



Date: February 15, 2018
To: TTC Board
From: TTC Audit and Risk Management Committee
Subject: TTC Response to Auditor General Report – Procurement Policies & Practices

The subject report, reviewed at the TTC Audit and Risk Management Committee on February 15, 2018, is forwarded to the TTC Board for review and consideration, and forwarding to the next City of Toronto Audit Committee meeting.

Original signed by Chrisanne Finnerty for

Head of Commission Services

Attachment: TTC Response to Auditor General Report – Procurement Policies & Practices



TTC Response to Auditor General Report - Procurement Policies & Practices

Date: February 15, 2018
To: Audit & Risk Management Committee
From: Tara Bal, Chief Financial Officer

Summary

The Auditor General published a report, "Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings" on May 15, 2017. The report states that "that many aspects of TTC's procurement policies and practices need to be substantially improved or revamped for it to achieve efficient and effective operations and the best overall value." The Auditor General's report "also identified a few significant cost savings opportunities, and inventory management issues that negatively impact TTC's day-to-day customer service."

The report was received by the Audit and Risk Management Committee on May 29, 2017. The report was then forwarded to the TTC Board and Toronto City Council, and recommendations in the report were approved by both committees.

The purpose of this report is to provide the requested progress to date on the improvements made to realize the savings identified in the Auditor General's report.

Recommendations

It is recommended that the Audit & Risk Management Committee:

1. Receive this report for information; and
2. Forward this report to the TTC Board for consideration and referral to the City of Toronto Audit Committee in accordance with City Council's request at its meeting of July 4, 2017 (AU19.11)

Financial Summary

The Materials and Procurement team continue to validate the potential savings associated with rolling out the Auditor General 2017 report recommendations covering

TTC's Procurement Policies and Practices. Although the TTC is in its early stage of implementing the Auditor General's recommendations, approximately \$2.19 Million has been removed from the 2018 TTC budget in anticipation of savings related to implementation of the Auditor General's report findings.

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

Equity/Accessibility Matters

No Equity/Accessibility Matters are applicable to this report.

Decision History

At the meeting of May 29, 2017, the Audit and Risk Management Committee received the Auditor General's Report, "Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings". Beverly Romeo-Beehler, Auditor General, City of Toronto, and Ted Zlotnik, Head of Materials & Procurement each delivered a presentation on this item. Approval was received to forward this report, along with the response from TTC Management, to the TTC Board.

[http://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2017/September 27/Minutes/Minutes May 29 2017.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2017/September%2027/Minutes/Minutes%20May%2029%202017.pdf)

[http://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2017/May 29/Reports/6 AG Report Procurement Policies Presentation.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2017/May%2029/Reports/6%20AG%20Report%20Procurement%20Policies%20Presentation.pdf)

[http://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2017/May 29/Reports/6 AG Report Procurement Policies TTC Response Presentation.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2017/May%2029/Reports/6%20AG%20Report%20Procurement%20Policies%20TTC%20Response%20Presentation.pdf)

At the meeting of June 15, 2018, the Board received this report and adopted the report's recommendations.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2017/June 15/Reports/12 AG Review of TTC Procurement Policies and Practices AG.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2017/June%2015/Reports/12%20AG%20Review%20of%20TTC%20Procurement%20Policies%20and%20Practices%20AG.pdf)

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2017/June 15/Reports/Decisions/12 AG Review of Procurement Policies and Practices.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2017/June%2015/Reports/Decisions/12%20AG%20Review%20of%20Procurement%20Policies%20and%20Practices.pdf)

This item was presented to the Audit Committee on June 27, 2017.

Also, on July 4, 2017, City Council received this report and requested that the TTC consider hiring an external consultant with expertise in customized transit parts when implementing the Auditor General's recommendations, and that the TTC Board report back to the Audit Committee in Spring 2018, on what improvements were made to achieve the recommendations.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.11>

Issue Background

The key findings outlined in the 2017 Auditor General's report are as follows:

- 1) Core Management: The Auditor General recommended that TTC "undertake steps to improve the tracking and retrieving of cores in order to maximize the use of cores in vehicle rebuild programs and avoid paying for additional core charges when purchasing remanufactured parts."
- 2) Increasing Blanket Orders: The Auditor General recommended that TTC "reduce annual purchase costs where feasible by establishing Blanket Contracts or expanding existing price agreements with vendors of concentrated spending and repetitive purchases. Periodic analysis of TTC's overall purchase activities to identify Blanket Contract opportunities should also be undertaken."
- 3) Alternate Sourcing: The Auditor General recommended that TTC "expand and actively pursue alternate sourcing to reduce purchase costs for replacement parts, and to ensure the alternate sourced products are adequately reviewed and tested for TTC operations."
- 4) Development of an After Market Warranty program: The Auditor General recommended that TTC "undertake the necessary steps to maximize warranty claim rate and revenue for aftermarket parts. Such steps should include an assessment of the resource and technology requirements to enable staff to systematically retrieve, track, and process aftermarket parts warranty."
- 5) Review of the TTC's Procurement Policy and Procedures: The Auditor General has several recommendations to improve TTC policies and procedures highlighted through the report. The TTC has implemented new processes and improvements to address the Auditor General findings.

Comments

The TTC has committed significant time and resources to ensure that all of the Auditor General's findings and recommendations are thoroughly reviewed and understood, and a strategy and program have been implemented to realize the estimated savings outlined in the report.

The TTC will ensure that all 2017 Auditor General findings and previous audit recommendations are implemented. Specifically, the following actions were taken to date to address the audit findings:

- 1) Core Management: We have executed a Standard Operating Procedure (SOP) for the Core Management process. This SOP has been rolled out to all TTC's warehouse personnel. This process change ensures visibility of core availability. All cores today are entered into our database when they are retrieved from bus garages; previously, cores were only entered into the system when there was demand for the parts.
- 2) Increasing Blanket Orders: The TTC continues to create blanket orders. In 2017, approximately \$78 Million of blanket orders were created, driving improved discounts and increased buyer productivity (3,200 items).
- 3) Alternate Sourcing: TTC identified 100 alternative parts through a Request for Information process. These items need to be priced and tested to ensure they are price competitive, and meet TTC performance and quality expectations.
- 4) After Market Program: TTC is in the process of hiring an After Market Co-ordinator to pursue vendor credits for after-market parts that fail within the warranty period.
- 5) Policies and Procedures: EY consultants are currently reviewing our Procurement Policies and Procedures to determine whether they need to be modified to match industry best practices.

The following table outlines the cost reductions earmarked in the TTC's 2018 budget and are based on TTC staff's initial assessment in the early stage of implementing the audit recommendations. As the TTC continues its effort to fully implement the audit recommendations, it is possible that the TTC will achieve further savings.

(Millions \$)

Findings	Auditor General Estimated Savings	TTC Budgeted Savings
Core Management	\$1 - \$1.5+	\$0.5
Increasing Blanket Orders	\$0.5 - \$2.5	\$1
Alternate Sourcing	\$2.5 - \$6.5	\$1.7 \$1.5 (assume 20% savings)
After Market Program	\$4 - \$6	\$0.690

Contact

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Signature

Tara Bal
Chief Financial Officer