

**REPORT FOR ACTION****2018 Annual Controller's Report – Activities of the Accounting Services and the Purchasing & Materials Management Divisions**

Date: April 5, 2019
To: General Government and Licensing Committee
From: Controller
Wards: All

SUMMARY

This report provides a summary of the key activities and initiatives, and performance indicators for the Accounting Services (ASD) and Purchasing and Materials Management (PMMD) Divisions for the year ending December 31, 2018, with prior year comparatives, where applicable.

RECOMMENDATIONS

The Controller recommends that:

1. The General Government and Licensing Committee request the Controller to report annually on the activities, initiatives and performance indicators of the Accounting Services Division and Purchasing and Materials Management Division.

FINANCIAL IMPACT

There are no financial implications as a result of this report.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its Special Meeting held on February 21 to March 1, 2005, City Council requested that the Chief Financial Officer and Treasurer report to the Administration Committee (now General Government and Licensing Committee), every six (6) months, on:

the percentage of invoices that are paid according to terms; and 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, 2005, Council adopted a recommendation that future reports on Performance Indicators for Purchasing and Materials Management Division be forwarded only to the Administration Committee (now General Government and Licensing 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 (now General Government and Licensing) 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>

These requests have been consolidated into one report and submitted on a semi-annual basis. However, as in prior election years, the June 30, 2018 semi-annual report was not issued. As a result, this report covers the year ending December 31, 2018. At this time, staff are recommending that the report be submitted annually on a go forward basis. All key indicators and activities are monitored during the year so that exceptions can be managed and current initiatives are focused on multi-year transformational activities. As a result, indicators reflect a more relevant picture of status or progress made when presented annually.

ISSUE BACKGROUND

Past Committee and Council requests for information related to accounting and purchasing initiatives, activities and metrics have been consolidated into one report from the Controller (previously the Treasurer), which is now being recommended for annual submission. This report provides the information requested through multiple reports and other key activities and initiatives.

COMMENTS

Supply Chain Transformation Program

PMMD and ASD, in consultation with the Transformation Office and Information and Technology are engaged in a large business transformation program in order to modernize and enhance the services provided by PMMD and ASD to City Divisions, referred to as the Supply Chain Transformation Program. The Supply Chain Transformation Program consists of four main elements:

- Category Management and Strategic Sourcing;
- Business Process and Technology Transformation:
 - Transforming the procurement process utilizing Ariba Sourcing, Contract, Spend and Supplier Lifecycle management modules;
 - Transforming the transactional buying and invoice process utilizing SAP Purchase and Invoicing modules; and
- Materials Management Refresh

Category Management & Strategic Sourcing

This project is a process and people oriented transformation that will transform PMMD from a transactional and reactive purchasing organization into a strategic value added purchasing organization. This involves working collaboratively with Divisions to develop category strategies to best procure significant categories of goods and services to get the best value.

The project will be introducing new processes, and will change the way that PMMD works with clients and suppliers by streamlining processes, reducing cycle times, and building in additional capacity and new positions. The intent is to change how we procure goods and services together with divisional clients and ask ourselves, and the market, if there is a better way - and then do it.

In order to do this, PMMD has retained Ernst & Young (EY) to assist PMMD and Divisions to complete a number of deliverables including designing new processes related to category management, strategic sourcing and supplier relationship management; develop category profiles and identify strategic sourcing opportunities in order to demonstrate that the City can achieve benefits such as cost reduction and cost avoidance by approaching the marketplace in a more strategic and data driven way.

Achievements to date include:

- Identified 16 categories of goods and services across the City with an immediate focus on the top 5 categories based on spend in that category & available opportunities;
- Divisional engagement of the top 5 categories for Category Management & Strategic Sourcing design build & opportunity assessment;

- Creation of Strategic Sourcing Roadmap with a 2 wave approach over a 18 month period estimated to deliver 41MM in cost savings/avoidance within the top 5 categories established;
- Completion of the Strategic Sourcing Process Re-design;
- Issued the first strategic sourcing initiative with Engineering & Construction Services for Underground Watermain Replacement on March 1, 2019 using a negotiable request for proposal process;
- Began the Category Management Process Design workshops.

At the completion of the project, the expectation is that PMMD and the City will be able to generate significant annual recurring savings, modest estimates are upward of \$30 million by 2021.

Business Process and Technology Transformation - SAP Ariba Sourcing, Contract Management and Supplier Lifecycle Management modules

This project was previously referred to as e-Procurement and is effectively moving our current primarily paper based process of issuing procurement documents through our website but receiving bid submissions in paper form, to a pure e-procurement platform where the procurement document is issued online and the responses are received online and the evaluation is done online.

SAP Ariba is an end-to-end integrated cloud solution for purchasing, materials management and account payable functions and is a Software-as-a-Service. Implementing SAP Ariba will modernize the City's procurement processes, leading to efficiencies by introducing automation and elimination of manual tasks such as receiving physical bids, handling bids and entering data into various databases, improving the number of compliant bids and improving the ability to analyze data in the procurement process.

SAP Ariba sourcing and contract modules are being rolled out to electronically enable the release of sourcing events (calls) and receipt of bids which promises no more paper, as well as the execution of contracts using digital signatures.

Achievements to date include:

- Implemented and rolled out the SAP Ariba Spend Analysis module to assist in analyzing the City's spend data that will assist the Category Management and Strategic Sourcing project in Q2 2018;
- Achieved technology go-live with the SAP Ariba Sourcing and Contract Management Modules in Q3 2018;
- Developed training material for the SAP Ariba Sourcing and Contract Management Module;
- Trained 100% of PMMD Buying staff on how to use SAP Ariba Sourcing Module and training Client Divisions on how to initiate a sourcing event;
- Developed communications to the vendor community to have them register with SAP Ariba and on the transition to the new platform; and
- 20 procurements have been put live into SAP Ariba.

The next key milestone for this project is to issue all procurements in SAP Ariba Sourcing module starting July 1, 2019, or in other words no longer issue calls on the existing website.

The Supplier Lifecycle Management module is slated for design and roll out in Q4 2019.

Business Process and Technology Transformation – SAP Ariba Purchase to Pay

This project focuses on the transformation that will primarily take place in Accounting Services and revolves around the buying experience of the City off existing contracts (procured through the SAP Ariba Sourcing module) and the invoice payment process.

The majority of the City purchases must have purchase orders before the supplier can start work. Once work is completed, the invoice has to match the purchase order to get paid. This project implements a new user friendly platform to generate these purchase orders and enable us to easily access and use catalogs, contracts, automation and online signing workflows. Using SAP Ariba's Purchase to Pay module will simplify the buying and payment processes for two reasons. First it will simplify the approval process and remove unnecessary manual signatures and second, suppliers can send the invoice straight to our system and we only need to manage exceptions and approvals. This will replace any existing systems that may have been set up by Divisions to track orders and invoice payments.

After an extensive consultation with divisional stakeholders, the project has configured the first version of our tool and will be initiating review sessions with the first wave of divisions to go live. Once the design is locked we will go into an extensive testing phase to make sure our solution is performing as expected for our July go-live and initiation of roll-out.

Materials Management Refresh

The final component of the Supply Chain Transformation is the Materials Management Refresh which consists of consolidating the existing corporate warehouses, updating the use of SAP to improve efficiencies in the warehouse (via the SAP Warehouse Management module), and conducting a review of the divisional warehouses (Parks, Forestry & Recreation, Toronto Fire, Toronto Paramedics Services and Toronto Water) to determine optimal use of those warehouses either through consolidation into the corporate warehouse or otherwise finding additional efficiencies to streamline the services between the corporate warehouse and the divisional warehouse.

In 2017, PMMD consolidated the corporate warehouse at 1050 Ellesmere Yard into the main warehouse at 799 Islington Avenue. In January, PMMD and PFR consolidated the PFR divisional warehouse into 799 Islington Avenue. Further discussions with Toronto Fire, Toronto Paramedics Services and Toronto Water continue. It is expected that implementation of SAP Warehouse Management module will be completed by Q3 2019.

Review of the Contract Amendment Process

Pursuant to the direction from the General Government and Licensing Committee on April 1, 2019, the Controller and the Chief Purchasing Officer will review the existing Purchasing and Financial Control By-laws and the related purchasing policies and procedures with respect to how contract over-expenditures are reviewed and approved. This review will include determining what changes should be made to ensure the appropriate level of controls and ensuring that City services are met. This review will take into consideration any upcoming changes that will arise from the Supply Chain Transformation Program.

Accounting Services

ASD is responsible for the corporate accounting function within the City of Toronto, ensuring the integrity of the City's general ledger and accounting system of record and preparing the City's consolidated financial statements, which are subject to annual audit. ASD manages and administers all entries into the City's SAP accounting system, including funding of agencies, corporations and other consolidated entities. The Corporate Accounts Receivable group manage invoicing and collections for corporate accounts and provide guidance and advice to divisions managing their own receivables through operational systems. Corporate Accounts Payable administers the centralized payment function, ensuring timely payment of invoices to the City's vendor partners. ASD also manages the corporate banking function, along with the relationship with the City's banking, investment and payment services providers. Finally, beginning in 2018, ASD became responsible for managing the City's Payment Card Industry (PCI) compliance program, after the City became a Level 1 PCI certified municipality in December, 2018.

2017 Audited Consolidated Financial Statements

The City's 2017 audited consolidated financial statements (Statements) were presented to Audit Committee at its meeting of July 13, 2018 and City Council at its meeting of July 23, 2018. Once again, the City's Statements were given a clean opinion. To view this report on-line follow the link below:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU13.1>

The Statements consolidate the financial position and results of 123 entities that include 20 agencies and corporations such as the Toronto Transit Commission, Toronto Police Service and Board of Governors (Exhibition Place), 82 Business Improvement Areas, 18 Arenas and Community Centre Boards, and three government business entities, which are separate self-supporting legal businesses that are controlled by the City. The Statements are prepared in accordance with Public Sector Accounting Board standards, which require the capitalization of tangible capital assets and full accrual accounting.

Table 1 below highlights the City's consolidated financial position at December 31, 2017, with comparatives to December 31, 2016:

Table 1
2017 Audited Consolidated Financial Position

In Billions \$\$	2017	2016
Total Financial Assets	10,015	9,293
Total Liabilities	17,126	15,791
Net Debt	(7,111)	(6,498)
Non-Financial Assets	30,851	28,989
Accumulated Surplus	23,740	22,491

2017 specific key points:

- 41% of total financial assets represent City cash and investments which are mostly claims from Reserves and Reserve Funds committed for future use
- Of Total Liabilities:
 - o 20% represents accounts payable due for immediate payment following the December 31 reporting date
 - o 37% represents net long term debt and mortgages
 - o 23% represents employee benefit liabilities
- Net debt of \$7,111 represents the amount that must be financed from future revenues
- Non-financial assets includes the City's substantial investment in tangible capital assets (\$30.4B), required to perform and maintain City services and infrastructure

The City's Statements are included in the City of Toronto's Annual Financial Report (AFR), published in August of each year. On an annual basis, the report is submitted to the Canadian Review Committee of the Government Finance Officers Association for consideration of the Canadian Award for Financial Reporting. ASD was notified in early 2019 that the City's AFR was again presented with this prestigious award, making this the 12th consecutive year of recognition.

As the 2018 fiscal year has ended, ASD has been working with our divisional and agency and corporation partners to finalize the 2018 Statements and to prepare for the 2018 audit.

As reported to City Council on March 7, 2019, it is estimated that the City's consolidated accumulated surplus will increase by \$2.223B to an estimated \$27.335B. The City's 2018 Statements will be presented to Audit Committee in June, 2019 and the 2018 AFR published in August, 2019. To view this report on-line follow the link below:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX2.6>

Accounts Payable

Accounts Payable (AP) is a centralized function, responsible for the payment of all invoices received by the City of Toronto and for the management of vendor portfolios against payment terms. Invoice approval and confirmation that goods and services have been received against orders made, along with the management of commitments for outstanding items, is the responsibility of Divisions. AP is also responsible for processing payment interfaces received from operational systems or directly from

vendors with large volumes of small dollar value transactions. Again, the responsibility to confirm that items received agree to invoices rests with Divisions.

Approximately 90% of the payment request documents processed by AP are received electronically, either directly from vendors or through divisional operational systems. The remaining 10% continue to be received as paper documents; these include employee expense reimbursement forms and invoices from smaller vendors.

Although AP has made significant process improvements over the past ten years, the most significant change in their operations will occur with the implementation of SAP Ariba, which forms part of a larger overall Supply Chain Management transformation. This transformation initiative is described below.

The following are significant operational metrics important for the AP function:

Payment Cycle Time

In 2018, 85% of the City's vendor invoices were paid within the City's standard payment term of 60 days. This was relatively equivalent to the City's payment cycle time for 2017. ASD strives to meet an 85% to 90% standard.

Table 2 below outlines the payment cycle time in 30-day intervals:

Table 2
Payment Cycle Time

Invoices Processed		0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days	Total
2018	Number	307,820	72,901	23,955	26,653	14,491	445,820
	Percentage	69%	16%	6%	6%	3%	100%
2017	Number	308,639	76,330	24,650	31,452	10,447	451,518
	Percentage	69%	17%	5%	7%	2%	100%

All invoices are submitted directly to AP, where they can be queued for payment or must be parked if further action is required on the part of divisions. AP prepares for payment or parks invoices within 5-8 days of receipt. Parked documents represent potential liabilities to the organization which are not accounted for in the City's books until the three way match process is complete. Invoices are parked for a number of reasons, however, missing procurement approvals or documents, or missing acknowledgement that goods have been received are most typical.

Late submission of interface invoices continues to impact AP's ability to pay invoices within the City's standard payment terms. The percentage of the City's vendor invoices being paid within the standard payment term of 60 days would be 3% higher if the timely submission of interface invoices improved for one particular division. AP continues to work with this division to ensure that the situation is remedied as much as possible.

In addition, as at Q4 2018, 35% of invoices required exception handling; these invoices were parked by AP staff due to issues with purchasing documents (23% attributed to missing purchase orders and 12% were due to purchase orders not being released on a corporate-wide basis). The implementation of streamlined workflows and enhanced automation with enabled vendors through the SAP Ariba network will significantly improve the City's ability to make timely invoice payments and better manage working capital.

AP continues to liaise with PMMD and work closely with City divisions on better management of commitments and parked documents as a method of improving the payment cycle time.

Discounts and Late Payment Penalties

The City encourages all early payment discounts, requesting that the early payment period be 15 days or greater to allow for proper approvals. Typically, the City does not pay late payment penalties, however, exceptions can occur as noted in 2017 and 2018.

Table 3 below summarizes discount and late payment penalty information for the 2018 and 2017 fiscal years:

Table 3
Discounts and Late Payment Penalties

Year	Discounts Available	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2018	\$1,545,643	\$1,306,780	\$238,863	\$3,373
As a % of total invoices paid (\$5.2B)	0.03%	0.03%	0.004%	0.00006%
Change from prior year	(\$76,741)	(\$133,503)	(\$56,762)	(\$2,136)
% change	(4.7%)	(9.3%)	31.2%	-
2017	\$1,622,384	\$1,440,283	\$182,101	\$5,509
Discount capture rate – 2018		84.5%		
Discount capture rate - 2017		88.7%		

Vendor contracts drive discounts available which explains the change from year to year. Low discount value versus processing effort and time required to validate invoice information contribute to the discount capture rate. Three divisions account for approximately 60% of missed discounts, but AP continues to work with them to prioritize the processing of discount invoices.

A variety of reports are also prepared and published by AP to support the capturing of discounts (e.g. weekly discount parked document reports with identified discount due dates and quarterly detailed missed discount reports).

AP has processes and procedures in place to ensure that late payment charges are eliminated or minimized where possible. No late payment fees are paid unless

authorized by the Divisions responsible for the late payment. As evidenced in the above table, late payment penalties paid by the City remains extremely low.

Prior to making any payment, AP ensures that appropriate supporting documentation exists and that divisions have confirmed the receipt of goods or services. Once all support is received, AP typically processes payments within three to five days.

Purchasing Card (PCard) Activity

The City's Purchasing Card (PCard) payment tool offers a cost efficient and well controlled method of payment for lower cost business expenditures and divisional procurement needs, many of which are governed by City policy and/or Schedule A of the Financial Control by-law. The PCard framework focuses on accountability, transparency, compliance, and reporting. AP staff responsible for PCard administration work closely with cardholders, Divisional PCard Coordinators, and approvers to ensure that compliance requirements are met.

This payment tool enhances control and spend visibility in comparison to petty cash, with monthly expenditure reports publicly posted through Open Data.

Table 4 below provides information on PCard and commercial fuel card activity:

Table 4
PCard and Commercial Fuel Card Activity

Period	Number of Cards in Circulation	Number of Transactions	Total Dollar Value \$(000)	Rebates \$(000)
December 31, 2018	1,826	55,939	17,233	\$209
December 31, 2017*	1,812	54,722	15,617	\$140

Note *: A calculation error was noted when comparing 2018 rebates to 2017 reported values. As a result, the value has been changed from that reported as part of the 2017 report.

As at December 31, 2018, there was a slight increase in PCard usage by City divisions with 1,826 cards in circulation and an increase of 1,217 transactions when compared to 2017. The City introduced PCards with CHIP and PIN technology in 2017 to mitigate and reduce usage risks. The designation of Merchant Category Codes (MCCs), transaction limits, and monthly limits also helps to prevent unauthorized payments.

There was an increase of 10.3% in spend value for PCards in 2018. One of the most visible benefits of PCard usage is the annual rebates on purchases. 2018 rebates for the City of Toronto totalled \$209,000. In October 2017, the Bank of Montreal (BMO) became the City's new card provider for PCards, leveraging a partnership with a Province of Ontario consortium which provides a higher rebate value on overall spend and saves the City administration costs on low activity cards.

In addition, beginning in 2017, the PCard program realized processing efficiencies through automation by eliminating the receipt of hard copy training, application and change request forms. All of these forms are now submitted electronically. In 2018, a PCard mobile app was successfully implemented for Facilities Management, which improved the frontline user experience and adaptability of the tool (e.g. a more

streamlined approval process). As part of AP's continuous improvement efforts, 2019 initiatives include further administrative modernization of this payment tool. These efforts will include exploring and implementing electronic forms and training to all new cardholders.

Direct Deposit Program

The Direct Deposit Program was launched in December 2005 as part of the City's continuing efforts to improve customer service and reduce the potential for fraudulent cheque activity. The City promotes the program through regular communications with vendors currently receiving cheque payments, providing them information about how to join the direct deposit program and the benefits of switching from manual cheques.

A summary of the activity to December 31, 2018, with 2017 comparisons, is provided in Table 5.

Table 5
Direct Deposit Activity

Year	Amount Paid By Direct Deposit (\$ millions)	Total Amount of Canadian Payments (\$ millions)	% of Dollar Value of Canadian Payments	# of Direct Deposit Payments	Total # of all Canadian Payments in the Period	% of Payments made by Direct Deposits
2018	\$11,024	\$12,710	87%	98,332	177,598	55%
2017	\$10,397	\$11,905	87%	96,079	168,870	57%

At the end of 2018, the number of vendors on direct deposit increased to 11,244 representing 55% of Canadian vendor payments and 87% of the total Canadian dollar value paid during the period. Total Canadian payments include 9,334 cheques (\$2.6M) related to Municipal Elections payments made in November, 2018, an increase that only occurs once every four years. Excluding these election specific payments from the 2018 total increases the percentage of payments made via direct deposit to 58%. The percentage dollar value of Canadian payments is not impacted as the relative dollar value of elections payments is low.

It should also be noted that many payments processed through ASD represent refunds or payments to one-time vendors, reducing the practicality of enrollment in the direct deposit program. ASD continues to work with our banking services provider to find payment modernization options.

Payee Match Program

ASD implemented payee match software in January, 2007. This software allows our banking services provider to verify information on deposited City cheques (the payee, cheque number, date and amount) against a data file of cheques issued provided by the City, to ensure authenticity before the cheques are cashed. Altered cheques are

detected prior to money being drawn from the City's bank account, significantly reducing the possibility of loss from fraudulent cheques incurred either by the bank or the City.

The table below summarizes the exceptions reported for Payee Match during 2018, with comparisons to exceptions reported in 2017.

Table 6
Payee Match

Year	# of Exceptions Reported	Value of Reported Exceptions (\$000)	# of Exceptions Returned (fraud etc.)	Value of Exceptions (fraud etc.) (\$000)
2018	186	2,023	52	467
2017	408	17,526	57	255

The program captures three major types of exceptions:

- Duplicate attempts to cash a cheque
- Stale-dated cheques with an issue date older than six months
- Altered cheques, either issued by the City or another organization and altered for different payee, amount or issuer

Often, the exceptions noted through this program do not represent attempts to defraud the City of funds. However, in those instances where cheque alterations are noted, the banking team's daily review of those exceptions ensures that this risk is mitigated.

The number of exceptions reported by the bank through the payee match process decreased significantly in 2018 from 2017, indicating a lower instance of potential fraud against the City. The value of returned items varies; the 2017 value did include a large \$10M cheque which was a legitimate payment made by the City. In most cases, exceptions reported are determined to be legitimate payments, however, in 2018, 52 cheques, as compared to 57 in 2017, were fraudulent amendments to City cheques, captured before any loss to the City. Although the City loses control of physical cheques once they leave City property, our internal controls around the physical security of City cheques, our partnership with our banking services provider and immediate attention to exceptions allows us to mitigate losses.

Accounts Receivable

Accounts Receivable (AR) invoicing, revenue recognition and collections are currently decentralized at the City. Under this model, the decision to grant credit is a divisional responsibility. The City of Toronto's accounts receivable portfolio is managed in approximately 24 separate operational or financial systems residing outside of the City's SAP system of record, although high level balances update the general ledger AR balance regularly. ASD is responsible for maintaining a corporate policy that outlines accounts receivable procedures and collection protocols; these guidelines will be reviewed in 2019 as part of the Accounts Receivable Review.

Although ASD works closely with Divisions and Legal Services to ensure that City receivables are collected and financial exposure is minimized, there is currently not a coordinated approach to collections and the use of collection agencies. The number of collection agencies utilized within the City, independently or collectively by divisions, varies from one to seven. One division also procures the services of three bailiff companies.

ASD performs invoicing and collections procedures for a number of divisional customers, including Real Estate, Legal Services and City Clerks. ASD AR staff employ a variety of collection methods including phone calls and emails in order to collect. Uncollectible amounts under \$1,000 are sent to two (2) collection agencies. If the first collection agency is unsuccessful within six (6) months, the amount is sent to the second collection agency for another six (6) months. Uncollected amounts over \$1,000 are forwarded to Legal Services for collection action which may include litigation, small claims court action or mutually agreed upon settlements.

The table below represents total aged receivables at the end of 2018, with 2017 comparatives, by respective billing division. Receivable amounts for Court Services, Parking Tags, and Tax and Utilities are not included in this report.

Table 7
AGED ACCOUNTS RECEIVABLE as of December 31, 2018 (\$000)

	As at Dec. 31, 2017	As at Dec. 31, 2018	Aging as of Dec. 31, 2018		
			From 0 to 30	From 31 to 180	From 181
<i>Community and Social Services</i>					
Children's Services	56	85	68	17	0
Long-Term Care Homes & Services	682	655	8,846	(8,619)	428
Social Development, Finance & Administration	3,250	5,179	5,169	8	1
Parks Forestry & Recreation (PFR)	4,731	2,860	871	626	1,363
PFR Registration & Facility Permits (CLASS)	*2,687	1,900	1,396	381	122
Economic Development & Culture	1,486	938	608	122	208
Toronto Paramedic Services	80	72	(254)	321	5
Toronto Public Health	88	95	5	2	88
<i>Infrastructure and Development</i>					
Municipal Licensing & Standards	2,555	3,067	2,892	96	80
Toronto Building	3,057	2,255	15	5	2,235
City Planning	31	206	198	3	5
Fire Services	2,110	2,075	1,342	667	66
Transportation Services	14,151	14,736	10,727	1,472	2,537
Solid Waste Management	2,865	3,193	3,102	25	66
Toronto Water	9,683	9,547	4,833	336	4,378
Engineering & Construction Services	159	417	417	0	0
<i>Corporate/Finance and Treasury Services</i>					
Facilities Management	762	542	545	(47)	44

	As at Dec. 31, 2017	As at Dec. 31, 2018	Aging as of Dec. 31, 2018		
			From 0 to 30	From 31 to 180	From 181
Real Estate Services	16,741	6,497	1,971	47	4,479
Other Corporate Divisions	426	314	205	91	18
Accounting Services/Other Divisions, Employee/Retiree Benefits	151	7,658	(635)	2,887	5,406
Totals	65,751	62,292	42,320	(1,561)	21,532
Aging at December 31, 2018		100%	68%	(3%)	35%
Aging at December 31, 2017 (\$)	65,751		51,239	(1,184)	15,696
Aging at December 31, 2017 (%)		100%	78%	(2%)	24%

* Note: The PFR Registration & Facility Booking (CLASS) system receivable balance as at December 31, 2017 originally reflected a net balance that included account credits due back to customers who had paid for courses that were ultimately cancelled. Credit balances were removed from 2017 to allow a comparison of receivables to 2018.

The December 31, 2018 Accounts Receivable balance decreased in comparison to the December 31, 2017 balance (for amounts billed directly by City Divisions). The balance is impacted by a number of factors including number of customers invoiced for services, collection success and timing of invoicing.

The activity of a few divisions is noted below:

The credit balance for the 31-180 day range for the Long Term Care and Homes divisional receivables is due to timing differences. The invoice data is managed in a standalone system with invoice information transferred to SAP a month after the original invoice date, however, payments are recognized in the City's financial system of record, SAP when received, which in this case, was prior to the transfer of the original invoice data. The offset has been reflected in the total accounts receivable balance.

Receivables generated by Social Development, Finance & Administration increased by \$1.9 million due to advance billing for 2019 - Q1 to the Toronto District (TDSB) and Toronto Catholic District (TDCSB) School Boards based on the cash flow forecast required for the Block 31 project, which is a collaboration with the TDSB and the TCDSB to build a community-centred facility, which will become the social, recreational and educational heart of the Railway Lands Community. The outstanding invoice was paid in full in early 2019.

The Accounting Services managed receivables balance increased by \$7.5 million, \$3.8 million of which is attributed to the reclassification of Municipal Capital Facilities (MCF) receivables from Real Estate Services to Accounting Services who are now managing collection of the balances for 2017 and prior. Accounting Services, Real Estate Services and Legal Services continue to proceed with collection action. The remaining increase is attributable to a large cost recovery receivable.

Annually, an allowance for doubtful accounts is established at year end for accounts that may not be collected.

Table 8 outlines the total write-offs for 2018 and write-offs as percentage of billable revenue by Division, with comparative figures for 2017.

Table 8
2018 ACCOUNTS RECEIVABLE Write-offs

Division	2018 Total Write-offs	2018 Write-offs as % of 2018 billable services:	2017 Total Write-offs	2017 Write-offs as % of 2017 billable services:
Real Estate Services	\$495,348	0.8%	\$178,283	0.3%
Toronto Building	\$417,287	3.0%	\$0	0.0%
Transportation Services	\$226,745	0.3%	\$60,086	0.2%
Park, Forestry & Recreation (PFR)	\$4,970	0.1%	\$419,428	6.8%
PFR – Registration & Facility Permits (CLASS)	\$102,252	0.2%	\$319,900	0.5%
Long Term Care Homes & Services	\$99,638	0.2%	\$188,913	0.4%
Toronto Water	\$83,659	0.2%	\$241,231	0.6%
Children Services	\$0	0.0%	\$135,430	1.0%
Accounting Services - Corporate	\$0	0.0%	\$73,732	0.0%
Toronto Paramedic	\$0	0.0%	\$49,779	0.0%
Other Divisions	\$39,311	0.0%	\$39,260	0.0%
TOTAL	\$1,469,210	0.0%	\$1,706,042	

* Note: Toronto Building write-off pertains to a default judgement against a Third Party Sign Tax customer which City of Toronto Legal Services has deemed uncollectible.

Details of write-off amounts are provided in the Annual Accounts Receivable write-off report.

As part of the Financial Accounting System Transformation (FAST), ASD has identified a number of improvement opportunities to increase collectability of receivables, which were also identified in several Auditor General reports related to the AR operating model and collections. A plan to implement recommended changes will be incorporated into the overall FAST plan.

Table 9 below outlines the yearly write-off percentage of billable revenues for the City in comparison to the municipal average, based on reported divisions noted above.

Table 9
Write-offs as % of Billable Services

Write-offs as % of billable services:	City	Municipal Average*
2018	0.2%	Not yet available
2017	0.5%	0.2%
2016	0.0%	0.4%
2015	0.1%	0.1%
2014	0.1%	0.2%
2013	0.1%	0.2%

*Source: MBNCanada

Commodity Tax Recoveries

The ASD Commodity Tax Recovery group is responsible for commodity tax filings, subject matter expertise, training and management of the external tax recovery service provider contract. In 2018, GST/HST recovers totalled \$1,820,700 as outlined in table 10:

Table 10
Commodity tax recoveries by type

Year	Employees' parking expense and allowances (\$000)	Employees' health benefits (\$000)	Insurance Claims (\$000)	Refund for five non-OMERS pension plans (\$000)	Input Tax Credits (\$000)	Other recoveries (\$000)	Total (\$000)
2018	466	458	138	141	360	258	1,821
2017	478	381	364	156	1,831	472	3,682

There is a significant reduction in the input tax credits processed between 2018 and 2017. In 2017, the external tax recovery firm engaged by the City determined that a number of expenditures for which claims had already been filed were actually eligible for higher rebate claims given they were of a commercial nature.

As a result, 2017 information includes increased recoveries applicable to the 2014 to 2016 years. The methodology applied to produce these increased rebate amounts should provide for increased 2017 and 2018 rebates, to be claimed and received in 2019.

In addition to commodity tax return filings and analysis of expenditures for the purpose of rebate claims, tax compliance staff answered 323 tax queries, conducted informal training sessions during 2018 with respect to Harmonized Sales Tax (HST) and non-resident withholding tax, and issued 7,686 manual donation income tax receipts, which we are working to move to an online platform.

In order to ensure that ASD has captured all possible rebates available under very complex commodity tax legislation, external commodity tax experts are engaged every three years to conduct an overall review of expenditures against rebates available. In 2018, Stratos Solutions (Stratos) was the successful proponent in ASD's search for an external tax recovery firm. Stratos completed the tax review to 2016 and identified additional net rebates of \$287,125 available to the City. Applicable filings were made with the Canada Revenue Agency; to date, a refund of \$158,130 has been received

with the remaining balance to be recovered in 2019. Stratos is in preliminary stage of reviewing 2017 data for additional rebates.

ASD will work with Stratos to implement the opportunities noted from their review into future analysis performed to prepare tax filings.

PCI Compliance

PCI DSS refers to Payment Card Industry Data Security Standards, which are the standards that govern information security associated with the processing of credit card information. These standards govern both manual and system related payment processes and are intended to protect card holder information. The standards that have been set and accepted worldwide follow common sense steps that mirror security best practices. PCI DSS and related security standards are administered by the PCI Security Standards Council, which was founded by American Express, Discover Financial Services, JCB International, MasterCard Worldwide and Visa Inc. – the Participating Organizations include merchants, payment card issuing banks, processors, developers and other vendors.

A PCI compliance mandate is intended to protect credit cardholder data that is stored, transmitted or processed by the City as a merchant who accepts credit cards. When City divisions accept credit cards, they are no different than any other retail merchant.

The City of Toronto's ASD and I&T Divisions, partnering with City Divisions who accept credit cards for payment of services, have been actively engaged in a PCI compliance project since 2016. A number of payment processes, along with system security requirements, were implemented throughout the life of the project to prepare the City for a PCI compliance audit in order to obtain PCI DSS certification.

The PCI section of ASD was established in June, 2018, and is responsible for ensuring that all payment transactions involving credit cards are aligned to PCI standards. The team's primary mandate is to protect credit cardholder data that is stored, transmitted or processed by the City. The PCI compliance team worked closely with the PCI project team to complete all project requirements in preparation for the certification audit and to establish sustainment requirements.

The City underwent and passed a PCI compliance audit by an external auditor, and obtained its first PCI attestation on compliance as a Level 1 merchant on December 18, 2018. Compliance status has achieved a number of benefits for the City including the elimination of penalties for non-compliance, meeting contract terms with the City's payment service provider, reduction of the risk of increased penalties, mitigation of the risk of a cardholder data breach and most importantly, protection of the credit card information of the citizens of the City of Toronto.

Since inception, the PCI compliance team has developed and implemented a governance framework to sustain compliance across the City. The sustainment activities include, but are not limited to, developing and implementing internal controls assigned to business units and assessed periodically, managing day-to-day compliance

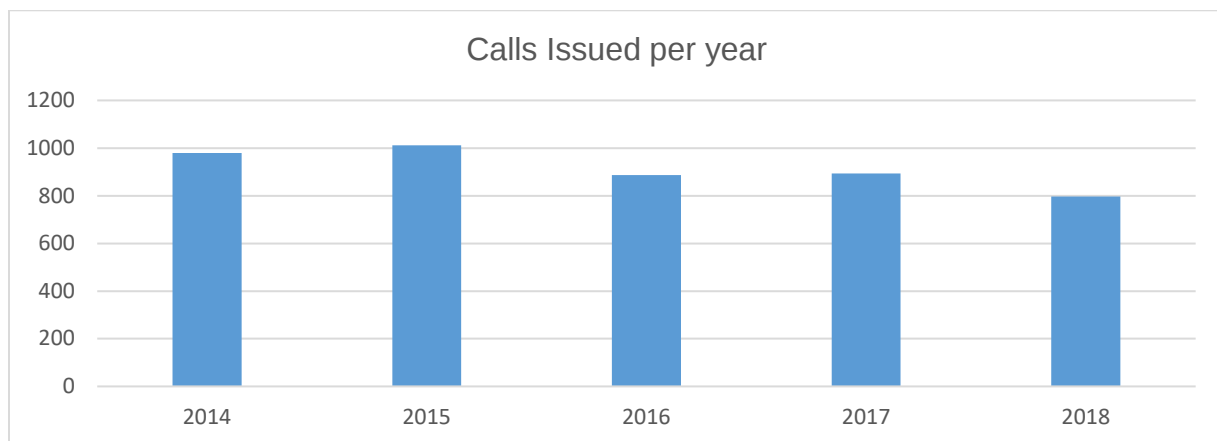
requests/issues, using technology to identify and track violations, keeping compliance documents up to date, review and assess contracts in scope for PCI compliance, monitoring the in scope City service providers' compliance status and enforcing awareness/education and training.

The City has achieved and continues to strive for one important metric when it comes to PCI compliance: 100% compliance status. The work of the PCI unit and partner City divisions ensures that this status remains for each annual audit.

Purchasing and Materials Management – Purchasing Units

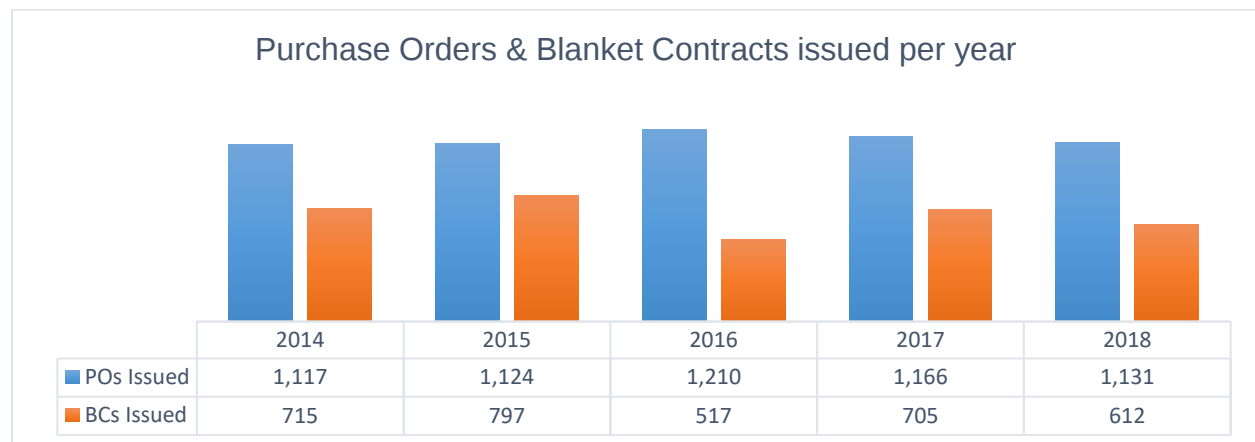
A high-functioning municipal purchasing operation is one that is characterized by a significant number of Blanket Contracts, Purchase Orders and a minimum number of individual Calls and Divisional Purchase Orders (DPOs). Large value Blanket Contracts allow the City to take advantage of its purchasing power while making it more efficient for divisions to source and order goods and services.

Graph 1: Number of Call Documents issued by year

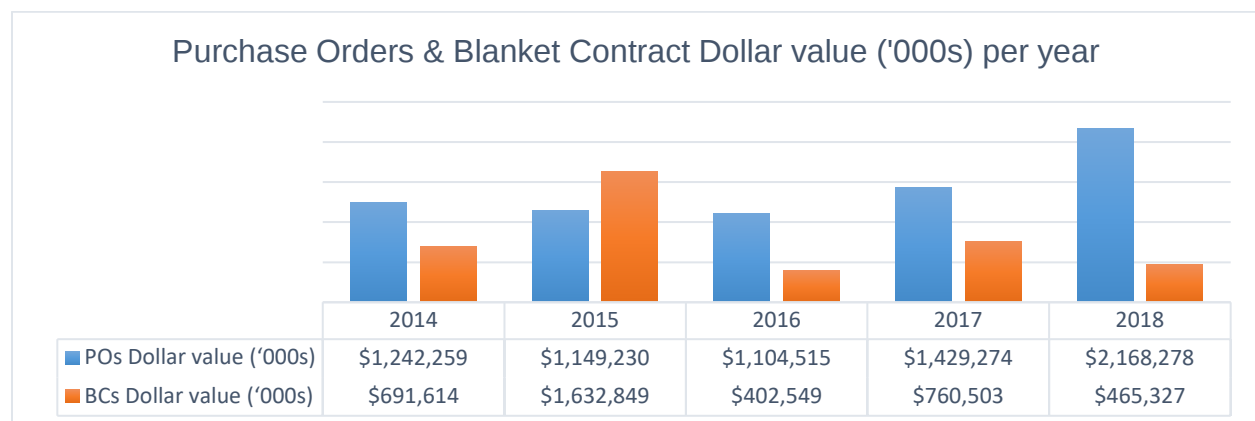


The number of calls has decreased over the last five years from a high of 1,011 in 2015 to a low of 797 calls in 2018. In Graph 2 and 3, while the number of calls have decreased, the number of purchase orders and blanket contracts that have resulted from those calls has stayed relatively constant. This is a reflection of calls resulting in multiple awards to different vendors. The overall awarded procurement value has increased significantly over the last 5 years reflecting the increase in large capital projects mainly being driven by Engineering & Construction Services on behalf of Toronto Water and Transportation Services. In 2018, the City awarded approximately \$2.5 billion over 1700 purchase orders and blanket contracts.

Graph 2: Purchase Orders & Blanket Contracts Issued Per Year

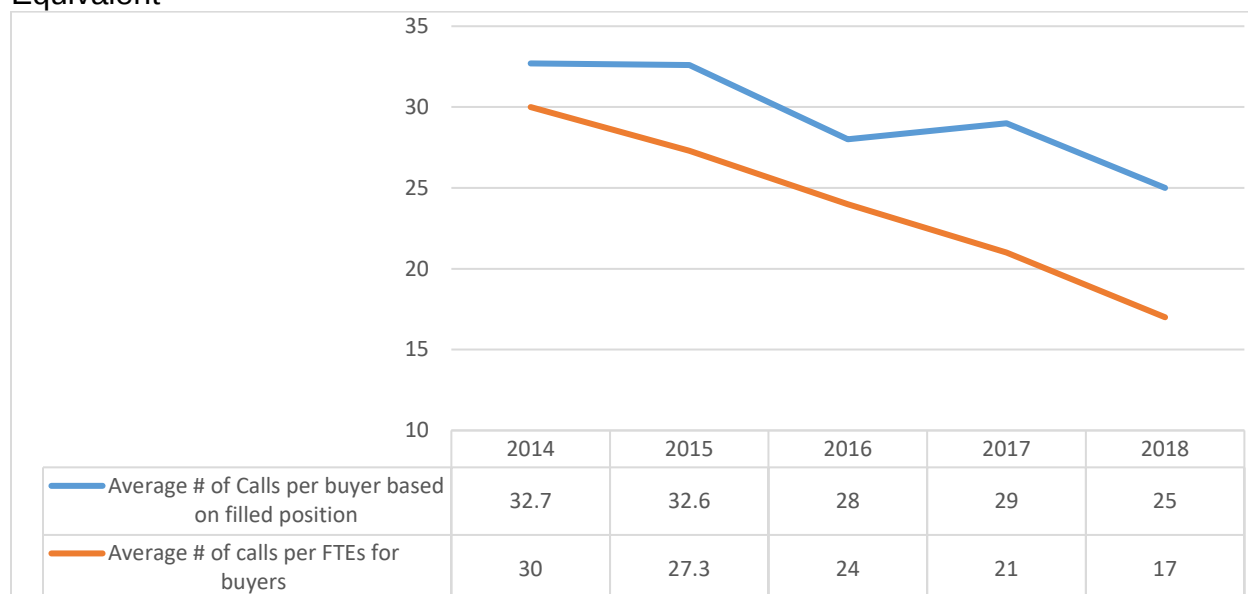


Graph 3



PMMD has been using a target of 30 calls issued per buyer each year. PMMD's approved Full Time Equivalent (FTE) position complement for buyers in 2018 was an average of 46 positions. Based on the average number of approved FTE positions of 46 in 2018, the average number of calls per buyer was 17. However for the year 2018, there were an average of 32 filled buyer positions, resulting in an average of 25 calls per buyer. PMMD continues to ensure all vacancies are filled in a timely manner.

Graph: Average # of Call documents per buyer based on filled positions & Full time Equivalent



Average Cycle Times

The overall time it takes to complete a procurement on average from the initiation of the procurement with PMMD until PMMD issues a Purchase Order in 2018 was 114 working days, which was a slight increase from 2017 of 112 days.

Cycle time is broken down into four (4) major events:

- Initiation of the Call, preparation and approval of a Call document for issuance;
- time period between the Call issue date and Call closing date;
- Divisional evaluation of bids/proposals received; and
- time period from receipt of recommendation to award to issuance of Purchase Order, which includes entering into legal agreements where required.

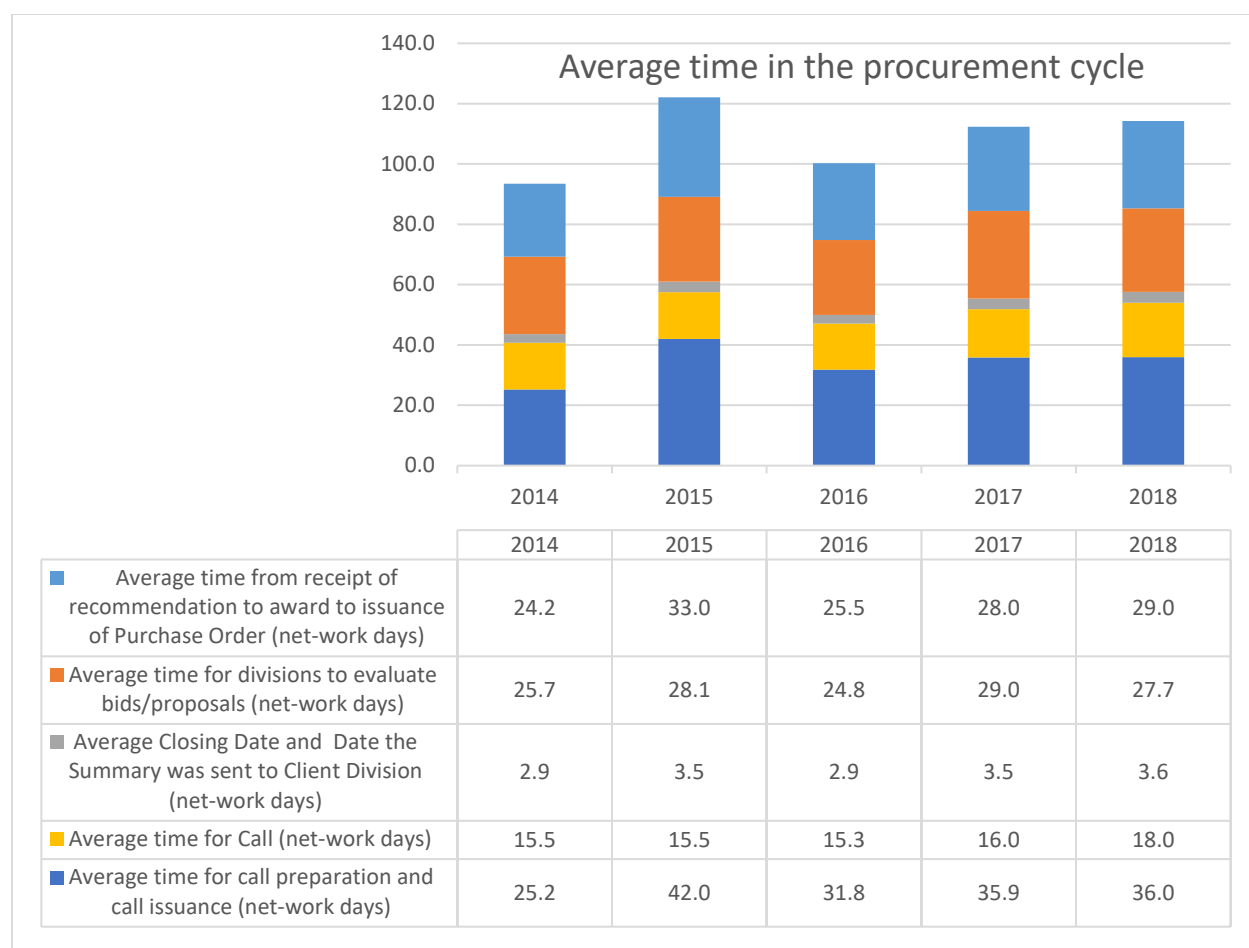
The average time between the initiation, preparation and approval of a Call document for issuance was 36 days in 2018, which was effectively the same as 2017. This does not include any time the Division spent prior to coming to PMMD to initiate a procurement.

The average time for a Call to be on the market (between Call issue date and Call closing date) was 18 days in 2018. This time frame is reasonable as bidders / proponents must be given a reasonable amount of time to prepare a response to a Call. There was a minor increase in 2018 compared to 16 days in 2017.

The average time from the Call's Closing Date until PMMD completed its evaluation and sent the bids or proposals to the Client Division for their evaluation ranged from 2.9 days to 3.6 days over the 5 year period.

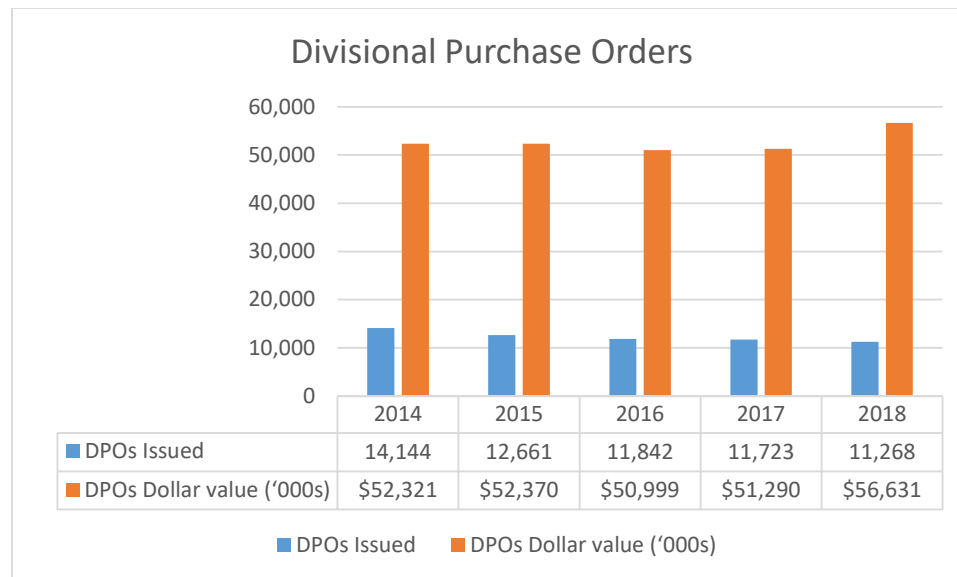
The average time for divisions to evaluate the submitted bids / proposals and recommend a successful bidder / proponent was 27.7 in 2018 compared to 29 in 2017. The length of time to evaluate a response depends on the complexity of the purchase, any issues of non-compliance and priority given by divisions.

The average time from receipt of recommendation to award from the Division to the time a Purchase Order/Blanket Contract is issued by PMMD was 20 days in 2018. This number includes the time to obtain authority to award, in accordance with the Purchasing By-law (i.e. Bid Award Panel, 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, security and insurance requirements from the successful bidder, where necessary. The average time has a minor increase from 28 days in 2017 to 29 days in 2018.



Divisional Purchase Orders (DPOs)

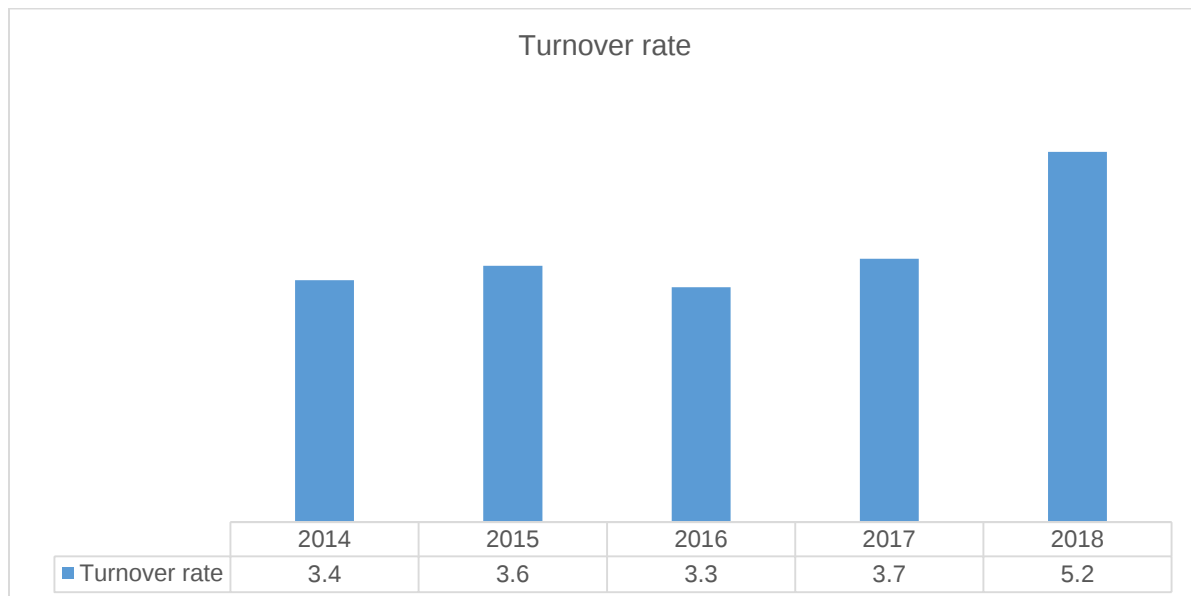
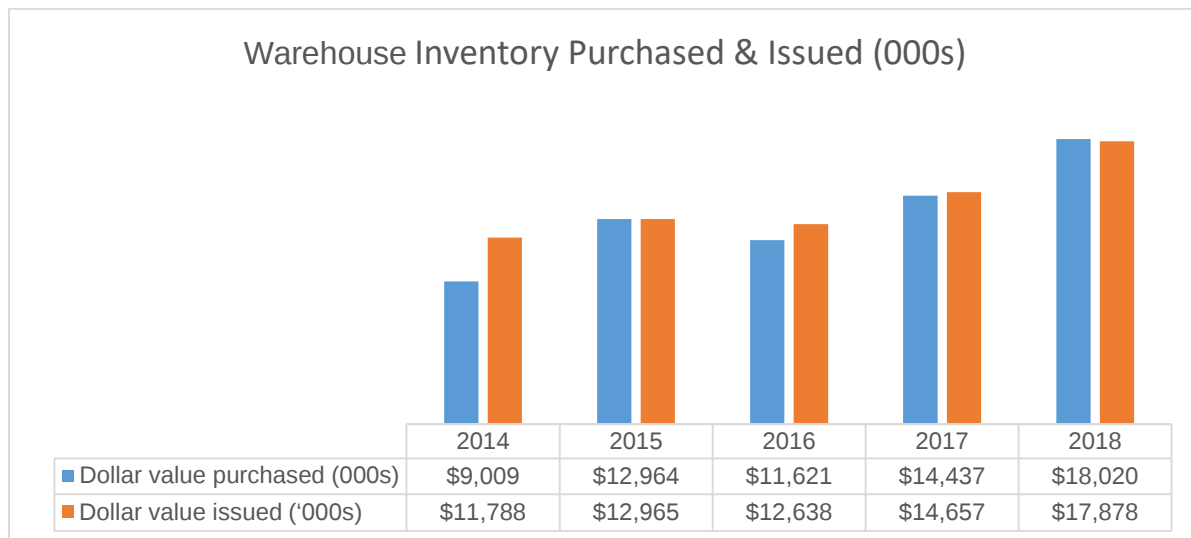
City Divisions are able to conduct a three quote process for contracts up to \$50,000. There was a reduction of 455 DPOs in 2018 compared to 2017. The dollar value of purchases made by DPOs increased slightly by \$5,341,186 from \$51,290,095.00 in 2017 to \$56,631,281.00 in 2018. Only 2.15% of City purchases in 2018 were through DPOs. PMMD meets with Divisions to help reduce DPO usage where possible.



Purchasing and Materials Management – Materials Management Unit

For the materials management unit which runs the corporate warehouses, high functioning characteristics include a balance between the value of stock issued and the value of goods received, and an optimal inventory 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 2014 to 2018 are provided in the following graphs.

Overall the value of the inventory has increased over the last five years. Within the last year, due to operational efficiencies introduced into the warehouse and the consolidation of the Corporate Warehouse at the Ellesmere Yard into the Corporate Warehouse at 799 Islington Avenue, the overall turnover rate of the inventory increased from 3.7 to 5.2. For a Maintenance, Repair and Operations (MRO) organization such as the City of Toronto the appropriate turnover rate is between 4 and 6.



The turnover calculation was revised in 2013 (based on a recommendation from the Auditor General) to exclude drop shipments from the calculation.

Other Procurement Related Information

Use of Subcontractors in Custodial Services Contracts

At its meeting held on July 16 - 19, 2013, City Council, as part of EX33.2 "Quality Jobs, Living Wages and Fair Wages in Toronto" delegated to Division Heads the ability to approve the use of subcontractors in Custodial Services contracts where, in the Division Heads' determination, the use of subcontractors is appropriate due to extenuating circumstances. Council also required Division Heads to report semi-annually to the Government Management Committee on the exercise of such delegation. Since that report in 2013, no Division with custodial services contracts (Facilities Management, Fire Services and Parks, Forestry and Recreation), have approved the use of subcontractors. Staff will continue to monitor whether subcontractors are used in

extenuating circumstances for custodial services and will report semi-annually only when a Division exercises such delegation.

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. To ensure transparency in this process, PMMD staff is required to report regularly to Council with specific information about these requests by Councillors to access procurement information. There were no requests from Councillors in 2018.

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SIGNATURE

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