected over \$356,848 worth of physically altered cheques.

Purchasing Card (P-Card) Program

The P-Card program was launched in June 2005 and as of December 31, 2007, 993 cards have been issued. The table below summarizes the P-Card activity for the 2007 fiscal year, as compared to 2006. Over the past year, the number of cards in circulation and number of transactions have increased by 30% and the dollar value of P-card purchases has increased by 69%.

December 31st	# of cards issued	#of transactions	Total Dollar Value (\$000)
2007	993	20,224	3,438
2006	761	9,675	2.037

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 December 31, 2007, twenty-six divisions (seventeen divisions at December 31, 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, the amounts are written off. The Treasurer approves the write off of accounts \$50,000 or less and Council approves the write of accounts in excess of that amount. The schedule below shows continued

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.

AGED ACCOUNTS RECEIVABLE As December 31, 2007 (\$000)					
	Total as of Dec 31 st , 2006	Total as of Dec 31 st , 2007	Aging as of December 31 st , 2007		
			From 0 to 30	From 31 to 180	From 181
CITIZEN FOCUSED SERVICES A					
Parks Program Registration	3,492	2,971	2,555	164	252
Parks Other Services & Programs	6,965	5,387	2,941	259	2,187
Emergency Medical Services	341	289	186	54	49
Public Health	28	36	-	4	32
Children's Services, Homes for the Aged and Social Development	191	987	970	-	17
CITIZEN FOCUSED SERVICES B					
Municipal Licensing & Standards	127	327	158	155	14
Fire	1,802	1,163	633	453	77
Transportation	14,535	19,063	6,603	11,680	780
Solid Waste Management	8,605	8,431	7,954	335	142
Waste Water	2,995	2,631	2,341	-	290
Water Services	8,308	6,654	5,898	402	354
Technical Services	300	131	92	39	-
INTERNAL FOCUSED SERVICES					
Facilities and Real Estate	2,135	1,937	367	865	705
Other Corporate Divisions	1,667	5,745	3,314	1,545	886
Pension Administration & Employee/Retiree Benefits	1,743	1,696	76	-	1,620
Totals	53,234	57,448	34,088	15,955	* 7,405
Aging at December 31, 2007		100%	59%	28%	13%
Aging at December 31, 2006	100%		57%	20%	23%

* The 2007 Accounts Receivable write off report recommends that 2 significant accounts that total \$1.1 million be written off. Should Council approve the write off of these accounts, the percentage of accounts that are older than 180 days improves to 11%.

Commodity Tax Recoveries

The Tax Compliance 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

- Ensure that appropriate forms are revised and posted on the Accounting Services Division's intranet site for use by all City staff.
- Review tax legislation (mainly GST & PST) and provide advice and tax updates on an ongoing basis

Most importantly, the Tax Unit identifies and processes commodity tax recovery opportunities. In 2007, the Tax Unit recovered \$1.21 million (\$3.65 million - 2006) in commodity taxes.

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 2003 to 2007 are provided in the Table below.

The number of Calls issued during the year has been decreasing steadily since 2003 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 and 2007 budgets in part to reach that target.

Purchasing and Material Management Division (PMMD) Performance Indicator					
Year to Date as of December 31, 2007					
Indicator	2003	2004	2005	2006	Jan 1 – Dec 31, 2007
Calls Issued	2,164	1,991	1,900	1,819	1,497
Average # of Calls per buyer	88	81	73	70	50
Purchase requisition to PO average cycle time	31.73	32.52	36.41	34.48	N/A
Average time for preparation and approval of Call document	-	-	-	-	35.55
Average time between Call issue date and Call closing date	-	-	-	-	20.15
Average time for divisions to evaluate bids/proposals received and recommend successful bidder/proponent	-	-	-	-	27.93
Average time from receipt of recommendation to award to issuance of Purchase Order (includes time to prepare and execute legal agreements, where	-	-	-	-	19.21

Purchasing and Material Management Division (PMMD) Performance Indicator Year to Date as of December 31, 2007					
Indicator	2003	2004	2005	2006	Jan 1 – Dec 31, 2007
required)					
Purchase Orders:					
Issued	2,344	1,977	1,841	1,721	1,439
Dollar value ('000s)	\$430,754	\$346,218	\$408,105	\$536,269	\$553,177
Blanket Contracts:					
Issued	1,647	1,198	1,116	877	839
Dollar value ('000s)	\$661,976	\$526,984	\$723,313	\$472,274	\$503,242
Total dollar value processed by PMMD ('000s)	1,092,730	873,202	1,131,418	1,008,543	1,056,419
Average cost to purchase \$100 of goods and services	0.21	0.30	0.24	0.29	0.27
Divisional Purchase Orders:					
Issued	77,144	79,597	88,099	80,091	71,246
Dollar value ('000s)	\$72,637	\$74,820	\$80,819	\$74,846	\$63,856
Stores					
Dollar value purchased (000s)	11,517	8,566	7,668	6,885	6,067
Dollar value issued ('000s)	9,202	8,183	7,590	6,850	6,426
Turnover rate	2.89	3.25	4.85	4.5	4.45

The annual average cost to purchase \$100 of goods and services ranged from \$0.21 in 2003 to \$0.27 in 2007 and is largely influenced by the dollar value of orders processed. It has been reasonably stable over the last four years.

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 major events involved from the receipt of a purchasing request to the issuance of a Purchase Order. These major events are:

- preparation and approval of Call document
- time period between the Call issue date and Call closing date
- Divisional evaluation of bids/proposals received
- time period from receipt of recommendation to award to issuance of Purchase Order (and 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 annual average cycle time to perform these tasks for the period January 1, 2007 to December 31, 2007 has shown the following:

The average time between the preparation and approval of a Call document was 35.55 days in 2007. In order to reduce this time frame PMMD has developed standard RFQ, RFP and Tender templates in order to reduce their preparation time.

The average time between Call issue date and Call closing date was 20.15 days in 2007. This time frame is reasonable as bidders/proponents must be given a reasonable amount of time to prepare a response to a Call. 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 was 27.93 days in 2007. 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 the time to prepare a document and the time to complete an evaluation, PMMD 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. PMMD plans to train Client Division staff by the 4th quarter of 2008.

The average time from receipt of recommendation to award to the time a Purchase Order is issued was 19.21 days in 2007. This number includes the time to obtain authority to award, in accordance with the Purchasing By-law (i.e. Bid Committee, Standing Committee or Council), 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 number of Divisional Purchase Orders (DPOs) decreased from 2006 to 2007. In 2007, PMMD started a working group with representatives of each cluster to proactively review their DPO activity to determine areas where it could be reduced through the amalgamation of requirements for common use items/services or better use of existing Blanket Contracts. This initiative resulted in a 8,835 reduction in DPO's in 2007 over 2006 and DPO dollar value decrease of \$10,989,996 in 2007 when compared to 2006.

Stores

With respect to stores, inventory turnover has improved since 2002 due to better management of the orders and distribution systems. For 2007 the turnover rate was 4.45.

The Warehouse Rationalization Project is almost complete. The implementation of corporate processes and conversion of tracking systems to SAP have been completed in 13 of the 14 locations included in the project, the remaining location will be converted in April 2008.

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 and acquired the approval of the City Manager to rollout and implement to all Client Divisions by the 3rd quarter of 2008
- Developed and implemented the new Online Call Document System allowing vendors to purchase and download call documents online on a 24 hours/7 days a week basis.

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

e-Procurement

As part of its ongoing effort to improve the efficiency and effectiveness of the procurement process, PMMD researched "e-procurement" by engaging an external consultant to complete a feasibility study to evaluate the viability of implementing e-procurement initiatives to increase the efficiency and enhance the effectiveness of the City's purchasing process. E-procurement is broadly defined as the acquisition of goods and services through electronic means.

The study was recently completed and has determined that PMMD is as advanced or ahead of most North American city governments in e-procurement initiatives. Specifically, PMMD to date has achieved the following:

- Call documents are distributed electronically through the City web-site.
- Blanket contracts, which consolidate expenditures for commodity items under a single contract and allow for distributed ordering have been expanded
- Some success in the on-line ordering of office supplies. However, the implementation of similar on-line ordering in other commodity areas is limited by the lack of vendors able to provide on-line interactive cataloguing.
- An intranet web-site that has been used to increase internal awareness of available blanket contracts, policies and procedures and provides access to standard templates, training and other procurement material.
- Expanding the use of the SAP system to better manage an additional 13 divisional stores.
- An electronic RFQ process for low dollar value purchases .

The consultant identified the following e-procurement opportunities:

- Expanding the capability of the current web-site from distributing call documents to receiving bids electronically.
- Providing automated workflows to enable tracking of purchase documents and invoices as they move through the various stages of the procurement and approvals processes internally.
- Increasing awareness within staff concerning available blanket contracts, training and other procurement related materials (a requirement that emerged even though PMMD has expended considerable effort in this area).
- Making better use of the systems already in place. The City has already invested in leading e-business technologies.
- Continuing to promote direct deposit payment through Accounts Payable to increase efficiency and improve vendor relations.

Across Canada, Toronto is not the only jurisdiction looking at e-procurement opportunities. Lack of clear-cut success stories of comprehensive e-procurement scenarios in the public sector in Canada are evidence of the difficulty in reconciling the theory with the practice of public e-procurement. Two findings were of particular interest:

On-line Reverse Auctions

A reverse auction is a process where the “buyer” tables their requirements for a good or service and invites vendors to “bid down” the selling price on line. Several jurisdictions have tried this approach with little success. For example, the Federal Government, due to strong negative response from the supplier community, pulled reverse auctions as part of their “Way Forward” procurement reform initiative.

e-Marketplaces

An e-marketplace is a group of jurisdictions collaborating to spend collectively for commodities through a third party e-marketplace provider. Essentially, this is electronically enabled cooperative purchasing which allows for a larger group to participate in. These marketplaces are not well developed for the Public Sector, but the City is monitoring a potential e-marketplace that the University/education sector is developing.

Challenges

The biggest challenge identified by the consultants in expanding the use of e-procurement is the diversity of the goods and services the City buys for its wide range of business lines and the corresponding large and varied supplier community the City buys from. This supplier community has limited on-line ordering and e-business capability and the City is not in a position to impose a universal approach to e-procurement.

Next Steps

The next steps lie in developing an e-procurement implementation plan in collaboration with key partner stakeholders. The plan will include an impact analysis of the IT infrastructure requirements and the resource capacity requirement to ensure successful foundation building of a sustainable e-procurement environment.

Updates on the e-procurement initiative will continue to be provided as part of this report.

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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