



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

City Stores: Maximize Operating Capacity to Be More Efficient

Date:	October 5, 2012
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's Audit Work Plan included a review of storage warehouses. The objective of this review was to determine if City stores run by the Materials Management Stores and Distribution Unit in Purchasing and Materials Management Division are being fully utilized and providing cost-effective services. The findings are relevant for all store operations in the City.

This report contains nine recommendations along with a management response to each of the recommendations. The implementation of these recommendations will improve the overall operating efficiencies by maximizing the capacity of City store operations to supply materials to all City business units, including agencies and corporations. Integrating technology into the City store operations will also help to achieve optimum performance.

This report also recommends a status report be provided to Council on the Yards Consolidation Study.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the City Manager to examine opportunities to further rationalize operations in both City and divisional stores in order to achieve corporate operating efficiencies.

2. City Council request the City Manager to direct divisions to use City stores as much as possible for common materials regularly in stock at City stores.
3. City Council request the City Manager, through the Shared Services review, to explore ways to maximize purchasing power and rationalize materials handling for items commonly purchased by the City, its Agencies and Corporations.
4. City Council request the Director, Purchasing and Materials Management, in consultation with the Chief Information Officer, to develop and implement an online system for ordering goods from City and Divisional stores.
5. City Council request the Director, Purchasing and Materials Management, in consultation with the Chief Information Officer, to review the costs and benefits associated with integrating scanning technology into existing City and Divisional store operations.
6. City Council request the Director, Purchasing and Materials Management to improve the drop shipment business process and leverage additional opportunities for direct delivery by vendors to end users.
7. City Council request the Director, Purchasing and Materials Management to exclude drop shipments from the calculation of inventory turnover rate.
8. City Council request the Deputy City Manager and Chief Financial Officer to report to City Council on the status and completion schedule for the Yards Consolidation Study, including a reconsideration of the Bering Yard.
9. City Council request the Director, Purchasing and Materials Management to take the appropriate action to correct the 1999 inventory input error in the financial information system for the Ellesmere store location.

Financial Impact

The implementation of recommendations in this report will result in operating efficiencies, however, any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

In 2003, the Auditor General's Procurement Processes Review included a recommendation pertaining to the rationalization of City stores. The rationalization was to consider opportunity costs of the buildings and land where the City stores were located.

http://www.toronto.ca/audit/2003/procurement_appendix_a_final_march31_2003.pdf

In 2005, a Corporate Warehouse Rationalization project was conducted by the Purchasing and Materials Management Division. It was recognized that City stores were located in City yards occupied by other divisions. Any opportunities to rationalize land and buildings needed to be considered in conjunction with the Yards Consolidation Study.

<http://www.toronto.ca/legdocs/2005/agendas/council/cc051205/adm9rpt/cl002.pdf>

COMMENTS

The Materials Management Stores and Distribution Unit in the Purchasing & Materials Management Division (PMMD) manages the acquisition, storage and distribution of corporate materials. The Unit has a complement of 31 staff and a gross operating budget of \$3.26 million. PMMD uses City facilities to operate City stores and provides support to other divisions which maintain their own stores.

In 2011, six PMMD stores carried \$1.4 million of inventory and issued \$6.2 million of materials to City divisions, agencies and corporations.

The Auditor General's report entitled "City Stores: Maximize Operating Capacity to Be More Efficient" contains nine recommendations and is attached as Appendix 1. Management's response to each of the recommendations contained in this report is attached as Appendix 2.

CONTACT

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SIGNATURE

Jeff Griffiths, Auditor General

ATTACHMENTS

Appendix 1: City Stores: Maximize Operating Capacity to Be More Efficient

Appendix 2: Management's Response to the Auditor General's Review of City Stores:
Maximize Operating Capacity to Be More Efficient