

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF FEBRUARY 17, 2015

Item 3, Report No. 5, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on February 17, 2015.

3 PROCURE TO PAY (P2P) IMPLEMENTATION STRATEGY

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance and City Treasurer, Director of Purchasing and the Director of Financial Services, dated February 9, 2015, be approved; and**
- 2) That the presentation by the Director of Purchasing and the Director of Financial Services and C14, presentation material entitled “*Procurement to Payment (P2P) Implementation Strategy*”, dated February 9, 2015, be received.**

Recommendation

The Commissioner of Finance and City Treasurer, Director of Purchasing and the Director of Financial Services in consultation with the Director of Internal Audit and the Director of Innovation and Continuous Improvement (ICI), recommend:

1. That Council endorse the P2P Implementation Strategy;
2. That Council approve repurposing of funds from existing open capital projects, (CF-0053-09, \$205,000 and RI-0047-07, \$125,000) to create a new capital project to fund the P2P Implementation Strategy; and
3. That Council continue to consider two (2) additional resources requested as part of the 2015-2018 Budget deliberations to support implementation of the P2P project.

Contribution to Sustainability

The Procure to Pay (P2P) process contributes to corporate sustainability from both a financial and service delivery perspective. Improving the way we acquire goods and services organizationally can lead to heightened community value through increased business productivity, greater competition and potentially lower transaction costs, which in return aids the City in balancing community needs with limited financial resources and long term viability. Lack of resources and support for this initiative will erode the City's ability to achieve any substantive efficiency savings and improvements from procure to pay opportunities.

Economic Impact

The P2P Implementation Strategy project is expected to deliver benefits, both departmentally (Purchasing and Financial Services) and to the broader organization as a whole. To achieve these expected benefits, the City will need to invest in people, processes and tools.

Costs

The P2P Implementation Strategy project is a large complex, multi-year undertaking that will transform associated policies, procedures, processes, and technologies. Detailed project planning identified the need for resources to ensure the success of the project. Two (2) additional resources have been requested through the 2015 – 2018 Budget deliberations to support the project. The first ARR, a Purchasing Procurement Policy, Systems and Reporting Officer, will focus on performance reporting and compliance, assess efficiency and effectiveness,

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status reporting and data analysis to determine optimal procurement and payment strategies. The second ARR, an Accounts Payable Analyst, is required to assist and backfill the Subject Matter Expert (SME) for the P2P Implementation Strategy team. Once the P2P implementation is complete this person will be redeployed to support other projects including asset management, tax system upgrades and a general ledger review. Additionally an existing role in the Purchasing Department will be repurposed to support spend analysis and market research.

Additionally, repurposed funds from open capital projects, (CF-0053-09, \$205,000 and RI-0047-07, \$125,000), in the amount of \$330,000, will provide the necessary funds to offset the cost of external experts to support bid template modifications, changes to the JD Edwards application platform and specialized user-training.

Summary of Project Investment

Resource	2015	2016	2017
AP Analyst	\$110,617	\$21,000	(\$15,000)
Purchasing Officer	\$187,600	(\$11,500)	\$0
Subtotal	\$298,217	\$9,500	(\$15,000)
Repurposed Capital*	\$330,000	\$0	\$0
Total	\$628,217	\$9,500	(\$15,000)

Benefits – Purchasing and Financial Services

New processes and increased technology utilization will create a more effective, efficient and controlled P2P function which will leverage existing resources by increasing employee competencies through training and continuous improvement initiatives. The incremental costs of the two additional ARR's are expected to eventually be recovered from future savings generated by the implementation of procurement and payment improvements including reduced manual handling costs (e.g. Invoice, PO and LVP handling). Further, cost avoidance (e.g. freeing people up from non-value-added activities) savings will be identified as the project progresses. Once all phases of the project are implemented the annual transactional cost savings could be significant; the timing of the savings is uncertain but savings will accrue as the project moves forward.

Benefits - Organization

In order to realize organizational benefits, the broader corporation has to be fully engaged both during and after execution of the project, as the procurement and payment functions transcend departmental boundaries. Components of the project are already being supported by Legal Services and ITM.

The potential savings from an optimized P2P function can be significant. As an example, changing the City's procurement spend patterns by one half percent (0.5%) would equate to \$500,000 in savings based on a \$100 million procurement spend, with savings spread across the organization.

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Improvement opportunities include:

- Spend analysis;
- Consolidating purchase requests and intervals;
- Centralizing disparate purchasing functions;
- Continued roll-out of the PCard program;
- Consolidating suppliers and deliveries;
- Reviewing supplier's terms and discounts;
- Improving the use of technology; and
- Ensuring the appropriate management controls are in place.

Communications Plan

Moving forward, the successful implementation of recommendations will be dependent on those involved in the day to day activities. **To ensure awareness of proposed changes, a communication strategy will be developed** leveraging on-line tools (Finance and Purchasing portals), general announcements, supplier association correspondence, education sessions and regular status reporting. Where possible media releases will be issued indicating Vaughan's efforts related to innovative practices and continuous improvement efforts.

Purpose

The purpose of this item is to report back, build upon the previous Council report (FAA Item 2 Report 9, September 3, 2014) and to provide an update to Council on the implementation strategy to improve the procurement and payment functions at the City.

Background - Analysis and Options

As part of the Public Service Renewal (PSR) program, the Commissioner of Finance, Director of Internal Audit and the Director of Innovation and Continuous Improvement (ICI) partnered in a collaborative effort to initiate a Procure to Pay (P2P) Operational Review project. The project was the first attempt to review the City's functions holistically and involved both internal and external stakeholders. The objectives of the Operational Review project included:

Phase I - Current state assessment:

- Assessment of the capability of the existing processes in meeting customer and other stakeholder requirements;
- Determining how the current process contributes to overall organizational business objectives and ensures the process is properly aligned and controlled;
- A risk assessment of the P2P cycle; and
- Identification of any gaps or challenges in processes, controls, organizational structure or enabling systems.

Phase II – Future state design:

- The development of potential options for future state processes, controls, organizational structure and enabling systems;
- Recommendations to address any gaps or challenges;
- The creation of an implementation strategy for any proposed changes; and
- Identification of the costs and benefits associated with any proposed changes.

The first phase of the P2P Operational Review project focused on the current service delivery model, discovery findings, and opportunities for further review and areas for policy consideration. The Operational Review recommendations were reviewed and consolidated to form the basis of an implementation plan to be delivered as a project, the Procure to Pay (P2P) Implementation Strategy.

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Recognition of Improvements Underway

Although the implementation project focuses on transitional change within the P2P cycle, there has been considerable ongoing effort to implement changes in policy, process, and service. Some enhancements were identified in departmental business plans over the past year. **Since 2013, the following improvement initiatives have been implemented:**

- Implementation of annual procurement planning to assist in capacity planning and prioritization;
- Low value purchase process enhancements to improve controls and reporting;
- Initiation of a purchasing card (PCard) pilot aimed at lower transaction costs, improved controls and flexibility; and
- Enhanced new vendor verification system.

Additional initiatives are underway including:

- Revisions to the procurement policy and associated procedures;
- Procurement (bid templates) documents review;
- Creating a portal to enable downloading of bid documents; and
- Development and delivery of user-training modules for staff across the organization.

Strategic Sourcing – Optimal End State

The purchasing function at the City is undergoing a transformation, moving from a transactional based method to a strategic sourcing methodology. This longer-term transformation will leverage spend analytics and the functional improvements achieved through this project.

Strategic sourcing is a data-driven approach for optimizing the City's supply base and improving the overall procurement function. Strategic sourcing will focus on the total cost of ownership of products and services procured by the City, incorporating program needs, the City's goals and market conditions. It is an ongoing continuous process aimed at the getting the best products and services, at the best price using a collaborative city-wide approach. The approach will address all options for savings and make procurement decisions that are based on spend analysis, including market analysis and intelligence.

Spend analysis is the process of collecting, cleansing, classifying and analyzing expenditure data with the purpose of reducing procurement costs, improving efficiency and monitoring compliance. The spend analysis is an ongoing activity, consolidating disparate data sets from the accounts payable, purchasing card and purchase order activities to identify patterns, outliers and opportunities. Outputs of the spend analysis function will provide short, medium and long-term decision opportunities and help transition the City toward a strategic sourcing organization.

Implementation Strategy

After a thorough and collaborative review of the entire P2P business functions, detailed process mapping, feedback through internal and external surveys, exhaustive data analysis, benchmarking exercises and several deliberations among departmental staff and user groups to determine best practices, many improvement opportunities were identified. **This project when fully implemented will increase process efficiencies, provide new and expanded system functionality, maximize strategic supplier relationships, identify new cost containment opportunities and enhanced training and support for system users.** Project team members will include representatives from Purchasing, Accounts Payable, Legal Services and Information and Technology Management (ITM). Additionally, a project manager has also been identified to

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lead the initiative. Initially, the project will focus on purchasing and accounts payable functions. Further enhancements, influencing the broader organization, will require input and resource commitments from various City departments; the extent of involvement will not be known until the project progresses.

Listed below are the five specific business objectives for the project, the expected beginning and completion dates, the expected resources and estimated costs necessary to implement the changes.

1. Policy and Procedure Improvements

A policy is a principled framework to guide actions, behaviours and outcomes, which are then supported by procedures, processes and controls. The project team will review, modify and enhance the policies that govern the procurement function including the Purchasing policy, the Delegation of Financial Signing Authority policy and the bid template documents. Further, roles, responsibilities and procedures will be developed and aligned to the new Purchasing policy.

Start Date	Completion Date	Resources	Estimated Costs
Q4, 2014	Policies - Q2, 2015	1. Purchasing subject matter experts 2. Accounts Payable subject matter experts 3. Legal subject matter experts 4. External expert(s)	1. ARR 2. ARR 3. Existing 4. \$11,750
Q3, 2015	Procedures - Q4, 2015	1. Purchasing subject matter experts 2. Accounts Payable subject matter experts 3. Legal subject matter experts 4. External expert(s)	1. ARR 2. ARR 3. Existing 4. \$25,000

Expected benefits of policy and procedure updates include:

- Improved transparency, consistency and efficiency in the procurement and payment functions;
- Clarity of roles, responsibilities and requirements;
- Minimizing potential litigation risks;
- Reduction in procure to pay cycle time;
- Enhanced competition leading towards potential cost savings;
- Better contract management; and
- Improved vendor performance management/assessment and vendor relations.

2. Process Improvements

The project team will leverage the findings in the P2P Operational Review and adopt the process improvement focused recommendations. Specifically, the team will work to further streamline the business processes and improve compliance with:

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- Requisition requirements;
- Supplier invoice payment responsibilities;
- Utilization of preferred contract suppliers;
- Performance reporting and analytics; and
- Procurement planning and staging.

Specific improvements are expected to be completed in 2016. However, process refinements will be ongoing in line with the City's Strategic Goal of high performance through continuous improvement.

Start Date	Completion Date	Resources	Estimated Costs
Q1, 2015	Q2, 2016	1. Purchasing subject matter experts 2. Accounts Payable subject matter experts	1. ARR 2. ARR

Expected benefits of process improvements include:

- Transactional efficiencies;
- Cost containment; and
- Cost avoidance.

3. Technology Enhancements & Training

The City of Vaughan uses JD Edwards to perform basic purchasing and payment related functions. **Increased utilization of JD Edwards will be achieved by implementing new functionality, functionality the City owns but does not currently use.** The project team will apply modules contained within JD Edwards, and investigate new electronic purchasing and payment technologies that will lead to additional opportunities in the future including automated workflow, electronic fund transfer (EFT) and electronic bid submissions tools.

Start Date	Completion Date	Resources	Estimated Costs
Q1, 2015	Q4, 2016	1. Purchasing subject matter expert 2. Accounts Payable subject matter expert 3. ITM subject matter experts 4. External expert(s)	1. ARR 2. ARR 3. Existing 4. \$223,250

Expected benefits of technology enhancements and automation include:

- Reduction of time and costs associated with the process;
- Improved data analytics and automated reporting to assist in management decision making;
- Improved work flow management (e.g. approval and release of orders in real time);
- Greater access to information thereby increasing transparency; and
- Improved audit capabilities and control mechanisms.

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4. Inter-departmental Operations

There is a great deal of interdependency between the purchasing and payment functions including shared processes and systems. Organizationally, however, the two departments generally operate as separate entities. **The structure of the departments will be reviewed and potentially adjusted to support transformed processes and procedures, including roles and responsibilities.** Further, there will be a focus on building human capacity through training, education and recruitment.

Start Date	Completion Date	Resources	Estimated Costs
Q3, 2015	Q3, 2015	1. Purchasing subject matter expert 2. Accounts Payable subject matter expert 3. External expert(s)	1. ARR 2. ARR 3. \$20,000

Expected benefits of organizational alignment:

- Clarified roles and responsibilities for staff in both the Purchasing and Financial Services departments;
- Minimized duplication of tasks;
- Centralized and consistent data; and
- Reduction of process exceptions and administrative rework.

5. Training and Education

The project team will develop and enhance corporate-wide end-user training for the new policies and procedures to improve the knowledge, understanding and use of purchasing and accounts payable processes and systems and invest in contract management training. Fundamental training concepts will include identifying the roles and responsibilities of all actors in the procure to pay function.

Start Date	Completion Date	Resources	Estimated Costs
Q3, 2015	End-user training Q4, 2016 -and ongoing after the project is complete	1. Purchasing subject matter expert 2. Accounts Payable subject matter expert	1. ARR 2. ARR
Q1, 2016	Contract management training Q3, 2016	1. Purchasing subject matter expert 2. Accounts Payable subject matter expert 3. External expert(s)	1. ARR 2. ARR 3. \$50,000

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Expected benefits of increased training and education include:

- Enhanced end user training to improve the quality of specifications and procurement requirements;
- Heightened understanding of user responsibilities before, during and after a procurement;
- Improved organizational competencies; and
- Better contract management leading to enhanced operational service delivery.

Proposed Timeline

	2015				2016			
Activity	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Policy Improvements								
Procedure Improvements								
Process Improvements								
Technology Enhancements & Training								
Inter-departmental Operations								
End-user Training								
Contract Management Training								

Summary of Estimated Costs for External Experts

Activity	Planned
Policy Improvements	\$11,750
Procedure Improvements	\$25,000
Process Improvements	-
Technology Enhancements & Training	\$223,250
Inter-departmental Operations	\$20,000
End-user Training	-
Contract Management Training	\$50,000
Total	\$330,000

Relationship to Vaughan Vision 2020/Strategic Plan

To achieve the vision and goals noted in the City's strategic plan and by focusing on the solutions illustrated within this report, the administration can further achieve service excellence, staff excellence and organizational excellence. The P2P process is involved in the broader strategic aspect within the organization by supporting the City's overall goals, through activities such as selecting sources, managing costs, developing and nurturing supplier partnerships and strategic alliances. As a result of this interconnectivity there is a need to assess how we deliver these services to ensure we are being as effective as possible.

Regional Implications

Not applicable

Conclusion

Modernizing our P2P cycle is an important step forward for the City. Leveraging significant support from experts across the organization, we are in an ideal position to grasp opportunities and affect any change necessary to continuously improve and deliver service excellence,

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transforming toward a strategic sourcing organization. The P2P implementation will be a very complex and resource intensive initiative spanning a multi-year horizon. The P2P Implementation Strategy will have impacts across the organization and therefore comprehensive communication and change management plans will be required to inform all stakeholders of changes and their role in the business transformation.

Governance provides the foundation to all of the City's operations by establishing policies with clear roles and responsibilities. These policies assist with the development of processes, the assignment of roles and responsibilities, and implementation of controls to manage risk. The implementation of technology, changes to organizational structure, and introduction of education programs will all support the continuous improvement efforts to effectively change processes and controls. Communication focuses on providing information strategically to the right audience at the right time, before, during and after changes are implemented.

In summary the P2P Implementation Strategy project will focus on the following deliverables:

- Revised policies, procedures and bid document templates;
- Refined processes including document handling, performance analytics, and spend analysis;
- Efficiencies from improved processing, technology and automation; and
- Stakeholder engagement through communication, change management and training.

Attachments

Procure to Pay (P2P) Process Review Update, FAA Item 2 Report 9, September 3, 2014

Report prepared by:

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)