



STAFF REPORT INFORMATION ONLY

Semi-annual Treasurer's Report on activities of the Accounting Services and the Purchasing & Materials Management Divisions – June 30, 2008

Date:	September 30, 2008
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\acc\gm08016acc (AFS# 7224)

SUMMARY

The purpose of this report is to inform the Government Management Committee on activities of the Accounting Services (AS) and the Purchasing and Materials Management Divisions (PMMD).

This report provides a brief analysis of the performance indicators for AS and the PMMD for the first six months of 2008 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.

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 PMMD. 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. In addition to the information requested by Council, the report includes a summary of key activities and initiatives of the AS and PMMD and was provided to the Committee on a quarterly basis.

At its meeting on April 17, 2008, the Government Management Committee adopted the recommendation (GM13.10) by the Treasurer that the Treasurer’s AS and PMMD activity report be submitted on a semi-annual basis in the future.

This semi-annual report covers the first six months of 2008.

COMMENTS

Statement of Financial Position (Unconsolidated and Unaudited)

The City’s unconsolidated Statement of Financial Position (Balance Sheet) as at June 30, 2008 is presented in Table A with comparatives as at June 30, 2007. 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 of \$303.9 million is in a positive position at June 30, 2008 and has increased by \$60 million as compared to June 30, 2007. This increase is attributable primarily to increase in investments of \$910 million due to receiving \$245 million from first installment payment of note receivable from Toronto Hydro Corporation in December 2007, receiving funds in later part of 2007 from the Province to fund transit initiatives under programs such as the Canadian Strategic Infrastructure Fund, the Ontario Rolling Stock Infrastructure Fund and the Move Ontario 2020 Fund, of which \$330 million was invested and additional debenture debt issue of \$300 million on June 27, 2008.

This increase in investments is partially offset by increase in deferred revenue of \$468 million primarily due to funds received from the Province for transit initiatives that remained unspent, increase in employee benefit liabilities due to full actuarial valuation undertaken in 2007 which resulted in net increase in liability of \$52 million and net increase in City's long term debt of \$272 million. Both of these long-term liabilities will be recovered from future revenues as they become due. This practice is consistent among Canadian municipalities and not unique to the City of Toronto.

The major reason for increase in net long term debt in June 2008 as compared to June 2007 is attributable to timing difference. Debenture debt was issued in July 2007 which normally would have been issued in June 2007.

Table A

City of Toronto Statement of Financial Position as at June 30, 2008 City Only

	June 2008 (\$000)	June 2007 (\$000)
Cash and Short-term Investments	115,740	12,808
Accounts Receivable	374,423	344,396
Property Taxes Receivable	2,810,438	2,668,976
Other Assets	647	2,375
Investments (Note 1)	3,542,217	2,632,533
Notes Receivable – Toronto Hydro	735,175	980,231
Receivables from Toronto School Board	46,003	49,707
Investment in GBE'S	1,142,252	1,134,188
Total Financial Assets	8,766,895	7,825,214
Accounts Payable and Accruals	2,116,946	1,985,926
Deferred Revenue	1,721,046	1,253,164
Other Liabilities	183,056	166,786
Landfill Post Closure Liabilities	128,362	128,724
Net Long Term Debt	2,426,644	2,154,152
Employee Liabilities	1,946,730	1,894,657
Total Liabilities	8,522,784	7,583,409
Net Financial Assets	244,111	241,805
Inventories and Prepaid expenses	59,840	2,103
Net Assets	303,951	243,908
Operating Fund	3,798,525	3,875,143
Capital Fund	-121,575	-492,908
Reserves and Reserve Funds	1,192,839	1,101,777
Total Funds	4,869,789	4,484,012
Amounts to be recovered from:		
Reserves and Reserve Funds on hand	-297,207	-283,287
Future Revenues	-4,268,631	-3,956,817
Total Amounts to be Recovered	-4,565,838	-4,240,104
Total Municipal Position	303,951	243,908

Note 1: Increase in investment	\$000
Monetization of Toronto Hydro note	245,056
Debenture debt issue June 2008	300,000
Deferred Revenue – new Provincial funding for TTC Purposes	330,000
Others	34,628
Total	909,684

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 the first six months of 2008, 90% of the City's vendor invoices/AP related interfaces were paid within the City's standard payment term of 60 days.

	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
Invoices processed	154,055	43,074	10,238	7,774	3,649
2008 – June 30th	70%	20%	5%	3%	2%
2007 – June 30th	69%	21%	4%	4%	2%
2006 – June 30th	71%	19%	5%	3%	2%

Through continuous process improvements and enhancements, the Corporate Accounts Payable section along with City divisions/programs have actively improved payable service levels with valued vendors and overall efforts across the organization.

To support a prompt payment environment, the AS division has launched a city-wide vendor education initiative to ensure vendors are directly informed of billing requirements and payment options. Vendor education on processes and requirements will mean a decrease in follow-up phone calls for required information and an increase in

payment cycle. A copy of the billing requirement or direct deposit letter circulated to city vendors is also posted on the AS division intranet website.

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.

	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2008 – June 30 th	\$740,894	\$80,730	\$727
2007 – June 30 th	\$ 456,706	\$ 77,973	\$ 3,823
2006 – June 30 th	\$ 306,463	\$ 41,694	\$ 2,806

- Early payment discounts earned have increased by \$284,188 (62%) compared to the same period in 2007.
- Late payment charges of \$727 have decreased from previous periods.
- Due to resource capacity and conflicting priorities, specific divisions have not been able to always meet discount terms of invoices to take full advantage of early payment discounts offered by vendors. This has resulted in a corporate missed discount amount of \$80,730. Divisions are continuously looking to improve processing of these early payment discount invoices with the support of Accounts Payable.

Direct Deposit Program

The Direct Deposit Program was launched in December 2004 as part of the City's continuing efforts to improve customer service and reduce the potential for fraudulent cheque activity. During the first six months of 2008, the number of vendors on direct deposit increased to 6,023 representing 31% of vendor payments and 79% of dollar value paid during the period.

A summary of activity for the first six months of 2008 with 2007 comparison is provided below:

	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
At June 30, 2008	\$3,509	\$4,427	79%	35,218	113,182	31%
At June 30, 2007	\$1,651	\$2,663	62%	34,656	113,924	30%

Payee Match Program

The AS 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 \$341,000 worth of physically altered cheques.

Purchasing Card (P-Card) Program

The P-Card program was launched in June 2005 and as of June 30, 2008, 1,078 cards have been issued. The table below summarizes the P-Card activity for 2008 year-to-date, as compared to the same period for 2007 and shows that the number of cards in circulation and number of transactions have increased by 25% and 34% respectively and the dollar value of P-Card purchases has increased by 36%.

June 30 th	# of cards issued	#of transactions	Total Dollar Value (\$000)
2008	1,078	13,195	2,248
2007	862	9,836	1,650

Prior to the launch of the P-Card program, policies and procedures and a training program were developed by AS 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, 2008, twenty-six 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. The P-Card Program unit continues to work with the divisions to expand the use of P-Card and introduce the program to non-P-Card-using divisions.

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 AS in conjunction with program divisions which established corporate standards and guidelines.

The Aged Listing below represents amounts billed directly by Divisions where Divisions are responsible for making a decision to extend credit. This excludes Police, ABCs, property tax and water billings, payments in lieu of taxes, parking tags, long term loans and 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. AS staff continue 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 At June 30, 2008
(\$000).

	Total as of June 30, 2007	Total as of June 30, 2008	Aging as of June 30, 2008		
			From 0 to 30	From 31 to 180	From 181
<i>CITIZEN FOCUSED SERVICES A</i>					
Children's Services, Homes For The Aged & Social Development	273	226	172	-	55
Parks Program Registration	1,123	1,042	1,160	358	(475)
Parks Other Services & Programs	4,409	3,678	587	956	2,135
Emergency Medical Services	189	132	81	9	42
Public Health	32	35	2	4	28
<i>CITIZEN FOCUSED SERVICES B</i>					
Municipal Licensing & Standards	120	208	58	63	87
Fire	1,401	1,029	741	265	24
Transportation	2,490	6,924	(60)	3,119	3,864
Solid Waste Management	4,501	3,907	2,736	1,124	47
Water Pollution	535	826	284	274	268
Water Services	464	979	248	78	654
Technical Services	19	61	17	40	5
<i>INTERNAL FOCUSED SERVICES</i>					
Facilities & Real Estate	1,568	2,207	219	1,172	816
Other Corporate Divisions	1,189	843	9	705	129
Accounting/Other Divisions, Employee/Retiree Benefits	1,542	1,029	(21)	(142)	1,192
Totals	19,855	23,126	6,232	8,024	8,870
Aging at June 30, 2008		100%	27%	35%	38%
Aging at June 30, 2007		100%	36%	17%	47%

Commodity Tax Recoveries

The Tax Compliance Unit of the AS 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. During the first six month of 2008, the Tax Unit recovered \$1.2 million (\$3 million for same period in 2007) 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 (DPOs). 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 June 30, 2008 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, 2007 and 2008 budgets in part to reach that target.

Purchasing and Material Management Division (PMMD) Performance Indicator						
Year to Date as of June 30, 2008						
Indicator	2003	2004	2005	2006	2007	Jan 1 – Jun 30, 2008
Purchasing						
Calls Issued	2,164	1,991	1,900	1,819	1,497	757
Average # of Calls per buyer	88	81	73	70	50	26
Average time for Call preparation and approval	-	-	-	-	35.55	33.39
Average time for Call	-	-	-	-	20.15	21.97
Average time for divisions to evaluate bids/proposals	-	-	-	-	27.93	32.81
Average time from receipt of recommendation to award to issuance of Purchase Order	-	-	-	-	19.21	23.57
Purchase Orders:						
Issued	2,344	1,977	1,841	1,721	1,439	549
Dollar value ('000s)	\$430,754	\$346,218	\$408,105	\$536,269	\$553,177	\$267,077
Blanket Contracts:						
Issued	1,647	1,198	1,116	877	839	445
Dollar value ('000s)	\$661,976	\$526,984	\$723,313	\$472,274	\$503,242	\$396,835
Total dollar value processed by PMMD ('000s)	\$1,092,730	\$873,202	\$1,131,418	\$1,008,543	\$1,056,419	\$663,913
Average cost to purchase \$100 of goods and services	\$0.21	\$0.30	\$0.24	\$0.29	\$0.27	\$0.25
Divisional Purchase Orders:						
Issued	77,144	79,597	88,099	80,091	71,246	26,921
Dollar value ('000s)	\$72,637	\$74,820	\$80,819	\$74,846	\$63,856	\$25,928
Stores						
Dollar value purchased (000s)	\$11,517	\$8,566	\$7,668	\$6,850	\$6,426	\$3,060
Dollar value issued ('000s)	\$9,202	\$8,183	\$7,590	\$6,885	\$6,067	\$2,900
Turnover rate	2.89	3.25	4.85	4.5	4.45	1.83

The annual average cost to purchase \$100 of goods and services ranged from \$0.21 in 2003 to \$0.27 in 2007 and \$0.25 for the first 6 months of 2008 and is largely influenced by the dollar value of orders processed.

The annual average cycle time has been broken down to 4 major events:

- 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)

The average time between the preparation and approval of a Call document was 33.39 days in the first 6 months of 2008. PMMD is continuing to try and improve on this time frame through the use of RFQ, RFP and Tender templates in order to reduce preparation time, and has developed and implemented training courses to aid Divisions in the preparation and evaluation of call documents.

The average time for Call (between Call issue date and Call closing date) was 21.97 days in the first 6 months of 2008. 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. Larger, more complex call documents and the issuance of addenda have contributed to the slight increase for the average time for Call in the first six months of 2008.

The average time for divisions to evaluate bids/proposals received and recommend a successful bidder/proponent was 32.81 days in the first six months of 2008. 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. Courses commenced in March 2008 and are available on the HR calendar, with full implementation expected by the 4th quarter of 2008.

The average time from receipt of recommendation to award to the time a Purchase Order is issued was 23.57 days in the first six months of 2008. 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 11,930 reduction in DPO's in the first 6 months of 2008 compared to the same period in 2007 and DPO dollar value decreased by \$7,694,472 in the first six months of 2008 compared to the first six months of 2007.

Stores

With respect to stores, inventory turnover has improved since 2002 due to better management of the orders and distribution systems. For the first six months of 2008 the turnover rate was 1.83.

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 the 3rd quarter of 2008.

An outside consultant was contracted to develop a training course for City staff on Inventory Management and Control. Expected completion by the 3rd quarter of 2008 with roll out of training scheduled to commence in 2009.

Other Purchasing & Materials Management Division Activities

In 2008 to date, PMMD:

- trained and rolled out the new DPO limit of \$50,000 to 30 Client Divisions with an expected completion by June 2009.
- finalized the development and implementation of the Online Call Document System with the rollout completed in January 2008. This allows vendors to purchase and download call documents online on a 24 hours/7 days a week basis.
- developed and commenced training for two courses, one on RFQ and Tender Preparation and Evaluation and one on RFP Preparation and Evaluation. Full implementation of the training plan is expected by the 4th quarter of 2008.
- awarded a contract to an auctioneer for the disposal of surplus items and equipment for the City of Toronto. The benefits of the new process are that the City of Toronto will be able to dispose of surplus assets on a more frequent basis (monthly public auctions or online where appropriate), requiring less storage of surplus materials pending the disposal process. Further benefits are that the new process has potential to reach a greater audience who may purchase surplus goods from the City of Toronto, and will be less costly for the City of Toronto, allowing maximum recovery for surplus City assets.

It is expected that the impact of these initiatives will be reflected in 2008 and further in the 2009 performance indicators.

e-Procurement

Following the completion of the e-Procurement Feasibility Study, an e-Procurement Implementation Plan was developed in collaboration with partner stakeholders and identifies key changes that will guide the development of e-procurement through a phased approach to increase the efficiency and enhance the effectiveness of the City's purchasing process.

Next Steps

The rollout of the implementation plan will commence in the 4th quarter of 2008 and will focus on the feasibility study's identified recommendations for enhancement to the City's purchasing process:

- develop an e-procurement communication plan
- promote calls
- enhance the use of email
- evolve the policy framework to support e-procurement
- develop online stores catalogue

PMMD will provide an update on the e-Procurement Implementation Plan in the December 2008 Semi-annual Treasurer's 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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