

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
1.	<p>The General Manager, Toronto Water Division, take appropriate steps to ensure compliance with the City's purchasing policies such as:</p> <p>(a) discontinue the practice of using DPOs for repetitive purchases where the use of a blanket contract would be more appropriate;</p> <p>(b) ensure that DPOs are prepared prior to ordering goods and services;</p> <p>(c) ensure that three quotes were obtained where required;</p> <p>(d) discontinue the practice of splitting DPO's to keep the purchase amount below the maximum of \$7,500 for a DPO or below the \$3,000 limit for three quotes; and</p> <p>(e) take steps to identify areas of continued non compliance and impose appropriate discipline for non compliance with City policies.</p>	X		<p>In 2007, Internal Audit and PMMD completed a review of DPO limits. The results of their review determined that the City's DPO limit is too low for the Divisions to meet their procurement needs and is one of the reasons why the Policy is not being diligently adhered to.</p> <p>A pilot was implemented by PMMD and Internal Audit in 2006 using an increased DPO limit of \$50,000 (more in line with other Municipalities). The results of the pilot were favourable and, with the approval of the City Manager, new procedures have been developed and are currently being rolled out. The new procedures recognize that in some instances (i.e. emergencies, unexpected repairs, etc.) repetitive DPOs cannot be avoided. Documentation will be required to be kept on file. A training course on the new DPO limit and procedures has been developed and will be delivered to staff prior to granting access to the new limits. Periodic audits, along with continued monitoring by PMMD, the Purchasing Working Group and Internal Audit will be conducted to ensure proper use of DPOs. Issues, if any, will be brought to the attention of the division for corrective action.</p> <p>Oftentimes, repairs to equipment cannot be accurately estimated until after the work has commenced. As a result, the practice of delayed creation of DPOs in SAP is in large part due to the need to confirm final costing</p>	<p>Rollout of the new DPO limit and procedures is expected to begin in Toronto Water during 1<sup>st</sup> quarter of 2008. This will include training for all applicable staff, ongoing support and monitoring to ensure compliance.</p>

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				<p>to avoid difficulties with the 3 way match process.</p> <p>A Corporate Purchasing Working Group was formed in January 2007, with representation from each Cluster. The Group reviews DPO activity to determine where more Blanket Contracts can be issued to replace DPO usage.</p>	
2.	The General Manager, Toronto Water Division, ensure that reasons for not obtaining competitive quotes are documented on departmental purchase orders and that written evidence and approval is available to substantiate the need to sole source the purchase.	X		<p>A review by PMMD staff has shown that of the 5 out of 40 DPOs which the Auditor General's staff identified as Sole Source purchases without justification, all but one had justification entered in the SAP system. Staff may not be keeping written justification because they are documenting it directly in the SAP system.</p> <p>Under the new DPO policy, three quotes are required for purchases in excess of \$7,500. PMMD have issued new instructions that include a Documentation Checklist to provide guidance to divisions on what documentation is to be kept in the DPO file.</p>	<p>Toronto Water will issue a memorandum reminding staff of the responsibilities and procedures related to using DPOs by November 30, 2007.</p> <p>Any new instructions for quotations will be issued as part of the rollout of the new DPO limit and procedures during in 2008.</p>

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
3.	The General Manager, Toronto Water Division, in consultation with the Director, Purchasing and Materials Management and the Executive Director, Policy, Planning, Finance and Administration, devise a procurement plan to ensure blanket contracts are issued for repetitive purchases.	X		<p>A more comprehensive review conducted by PMMD staff analyzed the items purchased by DPOs issued by Toronto Water during the 2<sup>nd</sup> quarter of 2007 and concluded that approximately 25% may be categorized as repetitive in nature. According to PMMD staff, an analysis of purchases processed by PMMD for all City divisions indicates that 34% are repetitive in nature and the remaining 66% are one-time or emergency purchases to meet operational requirements.</p> <p>The Auditor General's analysis and report assumes that 40% of DPO purchases are repetitive and concludes that \$540,000 may be saved if more Blanket Contracts were used instead of DPOs.</p> <p>Assuming that all the repetitive DPO purchases can be processed using Blanket Contracts, and assuming that an additional 15% discount is available through Blanket Contract purchases, the possible savings would be \$9.0 million x 25% x 15% = \$337,500 for Wastewater Treatment. In the view of Toronto Water, this analysis presents a best case scenario that ignores the front line need to keep wastewater assets operational no matter what challenges may arise. It should also be noted that the DPO process in itself is a competitive procurement process whereby 3 competitive quotes are obtained for purchases exceeding \$3,000. As such, the estimated savings to be realized through the development</p>	Toronto Water's procurement plan is to utilize the Purchasing Working Group to continue to review and analyze DPO usage on a regular basis as the means to determine if additional Blanket Contracts would be beneficial.

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				<p>of blanket contracts may be overstated, particularly where the available discounts for low dollar value purchases are not significant.</p> <p>PMMD staff have concluded that for Toronto Water, 8.2% of purchases are made by DPO which compares favourably to other similar size operations in the City.</p> <p>The Purchasing Working Group regularly reviews DPO activity to determine whether additional Blanket Contracts should be issued to reduce DPO usage. As a result, between January 2007 and September 30<sup>th</sup> 2007, the number of DPO's issued by Toronto Water has decreased by over 13% and the number of Toronto Water Blanket Contracts has increased by approximately 22%, when compared to the same time period in 2006. Currently, Toronto Water has 115 Blanket Contracts in place with another 5 anticipated to be in place by year end. Through the ongoing DPO review by the Purchasing Working Group, the need for additional Blanket Contracts is being continually assessed.</p>	
4.	The General Manager, Toronto Water Division communicate procurement needs of the wastewater plants to the Purchasing and Materials Management Division on a timely basis. The procurement needs should include priorities and expected timelines for the completion of purchase requests.	X		In the fall of 2006, Toronto Water developed and submitted to PMMD their 2007 procurement plan for Capital projects. For 2008, Toronto Water staff are preparing procurement plans for both Capital and Operating expenditures.	Procurement plan summarizing all RFP's, RFQ's and tenders that are

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				<p>Blanket Contracts are continuously reviewed by the Purchasing Working Group to ensure that new Blanket Contracts are in place before the expiry of the existing Blanket Contracts. In addition, Toronto Water directly funds additional PMMD staff that is dedicated strictly to Toronto Water purchases.</p> <p>In April 2007, Toronto Water and PMMD developed and signed a Service Level Agreement outlining roles, responsibilities and timelines to process Toronto Water purchases.</p>	<p>anticipated to be issued in 2008 will be submitted to PMMD by December 1, 2007.</p>
5.	<p>The General Manager, Toronto Water Division and Director, Purchasing and Materials Management, monitor the completion of purchase requests and follow up the reasons for delays in meeting established deadlines.</p>	X		<p>Several initiatives to improve the timeliness of purchasing transactions are already in place. In April 2007, Toronto Water and PMMD developed and signed a Service Level Agreement outlining roles, responsibilities and timelines to process Toronto Water purchases. As part of this Service Level Agreement, a review of activities is conducted by Toronto Water and PMMD every 6 months. This, along with the review and actions taken by the Purchasing Working Group, and the hiring of the Toronto Water dedicated purchasing staff has already helped in reducing delays.</p> <p>As noted in the Management Comments to Recommendation No. 4, Toronto Water is preparing its 2008 procurement plan for both Capital and Operations which outlines the expected timing of procurements. As anticipated, timelines to process Toronto Water</p>	<p>Continue to address this through the activities of the Purchasing Working Group, submission of Procurement plans and the regular review of the Service Level Agreement.</p>

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				purchases have improved as a result of these efforts.	
6.	The General Manager, Toronto Water Division, review the feasibility of centralizing purchasing for common goods at the wastewater plants.	X		<p>The current structure and resources at the wastewater plants is a result of the Works Best Practices Program and corporate realignments of administrative staff during amalgamation. The net result was considerable cost savings and efficiencies outlined in the Management Response to the AG's Phase 1 Report.</p> <p>Toronto Water, in conjunction with the Policy, Planning, Finance and Administration Division, will assess the resources needed to comply with the recommendation and will perform a cost/benefit analysis to establish the feasibility of forming a centralized purchasing unit within Toronto Water.</p> <p>It is anticipated that additional staff resources will be required to implement the recommendation.</p>	Along with actions outlined in the Phase 1 Report, Toronto Water will conduct an overall review of administrative processes, procedures and controls at the wastewater plants by June 30, 2008.
7.	<p>The General Manager, Toronto Water Division, assign a contract lead to all contracts and ensure that all staff participating in contracts are aware of the relevant contract provisions and their responsibilities in managing the contract. These responsibilities include:</p> <p>(a) ensuring that goods delivered and payments comply with contract provisions; and</p> <p>(b) obtaining and retaining relevant contract</p>	X		<p>In Toronto Water, each Blanket Contract already has an assigned Contract Contact and a Contract Administrator that assist PMMD in preparing the tender documents and issuing of a Blanket Contract. PMMD staff and the Purchasing Working Group review Blanket Contract activities to ensure that contract dollar amounts are not exceeded.</p> <p>The Service Level Agreement developed and signed by Toronto Water and PMMD outlines roles and responsibilities of both PMMD and Toronto Water staff.</p>	Review the Service Level Agreement and clarify, if necessary, the appropriate roles and responsibilities by December 31, 2007. Staff training

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
	documents.			Toronto Water will assess how its current contracts are administered and used by staff and examine ways of improving the overall management practices.	requirements will be reviewed and, where appropriate, materials will be developed and delivered by May 31, 2008.
8.	The General Manager, Toronto Water Division, ensure that all staff involved in managing and developing contracts receive appropriate training to effectively carry out their responsibilities.	X		Training will be delivered in conjunction with other training identified in this report.	Staff training requirements will be reviewed and materials will be developed and delivered by May 31, 2008.  TW will also ensure that staff involved in contract management will attend the City's course on "Managing

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
					Contracts Effectively”.
<b>9.</b>	The General Manager, Toronto Water Division, require that supervisory staff with contract management responsibilities evaluate and document vendor performance both during a contract and at its conclusion.	X		The monitoring of vendor performance is recognized in the PMMD/TW Service Level Agreement.	Toronto Water will develop a procedure and checklist to facilitate the documentation of poor vendor performance by March 31, 2008.
<b>10.</b>	The General Manager, Toronto Water Division, ensure that staff responsible for approving purchases are aware of their responsibilities to determine the appropriateness of the services rendered or goods ordered by reviewing appropriate supporting documentation.	X		Toronto Water staff responsible for ordering and receiving goods and services are aware of their responsibilities. Further training will be provided in conjunction with the DPO training associated with Recommendation No. 1.  With respect to the overpayments identified in this section of the Auditor General’s report, Toronto Water is working with the vendor to recover all monies due to the City.	This will be implemented as part of the training related to the rollout of the new DPO limit and procedures in 2008.
<b>11.</b>	The General Manager, Toronto Water Division, require that detailed checking of invoices and receiving documents be performed for high value and complex contracts to ensure that amounts billed to the City agree with the contract terms.	X		Toronto Water agrees with the basic principle that invoices and receiving documents must be checked. Presently, invoices are not sent to the plants for review, but are instead submitted to Accounts Payable (located at Metro Hall) for review. Only when the 3-way match cannot be confirmed are invoices and receipt documents	In conjunction with the training required under Recommendation No. 1, staff

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				<p>analysed more closely.</p> <p>Consistent criteria for thresholds regarding “high value and complex contracts” need to be established that are acceptable by the Auditor General. Toronto Water will determine the level of inspection required for these types of contracts and implement a standard procedure where practical.</p> <p>It should be acknowledged that the five Biosolids Management contracts, which accounted for a total expenditure of \$14.1 million in 2006, were reviewed by the Auditor General and found to be managed diligently with close inspection in all aspects.</p>	<p>training requirements will be reviewed and materials will be developed and delivered by May 31, 2008.</p>
12.	<p>The Deputy City Manager and Chief Financial Officer ensure that contract and bid documents require that vendors provide sufficient detail on invoices to support charges billed to the City.</p>	X		<p>Currently, Purchase Orders, Blanket Contracts and Bid Documents state Invoicing Requirements and include detailed information to be provided on invoices.</p>	<p>Toronto Water, PMMD and Accounting Services will review invoicing requirements included in these documents and determine if any further details are required.</p>

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
					Invoicing requirements will be revised accordingly by March 31, 2008.
13.	The General Manager, Toronto Water Division, ensure that there is a segregation of duties between ordering, receiving and the recording of goods and services. Where feasible, the same individual should not both order and receive goods and record these transactions in the accounting system.	X		<p>Toronto Water's position is that there are compensating controls in place to address the concern raised by the AG. While staff may have authority to create DPOs and goods receipts, the purchase order must be approved online in SAP by the appropriate supervisory staff.</p> <p>Furthermore, Toronto Water believes that the ordering and receiving functions are intrinsically linked – that is, the person best suited to assess if the materials received are acceptable is the person who placed the order. This also improves the efficiency in terms of administrative resources and work flow. It should also be noted that the present configuration of the City's financial system allows for the same person to perform these roles.</p> <p>Toronto Water will review how the duties related to the ordering, receiving and recording of goods and services are currently performed and consider changes to further segregate these roles.</p>	Along with actions stated in the Phase One Report, Toronto Water will conduct a review of administrative processes, procedures and controls at the plants by June 30, 2008. Staff training requirements will be reviewed and materials will be developed and delivered by May 31, 2008.

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
14.	The General Manager, Toronto Water Division, develop a consistent approach to maintaining purchasing records in the wastewater plants such as centrally in each work area.	X		<p>The new DPO procedures contain a checklist outlining the documentation to be retained. PMMD also has procedures on “Level of Documentation Required to Support Procurement Decision and Responsibility for Retention”. Toronto Water will consider using these documents as guidelines to be followed in the plants in order to maintain purchasing records.</p> <p>Staff will be instructed to establish and use centralized filing systems (within the plants) for these documents.</p>	Along with actions stated in the Phase One Report, Toronto Water will conduct a review of administrative processes, procedures and controls at the plants by June 30, 2008.
15.	The General Manager, Toronto Water Division, in consultation with the Deputy City Manager and Chief Financial Officer and the Executive Director, Policy, Planning, Finance and Administration, assess whether the centralized inputting of departmental purchase orders by administrative staff in the wastewater plants would improve the efficiency and effectiveness for processing of purchasing documents.	X		<p>There has been steady improvement in Toronto Water in terms of the percentage of invoices that are now paid within 30 and 60 days to the extent that Toronto Water is now slightly better than the citywide average. As of September 2007, the Toronto Water Division had 300 invoices parked for action over 60 days. The Toronto Water Division parked documents represents 7% of all parked documents 60 days and older on a citywide basis. Based on dollar value, Toronto Water parked documents represent 9.1% (\$1,099,950) of overall citywide park documents.</p> <p>With respect to early payment discounts, Toronto Water achieved a captured rate of 92% (\$144,059) of available early payment discounts in 2006 which was</p>	Along with actions stated in the Phase One Report, Toronto Water will conduct a review of administrative processes, procedures and controls at the plants by June 30, 2008.

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				<p>significantly better than the citywide capture rate of 82% (\$626,296). Early payment discounts captured by TW represent 23% of the total amount captured on a citywide basis.</p> <p>Activities already undertaken include re-training of administrative and front line staff as well as the provision of additional resources to help reduce the number of parked documents. Toronto Water is continuing to investigate the delays associated with payment processing to further improve in this area.</p>	
16.	The General Manager, Toronto Water Division, perform a risk analysis on inventory at the wastewater treatment plants. Such analysis to include determining the levels of inventory, annual spending on inventory items and risk of loss for these items.	X		<p>In June 2005, the Corporate Warehouse/Stores Rationalization Project team conducted a visit of the Ashbridges Bay Treatment Plant in order to assess the Wastewater Treatment Plants for inclusion in the project scope.</p> <p>The project team's assessment was that the caged area at the plant was used for general consumables, tools and Personal Protective Equipment (PPE) and did not meet the project definition of a warehouse operation. Some of the tools and PPE stored in the caged area such as hand shovels and parkas were considered loan tools and clothing which are issued, used and returned for reuse. The items that were stored and maintained as inventory were found to be of minimal quantity and value. On this basis the Wastewater Treatments Plants were not included in the project scope of the Corporate</p>	A high level risk analysis regarding inventory at the wastewater treatment plants will be conducted by May 31, 2008.

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
				Warehouse/Stores Rationalization Project.	
<b>17.</b>	<p>The General Manager, Toronto Water Division, in consultation with the Director, Purchasing and Materials Management Division monitor changes made as part of the of the Stores/Warehouse Rationalization Project and if appropriate implement relevant changes to the Stores function in the wastewater treatment plants. Subject to the results of the inventory risk analysis, the General Manager, Toronto Water Division, consider inventory controls such as:</p> <p>(a) maintaining inventory of significant value on a computerized information system;</p> <p>(b) conducting periodic physical counts of inventory by staff independent of inventory functions;</p> <p>(c) valuing and recording of inventory items of significant value on the City's accounting records; and</p> <p>(d) identifying and removal of obsolete inventory.</p>	X		See Management Comments for Recommendation No. 16.	To be included as part of the high level risk analysis regarding inventory at the wastewater treatment plants by May 31, 2008.
<b>18.</b>	The Deputy City Manager and Chief Financial	X		The evaluation of options and the selection of the	Financial

**Toronto Water Division  
Review of Wastewater Treatment Program  
Phase Two**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
	Officer require estimated energy consumption data in business case information for capital budget submissions that impact ongoing energy usage.			preferred alternatives for all major capital works projects already include recognition of the impacts on energy consumption. Furthermore, detailed design of any large capital works project includes consideration of energy efficient equipment. Financial Planning staff will review additional requirements with the Energy Management Office and prepare appropriate amendments to the 2009 Capital Budget Instructions Handbook.	Planning staff will amend the 2009 Capital Budget Instructions Handbook by July 2008.