

AUDIT AT A GLANCE

WHY THIS AUDIT MATTERS

Procurement functions are the backbone of the Toronto Transit Commission (TTC) operations, and a key component in modernizing the TTC. It procures over \$300 million worth of goods and services annually for day-to-day operations (excluding fuel bulk purchases). In order to deliver reliable and cost effective public transit services, the TTC needs to ensure an adequate and timely supply of vehicle parts and materials for its revenue fleets, and other maintenance departments.

BACKGROUND

The Materials and Procurement (M&P) Department is responsible for most of the TTC's procurement activities. This audit included an in-depth review of the Department's purchasing policies and practices, and extended into its materials management functions.

BY THE NUMBERS

- \$5.8 million in additional annual savings from implementing a new bus warranty administration process in response to 2014 audit recommendation
- Potentially between \$7 and \$15 million annual savings from improving materials management and expanding blanket contracts
- 41% of inventory items were short against current demand
- 34 vehicles or \$68 million worth of assets were out of service between July and December 2016 due to parts shortages
- 45% of the inventory requests took longer than 50 days to process
- 40% of purchase value was procured non-competitively
- Over 5,500 purchase requisitions centrally processed by Buyers were under \$250, costing the TTC more to process than the cost of the purchase
- Outstanding purchase requisitions peaked at approximately 1,900 during the last half of 2016

Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings

What we found

Opportunities for Significant Savings

Initiatives	Potential Annual Savings (in millions)	
	Low	High
Expanding Alternate Sourcing for Parts	\$2.5	\$6.5
Pursuing Aftermarket Parts Warranty	\$4.0	\$6.0
Expanding Blanket Contracts	\$0.5	\$2.5
Subtotal	\$7.0	\$15.0
Improving Retrieval and Tracking of Cores (Cores are defective vehicle parts that can be rebuilt or returned to suppliers to waive core charges)	\$1 to \$1.5 based on an assessment of 8 types of cores; total savings from over 2,000 existing core codes could potentially be in the millions	

Chronic Parts Shortages Led to Vehicles Out of Service

The TTC has been experiencing a chronic parts shortages issue. When we reviewed the inventory system data on March 10, 2017, approximately 10 per cent of stocks were completely depleted. Management's own analysis showed that 41 per cent of all inventory items were short against the demand.

Between July and December 2016, on average 34 revenue vehicles (approximately 8 streetcars, 0.7 subway trains or 4 subway cars, and 26 buses) were out of service due to parts shortages. According to the TTC management, the number of buses out of service due to parts shortages has since declined to 10 to 12 in March to April of 2017. Parts shortages also delayed a vehicle rebuild program 3 times over a 12-month period and kept 63 technicians from being fully productive for 15 working days. In addition, according to maintenance staff, parts shortages were one of the factors that contributed to the "hot cars" issue in the summer of 2016.

Procurement Policies and Processes are Ineffective and Inefficient

The current policy requiring nearly all purchases, regardless of the purchase value, to be centrally processed by the Department's Buyers result in inefficient use of staff resources, chronic purchasing delays, and a backlog of outstanding purchase requisitions. Buyers are inundated with a high volume of low value purchasing, leaving them little time to focus on more complex and significant dollar purchases. The TTC should increase purchasing efficiency by expanding Blanket Contracts and the use of Purchase Card for small dollar purchases.

The TTC does not have a policy or procedural requirements governing the justification and approval of sole source purchases. As a result, client departments are not required to justify their requests for sole source purchases.

How Recommendations Will Benefit the City

Implementation of the 19 recommendations in this report will potentially help the TTC realize significant savings, improve inventory management, and achieve purchasing efficiency and effectiveness.