GL17.4

REPORT FOR ACTION

Annual Controller's Report – Activities of the Accounting Services and the Purchasing & Materials Management Divisions - January 1 to December 31, 2019

Date: October 19, 2020
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, 2019, with prior year comparatives, where applicable.

RECOMMENDATIONS

The Controller recommends that:

1. The General Government and Licensing Committee receive this report for information.

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. To view this report on-line follow the link below:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.GL4.3

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

Accounting Services

Invoice payments

Although the City offers a number of vendors discount payment terms, a thirty (30) day standard is used for most vendors. Most City invoices follow a three way match process, where the original purchasing document, the goods receipt indicator and the invoice details must match in their entirety before payment is made to the vendor. In situations where this match does not occur, invoices remain parked until the match process has been finalized. Frequently, the unmatched invoices give rise to payments made outside of the standard 30 day terms.

The table below outlines the percentage of invoices paid in 30 day increments:

Payment Cycle Time

Year	# of Invoices Processed	0 – 30 days	31 – 60 days	61 – 90 days	91 – 180 days	180+ days
2019	454,474	60%	19%	7%	7%	7%
2018	445,608	69%	16%	6%	6%	3%
2017	451,518	68%	17%	6%	7%	2%

During 2019, 60% of invoices were paid within the standard 30 days, as compared with 69% in 2018, representing a decrease of 9% over 2018. In addition, 79% of invoices were paid in 60 days in 2019 as compared to 85% in 2018 and 2017.

Penalties associated with late payments total $1,680.00 in 2019. These payments were made to two vendors. Late payment charges are approved by the Division accountable for the correct and timely payment prior to payment being made.

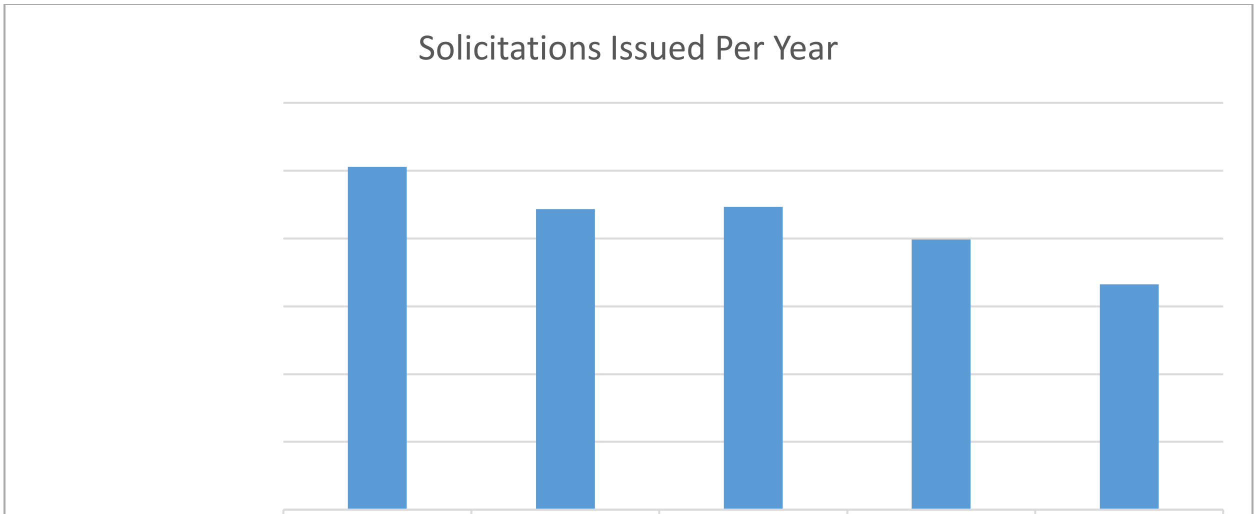
The Accounts Payable section of Accounting Services continues to work with both vendors and divisions to ensure that the match process occurs so that timely payment can be made. Divisions are provided with support when establishing purchasing documents, reviewing parked document listings and identifying and correcting process issues that contribute to the three way match issue. In addition, vendors are required to provide invoices with relevant purchasing documents to assist with the match process; invoices are received electronically to expedite the payment process. In late 2019, vendors were notified that effective January 1, 2020, invoices without purchasing document numbers are no longer accepted.

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 solicitations and Divisional Purchase Orders (DPOs). Large value Blanket

Contracts allow the City to take advantage of economies of scale while making it more efficient for divisions to source and order goods and services.

Graph 1: Number of Solicitations issued by year



	2015	2016	2017	2018	2019
Calls Issued Per Year	1,011	887	893	797	665

The number of solicitations has decreased over the last five years from a high of 1,011 in 2015 to a low of 665 solicitations in 2019. This represents the number of competitive solicitations that were issued to the marketplace, but doesn't reflect the calls awarded, calls cancelled or those still in process.

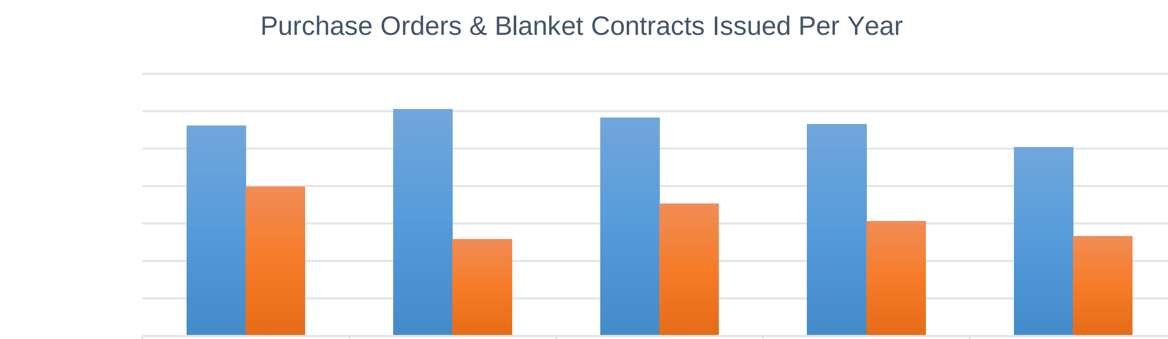
Some reasons for the decrease in the number of calls issued from 2018 to 2019 include:

- More calls being consolidated into one larger corporate call;
- Increase in the number of public body procurements by divisions (piggybacking competitive calls from other government organizations i.e. Province of Ontario);
- An increase in the use of Rosters;
- Ariba implementation effective September 1st, which caused some delays due to PMMD staff and Client Division staff having to train, learn and transition to a new system;
- Unexpected or unplanned staff absences due to maternity leaves, promotions within PMMD and the City of Toronto, and resignations due to promotions in external organizations, combined with difficulty in filling vacancies in a timely manner;
- More agency participation on calls which leads to our processes being slowed down (more participants on a call means information takes longer to acquire and consolidate); and
- Client Divisions delays for submitting drafts for initiating new solicitations.

Separate purchase orders or blanket contract are issued to each division, so that they can manage their own respective spend. In Graphs 2 and 3, while the number of solicitations have decreased, the number of purchase orders and blanket contracts that have resulted from those solicitations has stayed relatively constant.

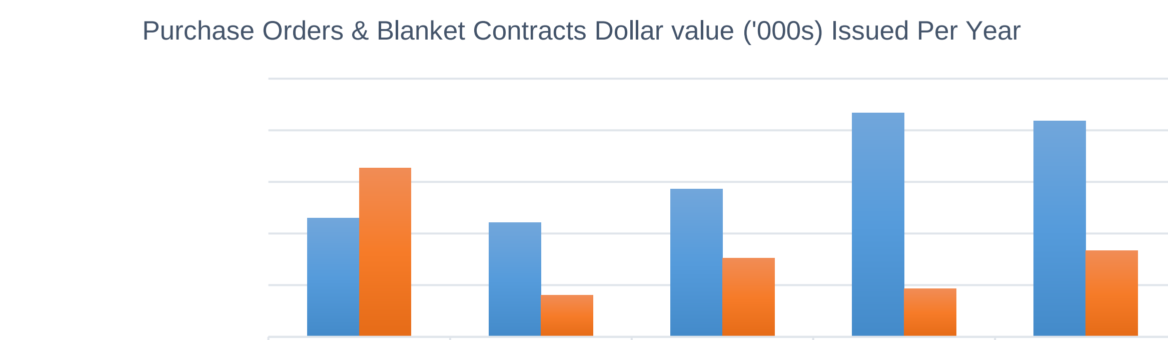
The overall awarded procurement value has increased in 2019 due to large capital projects, mainly five purchase orders with a cumulative value of $600 million. In 2019, the City awarded approximately $2.9 billion, through the issuance of over 1,541 purchase orders and blanket contracts.

Graph 2: Purchase Orders & Blanket Contracts Issued Per Year



	2015	2016	2017	2018	2019
POs Issued	1,124	1,210	1,166	1,131	1,009
BCs Issued	797	517	705	612	532

Graph 3



	2015	2016	2017	2018	2019
POs Dollar value ('000s)	$1,149,230	$1,104,515	$1,429,274	$2,168,278	$2,089,832
BCs Dollar value ('000s)	$1,632,849	$402,549	$760,503	$465,327	$833,409

Average Cycle Times

In 2019, the overall time it took to complete a procurement on average from the initiation of the procurement with PMMD until the issuance of a purchasing document was 119 working days, which represents a slight increase from 2018 of 114 days.

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

- Initiation of the solicitation, preparation and approval of a solicitation document for issuance;
- Time period between the solicitation issue date and 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 solicitation for issuance was 35 days in 2019, which represents a decrease of 1 day from 2018. This does not include any time the Client Division spent preparing for the procurement prior to coming to PMMD to initiate the solicitation.

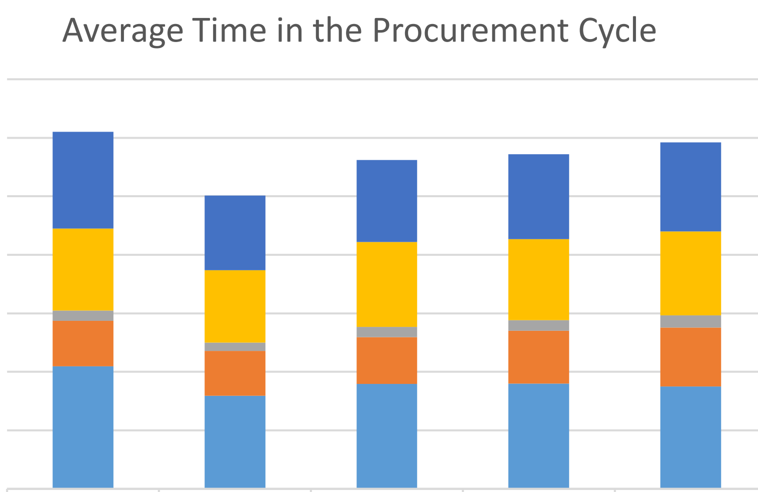
The average time for a solicitation to be on the market (between solicitation issue date and submission deadline) was 20 days in 2019. This time frame is reasonable as bidders/proponents must be given a reasonable amount of time to prepare a response to a solicitation. This average length of time on the market is reflective of guidelines and stipulations within the Canadian Free Trade Agreement (CFTA) and the Comprehensive Economic Trade Agreement between Canada and the European Union (CETA) that apply to solicitations over certain dollar value thresholds. There was a minor increase in 2019 compared to 18 days in 2018.

The average time from the solicitation 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 4 days over the 5 year period.

The average time for divisions to evaluate the submitted bids / proposals and recommend a successful bidder / proponent was 29 days in 2019 compared to 27.7 in 2018. 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 30 days in 2019. 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 29 days in 2018 to 30 days in 2019.

Graph 4: Average Time in the Procurement Cycle



	2015	2016	2017	2018	2019
Average time from receipt of recommendation to award to issuance of Purchase Order (net-work days)	33.0	25.5	28.0	29.0	30
Average time for divisions to evaluate bids/proposals (net-work days)	28.1	24.8	29.0	27.7	29
Average Closing Date and Date the Summary was sent to Client Division (net-work days)	3.5	2.9	3.5	3.6	4
Average time for Call (net-work days)	15.5	15.3	16.0	18.0	20
Average time for Call preparation and Call issuance (net-work days)	42	31.8	35.9	36.0	35
Total Average Time in the Procurement Cycle	122	100	112	114	119

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 330 DPOs in 2019 compared to 2018. The dollar value of purchases made by DPOs decreased by $5,256,400 from $56,631,281 in 2018 to $51,374,881 in 2019. Only 1.76% of City purchases in 2019 were processed using DPOs.

Graph 5: Divisional Purchase Orders

	2015	2016	2017	2018	2019
DPOs Issued	12,661	11,842	11,723	11,268	10,938
DPOs Dollar value ('000s)	$52,370	$50,999	$51,290	$56,631	$51,375

Category Management & Strategic Sourcing

Category Management is a process and people oriented practice that is transforming 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. This was introduced in late 2018.

In 2019, the achievements 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;
- Completed 6 strategic sourcing negotiable request for proposals since January 2019 in the Construction, Technology, Fleet and categories;
- Completion of the Category Management Process Designs;
- Established Change Management practices to work with the Divisions in executing the changes as a result of the Category Management approach to purchasing for

strategic projects of high value, high complexity and high impact to the residents, businesses and visitors to the City of Toronto; and
- Achieved $1.11 million in benefits in 2019, with an estimated $9.47 million of benefits will be achieved in 2020 and a further $39.08 million benefits in 2021.

Implementation of SAP Ariba - SAP Ariba Sourcing, Contract Management, Procure to Pay and Supplier Lifecycle Performance 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, advertised globally through the SAP Ariba Discovery portal and responses are received and awarded through the system.

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 solution. The SAP Ariba implementation is modernizing the City's procurement processes by providing a clear line of sight to the solicitation throughout its lifecycle. Procurement teams benefit from a shared system to enter data and access reports to support analysis and improvement of the procurement process. The Supplier experience is improving, as the work of physically submitting a bid is removed and electronic submission of the bid fosters a more compliant bidding process. Finally, advertisement of solicitations through the Discovery portal improve outreach and accessibly to suppliers thereby creating a more level playing field.

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

In 2019, achievements include:

- Roll of SAP Ariba Sourcing module to all Divisions with 100% of solicitations being issued to market through SAP Ariba starting Sept 1st 2019
- Design and implementation of change initiative including training, communication and user support for approximately 2000 staff involved with solicitations.
- Successfully on boarding of > 5000 Suppliers, supported through online learning and training sessions throughout 2019.

The Contract Management Module is repository function is set to be available in Q4, 2020 with rollout to being in 2021 and Supplier Lifecycle Performance module and Procure to Pay is slated for design and roll out in Q4 2021.

PMMD, Materials Management & Stores

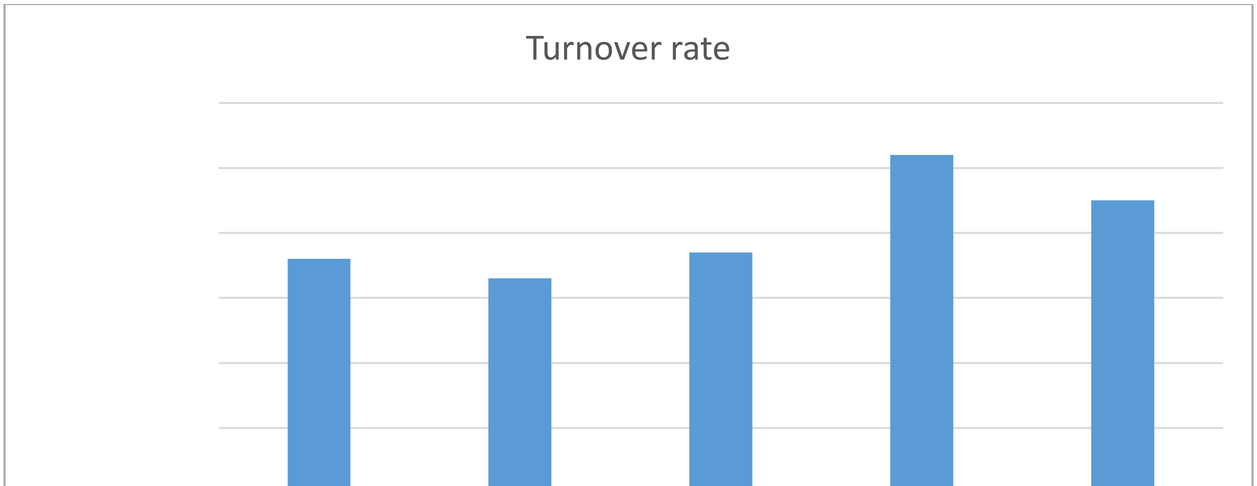
For the Materials Management Unit which runs the corporate warehouses, high functioning characteristics include a balance between the value of stock issued and the value of goods received, and an optimal inventory turnover rate for goods (too low may indicate risk of obsolescence, too high may indicate a risk of “stock outs”). The indicators and their values from 2015 to 2019 are provided in graphs 6 and 7.

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 continued consolidation of Divisional warehouses with the Corporate at 799 Islington Avenue, the overall turnover rate of the inventory maintained around 5 turns, meeting the expected turns. For a Maintenance, Repair and Operations (MRO) organization such as the City of Toronto the appropriate turnover rate is between 4 and 6.

Graph 6: Warehouse Inventory Purchased & Issued

	2015	2016	2017	2018	2019
Dollar value purchased (000s)	$12,964	$11,621	$14,437	$18,020	$18,228
Dollar value issued (‘000s)	$12,965	$12,638	$14,657	$17,878	$17,998

Graph 7: Turnover Rate



	2015	2016	2017	2018	2019
Turnover rate	3.6	3.3	3.7	5.2	4.5

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

Materials Management Refresh

In January 2019, PMMD and PFR consolidated the PFR divisional warehouse into 799 Islington Avenue. Further discussions with Toronto Fire, Toronto Paramedics Services and Toronto Water on the appropriate approach to their warehouses continue. In addition, work on the SAP Warehouse Management module continued through 2019 with expected rollout in 2020.

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. This police was amended in 2016. 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 2019.

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SIGNATURE

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