



STAFF REPORT INFORMATION ONLY

Semi-annual Treasurer's Report on activities of the Accounting Services and the Purchasing & Materials Management Divisions – June 30, 2009

Date:	October 26, 2009
To:	Government Management Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2009\Internal Services\acc\gm09015acc (AFS# 8736)

SUMMARY

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

This report provides a brief analysis of the performance indicators for AS and the PMMD for the six months ending June 30, 2009 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 have reviewed this report and agree with the financial impact information.

DECISION HISTORY

At its Special meeting held on February 21 to March 1, 2005 Council adopted the following resolution:

“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.”

(re: Policy and Finance Committee Report 3, Clause 1 titled “City of Toronto 2005 Budget Advisory Committee Recommended Capital Budget and 2006 – 2014 Capital Plan”). To view this decision on-line, follow the link below:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050221/pof3rpt/cl001.pdf>

At its meeting of January 17, 2005, the Audit Committee requested 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 [re: Audit Committee Report 1, Clause 6(d) received by Council for information at its meeting of February 1, 2 and 3, 2005]. To view this report on-line follow the link below:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050201/au1rpt/cl006.pdf>

At its meeting held on July 19, 20, 21 and 26, 2006, Council adopted a recommendation that future reports on Performance Indicators for Purchasing and Materials Management Division be forwarded only to the Administration Committee (now Government Management Committee) [re: Audit Committee Report 3, Clause 13 “Performance Indicators for the Purchasing and Materials Management Division”]. To view this report on-line follow the link below:

<http://www.toronto.ca/legdocs/2005/agendas/council/cc050719/au3rpt/cl013.pdf>

At its meeting held on April 17, 2008, the Government Management Committee adopted a recommendation that the Treasurer’s Accounting Services and PMMD activity report be submitted on a semi-annual basis in the future [re: GM13.10]. To view this report on-line follow the link below:

<http://www.toronto.ca/legdocs/mmis/2008/gm/decisions/2008-04-17-gm13-dd.pdf>

As all of these areas fall under the Office of the Treasurer, 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 AS and PMMD.

This semi-annual report covers the first six months of 2009.

COMMENTS

Statement of Financial Position (Unconsolidated and Unaudited)

The City’s unconsolidated Statement of Financial Position (Balance Sheet) as at June 30, 2009 is presented in Table 1, below, with comparatives as at June 30, 2008. The statement is prepared on an unconsolidated basis and does not include the accounts of one-hundred and eight agencies, boards and commissions (ABCs).

The total municipal position is in a negative balance as at June 30, 2009, having decreased \$455 million from June 30, 2008. This decrease is primarily attributable to

increased employee liabilities of \$227 million, and increased capital spending of \$134 million.

Table 1

**City of Toronto Statement of Financial Position
as at June 30, 2009**

	June 2009 (\$000)	June 2008 (\$000)
Cash and Short-term Investments	88,848	115,740
Accounts Receivable	575,139	374,423
Property Taxes Receivable	3,020,942	2,810,438
Other Assets	200	647
Investments	3,054,378	3,542,217
Notes Receivable – Toronto Hydro	735,175	735,175
Receivables from Toronto School Board	41,772	46,003
Investment in GBE'S	1,276,739	1,142,252
Total Financial Assets	8,793,193	8,766,895
Accounts Payable and Accruals	2,238,743	2,116,946
Deferred Revenue	1,842,234	1,721,046
Other Liabilities	232,291	183,056
Landfill Post Closure Liabilities	139,341	128,362
Net Long Term Debt	2,352,735	2,426,644
Employee Liabilities	2,173,739	1,946,730
Total Liabilities	8,979,083	8,522,784
Net Financial Assets	(185,890)	244,111
Inventories and Prepaid expenses	34,501	59,840
Net Assets	(151,389)	303,951
Operating Fund	4,157,561	3,798,525
Capital Fund	(948,872)	(121,575)
Reserves and Reserve Funds	1,405,632	1,192,839
Total Funds	4,614,321	4,869,789
Amounts to be recovered from:		
Reserves and Reserve Funds	(276,289)	(297,207)
Future Revenues	(4,489,421)	(4,268,631)
Total Amounts to be Recovered	(4,765,710)	(4,565,838)
Total Municipal Position	(151,389)	303,951

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 2 and 3.

Payment Cycle Time

In the first six months of 2009, 87% of the City's vendor invoices/AP related interfaces were paid within the City's standard payment term of 60 days.

Table 2: Payment Cycle Time

	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
Invoices processed	146750	48840	15608	9943	4543
2009 – June 30th	65%	22%	7%	4%	2%
2008 – June 30th	70%	20%	5%	3%	2%
2007 – June 30th	69%	21%	4%	4%	2%

Payment cycle time of outstanding invoices were slightly impacted by the labour disruption for this period.

Through business improvements and enhancements, the Corporate Accounts Payable section along with City divisions/programs continue to work towards improving payable service levels with valued vendors and the overall payable performance across the organization.

Later this year, the AS division will be introducing a new enhancement, accounts payable invoice imaging to the organization. Through a three-way match payable process and the implementation of invoice imaging functionality, a fully electronic solution will be offered. City divisions will be able to create necessary purchasing documents, view vendor invoices and enter good receipts all within an electronic environment in SAP. This payable enhancement will be rolled out on a phased approach with city divisions in late 2009 and 2010 using the three-way match payable process.

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.

Table 3: Discounts and Late Payment Penalties

	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2009 – June 30 th	\$569,164	\$93,370	\$2,105
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 decreased by \$171,730 (23%) compared to the same period in 2008. (Note: A one-time large discount opportunity for solid waste bins was realized in 2008.) Compared to the same period in 2007, the early payment discounts earned have increased by \$112,458 or 25%.
- 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 \$93,370. Divisions are continuously looking to improve processing of these early payment discount invoices with the support of Accounts Payable.

Purchasing Card (PCard) Program

The PCard program was launched in June 2005 and as of June 30, 2009, 1,231 cards have been issued. Table 4 below summarizes the PCard activity for 2009 year-to-date, as compared to the same period for 2008 and 2007 and shows that the number of cards in circulation and number of transactions have increased by 14% and 43% respectively and the dollar value of PCard purchases has increased by 90% over that shown for 2008.

Table 4 – PCard Activity for 2009

June 30	# of Cards Issued	# of Transactions	Total Dollar Value (\$000)
2009	1,231	18,722	4,267
2008	1,078	13,195	2,248
2007	862	9,836	1,650

Prior to the launch of the PCard 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, 2009, thirty different groups (divisions and offices), including those of the Auditor General, Chief Corporate Officer, Deputy City Managers, and City Manager are participating in the PCard Program. The major PCard User divisions are: Parks, Recreation and Forestry, Toronto Water, Emergency and Medical Services, Solid Waste Management and the City Clerk's Office. The PCard Program unit continues to work with the divisions to expand the use of PCard and introduce the program to non-PCard-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 developed in conjunction with program divisions which established corporate standards and guidelines.

The Aged Listing in Table 5 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.

TABLE 5: AGED ACCOUNTS RECEIVABLE
as At June 30, 2009
(\$000).

	Total as of June 30, 2009	Total as of June 30, 2008	Aging as of June 30, 2009		
			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	130	226	104	8	-
Parks Program Registration	765	1,042	304	727	(265)
Parks Other Services & Programs	3,866	3,678	626	954	2,286
Emergency Medical Services	135	132	30	32	72
Public Health	51	35	1	8	43
<i>CITIZEN FOCUSED SERVICES B</i>					
Municipal Licensing & Standards	133	208	60	58	14
Fire	1,827	1,029	138	1636	54
Transportation	2,444	6,924	286	373	1,785
Solid Waste Management	1,702	3,907	1,461	147	95
Water Pollution	1,443	826	936	24	483
Water Services	4,058	979	3,281	313	464
Technical Services	106	61	75	29	1
<i>INTERNAL FOCUSED SERVICES</i>					
Facilities & Real Estate	2,218	2,207	395	602	1,221
Other Corporate Divisions	2,634	843	810	435	1,388
Accounting/Other Divisions, Employee/Retiree Benefits	1,730	1,029	897	(80)	914
Totals	23,245	23,126	9,405	5,267	8,573
Aging at June 30, 2009	100%		40%	23%	37%
Aging at June 30, 2008		100%	27%	35%	38%

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;
- Issue Official Income Tax Receipts according to the Canada Revenue Agency's rules and policies, in addition to Council directives;
- 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. As of June 30 2009, the Tax Unit recovered \$1.36 million (\$1.56 million – 2008) in commodity tax.

Purchasing and Materials 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 while making it more efficient 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 2005 to June 30, 2009 are provided in Table 6.

The number of Calls issued during the year has been decreasing steadily since 2005 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 2006, 2007, 2008 and 2009 in part to reach that target.

TABLE 6: PMMD Performance Indicators

Purchasing and Materials Management Division (PMMD) Performance Indicators					
Year to Date as of June 30, 2009					
Indicator	2005	2006	2007	2008	Jan – Jun 2009
Purchasing					
Calls Issued	1,900	1,819	1,497	1,318	608
Average # of Calls per buyer	73	70	50	44	20
Average time for Call preparation and approval (days)	-	-	35.55	36.36	30.99
Average time for Call (days)	-	-	20.15	21.85	21.89
Average time for divisions to evaluate bids/proposals (days)	-	-	27.93	33.15	32.51
Average time from receipt of recommendation to award to issuance of Purchase Order (days)	-	-	23.05	31.71	31.89
Purchase Orders:					
Issued	1,841	1,721	1,439	1,122	485
Dollar value ('000s)	\$408,105	\$536,269	\$553,177	\$711,142	\$608,282
Blanket Contracts:					
Issued	1,116	877	839	877	386
Dollar value ('000s)	\$723,313	\$472,274	\$503,242	\$1,189,186	\$190,449
Total dollar value processed by PMMD ('000s)	\$1,131,418	\$1,008,543	\$1,056,419	\$1,900,328	\$798,731
Average cost to purchase \$100 of goods and services	\$0.24	\$0.29	\$0.27	\$0.16	\$0.20
Divisional Purchase Orders:					
Issued	88,099	80,091	71,246	56,578	21,306
Dollar value ('000s)	\$80,819	\$74,846	\$63,856	\$87,938	\$39,734
Materials Management & Stores					
Dollar value purchased (000s)	\$7,668	\$6,850	\$6,426	\$5,963	\$2,371
Dollar value issued ('000s)	\$7,590	\$6,885	\$6,067	\$5,803	\$2,793
Turnover rate	4.85	4.5	4.45	4.41	2.96

The annual average cost to purchase \$100 of goods and services ranged from a high of \$0.29 in 2006 to a low of \$0.16 in 2008. In the first 6 months of 2009 the cost to purchase \$100 of goods and services was \$0.20 and is largely influenced by the dollar value of orders processed within this period. The cost to purchase \$100 of goods and services was \$0.16 in 2008 due to a large number of high value/multi-year contracts that were issued in 2008, i.e. winter maintenance and bulk road salt contracts. It is anticipated that without these types of contracts in 2009, the average cost will range between \$0.20 to \$0.26 at year end.

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

- preparation and approval of a 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 30.99 days for the first six months of 2009. 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 has improved from 36.36 days in 2008 to 30.99 days in the first six months of 2009 which is likely due to the implementation of these initiatives.

The average time for a Call (between Call issue date and Call closing date) was 21.89 days for the first six months of 2009. 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 from 21.85 days in 2008 to 21.89 days as at June 30, 2009.

The average time for divisions to evaluate bids/proposals received and recommend a successful bidder/proponent was 32.51 days for the first six months of 2009. 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 continue to be available for all City staff on the Corporate Human Resources (HR) Training Calendar. The average time has decreased slightly from 33.15 days in 2008 to 32.51 days in 2009 and is likely due to the initiatives that PMMD has implemented to train divisional staff.

The average time from receipt of recommendation to award from the Division to the time a Purchase Order is issued by PMMD was 31.89 days for the first six months of 2009. 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 a signed agreement, bonding and insurance from the successful bidder, where necessary. The average time had a minimal increase from 31.71 days in 2008 to 31.89 days as at June 30, 2009.

The number of Divisional Purchase Orders (DPOs) decreased from 2008 to 2009. 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 reduction of 5,615 in the first 6 months of 2009 compared to the same period in 2008. The dollar value of purchases made by DPO's increased by \$13,805,910 in the first six month of 2009 compared to 2008. An increase in the value of DPO's is due to the implementation of the new \$50,000 DPO limit (rolled out to the majority of divisions) which provides the Client Divisions the authority to purchase low dollar value requirements up to \$50,000 without going through PMMD.

Materials Management & Stores

With respect to materials management and stores, inventory turnover has improved since 2004 due to better management of the inventory analysis and material replenishment programs. For the first 6 months of 2009, the turnover rate was 2.96.

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 4th quarter of 2009.

An outside consultant was contracted to develop a training course for City staff on Inventory Management and Control and this was completed in December 2008. In February and March 2009, internal PMMD, Emergency Medical Services, Toronto Water, Parks, Forestry and Recreation and Fire Service's materials management staff were trained. The course is available to all City staff in the 2009 Corporate Human Resources (HR) Training Calendar. The first training session was held on May 21, 2009.

Other Purchasing & Materials Management Division Initiatives

In 2009 to date, PMMD:

Rolled out the new DPO limit of \$50,000 to 33 Client Divisions with an expected completion in the 4th quarter of 2009 to all remaining Divisions, with the exception of Toronto Water staff who will be fully rolled out by the 1st quarter of 2010.

The Corporate Procurement & Stockpiling Plan for the Pandemic Influenza Planning Initiative was developed and approved in the 1st quarter of 2008. A warehouse facility search has resulted in locating two 20,000 sq. ft. city owned locations. The Tamiflu antiviral approved by Council for purchase in 2008 has been received and placed in appropriate storage by the City. The remaining antiviral medication, personal protective equipment and infection control supplies are to be purchased and stockpiled in a phased-in approach in 2009 and 2010 as approved by Council in March 2009.

A review of the Toronto Municipal Code, Chapter 195, Purchasing has been completed and revisions to the By-law were reported to the Government Management Committee at its meeting on September 17, 2009.

A composite staff report template for Bid Committee awards was developed and rolled out corporate-wide. Training of staff was completed in April 2009.

e-Procurement

The roll out of the e-Procurement implementation plan commenced in the 4th quarter of 2008 and focused on the feasibility study's identified recommendations for enhancement to the City's purchasing process:

- Develop an e-Procurement communication plan:
PMMD commenced working with staff from the Finance and Administration Division, Communications Unit for the development of an e-Procurement Communications Strategy, and in addition, individual sub-project communication plans. The Communications Strategy was completed in March 2009.
- Promote calls:
PMMD has delivered a comprehensive list of organizations, associations and agencies which can be linked to the City's website. This initiative has been forwarded to the Finance & Administration Division for consultation with Corporate Communications. This will promote PMMD's Online Call Document System and the availability of business opportunities for vendors with the City of Toronto. This project is targeted for completion in the 4th quarter of 2009.

PMMD will continue to provide an update on the e-Procurement Implementation Plan in the Semi-Annual Treasurer's Reports.

Cooperative Purchasing

The 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.

Cooperative 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.

The City takes advantage of discounts with vehicle manufacturers that have been negotiated by the Province of Ontario for the Broader Public Sector. This Broader Public Sector discount is in addition to the discounted fleet pricing already enjoyed by the City.

Policy for Access to Information to Members of Council at Various Stages of the Procurement Process – Councillor Requests

In July 2005, Council approved a policy that expanded Council's access to procurement information at various stages of the procurement process. This included providing an opportunity for individual Councillors to access confidential procurement information upon request to the Chief Purchasing Official. To ensure transparency in this process, PMMD staff are required to report regularly to Council with specific information about these requests.

There were no requests received from members of Council during the first six months of 2009.

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SIGNATURE

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