

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 9, 2014

Item 2, Report No. 9, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on September 9, 2014.

2 PROCURE TO PAY (P2P) PROCESS REVIEW UPDATE

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, Director of Financial Services, Director of Internal Audit and the Director Innovation and Continuous Improvement, dated September 3, 2014, be approved; and**
- 2) That the presentation by the Director of Purchasing Services, the Director of Innovation and Continuous Improvement and the Director of Internal Audit, and C2, presentation material, be received.**

Recommendation

The Commissioner of Finance and City Treasurer, Director of Purchasing, Director of Financial Services, Director of Internal Audit and the Director Innovation and Continuous Improvement, in consultation with the Senior Management Team, recommend:

1. That staff be directed to report back with a refined implementation strategy and revisions to the Purchasing Policy in early 2015;and
2. That any additional resource requirements be submitted and considered as part of the 2015-2018 Budget deliberations.

Contribution to Sustainability

The Procure to Pay (P2P) process contributes to corporate sustainability from a both 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.

Furthermore, the City has the ability to leverage the P2P process to support environmental objectives and influence spending trends to help reduce the City's environmental footprint. The connection is further realized by transitioning to more automated processes resulting in reductions in paper, storage requirements, etc.

The review is grounded in the guiding principles of sustainability by assessing strategies, resources, and technology to facilitate innovation and continuous improvement.

Economic Impact

There are no financial implications associated with this report at this time.

The intent of the review was to assess the Procure to Pay process and identify opportunities for innovation and continuous improvement. A preliminary phased implementation framework has been developed, but further detailed vetting will be required through collaborative discussions during the upcoming financial planning cycle.

Preliminary assessments indicate investment needs to support policy administration, document review and strategic sourcing. Later phases focus on technology investments which cannot be

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assessed at this stage, but after the governance and policy framework is finalized. It is anticipated, some recommendations will have long-term benefits, which could mitigate future pressures.

Communications Plan

At the core of this review is the underlying philosophy of “Collaboration”. The initiative heavily leverages the insight, expertise and commitment of many disciplines including Purchasing, Accounting Services, Legal, Innovation and Continuous Improvement (ICI), Internal Audit, Information Technology Business Process Re-engineering, Change Management and Financial Planning. In addition, focus groups were utilized to obtain the perspectives and experiences of departments and suppliers participating in the P2P process.

Moving forward, a similar approach will be applied as it is understood that successful implementation of recommendations will be dependent on those involved in the day to day activities. To ensure awareness of proposed changes and requirements, a communication strategy will be developed leveraging on-line tools, 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 report is to provide an update to Council on the status of the P2P initiative, highlight general themes and opportunities being considered for continuous improvement and lay out the next steps with respect to implementation.

Background - Analysis and Options

The P2P Process

In line with the City’s Vision of providing service excellence and in the spirit of the Council’s directive for Public Service Renewal, aiming higher and raising the bar, this review will focus on continuous improvement opportunities to better position this vitally important process for the City’s future.

The P2P cycle as illustrated in Figure 1 is the process of obtaining goods and services required to do business within the City. On average, approximately \$100 Million annually is acquired across the major purchase categories as illustrated in Figure 2 below. This includes supplies and goods, services, construction and information technology. Delivering the P2P process effectively involves integration of many business functions, including but not limited to procurement, receiving, approval management, payment processing, accounting, vendor performance, and management reporting. There are also many distinct City activities, which have different and unique servicing needs and therefore a balancing act between flexibility and risk management is frequently required. In general the process is large, complex and very integrated, which will take time and effort for implementation, transition and acceptance of change.

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Figure 1: P2P Process Cycle

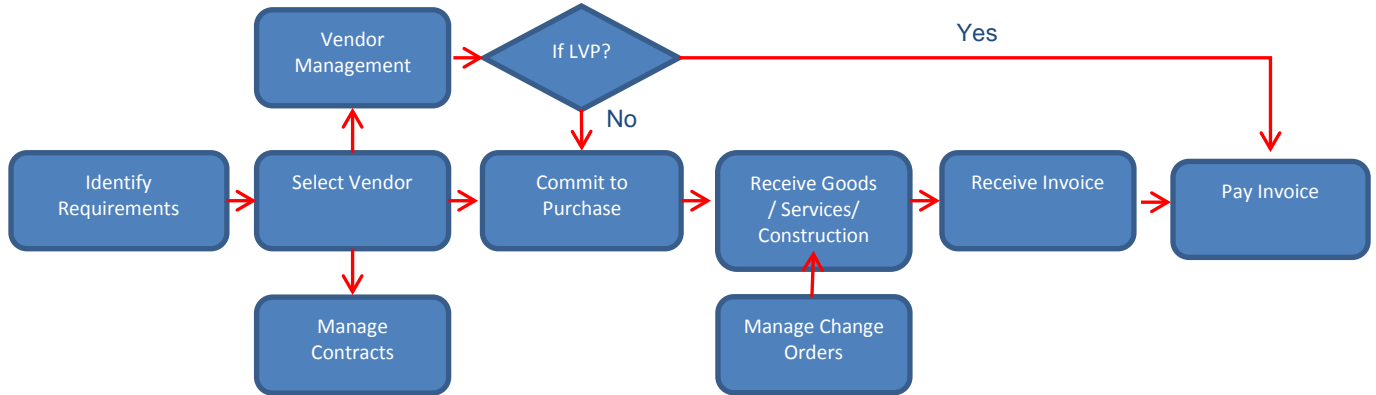
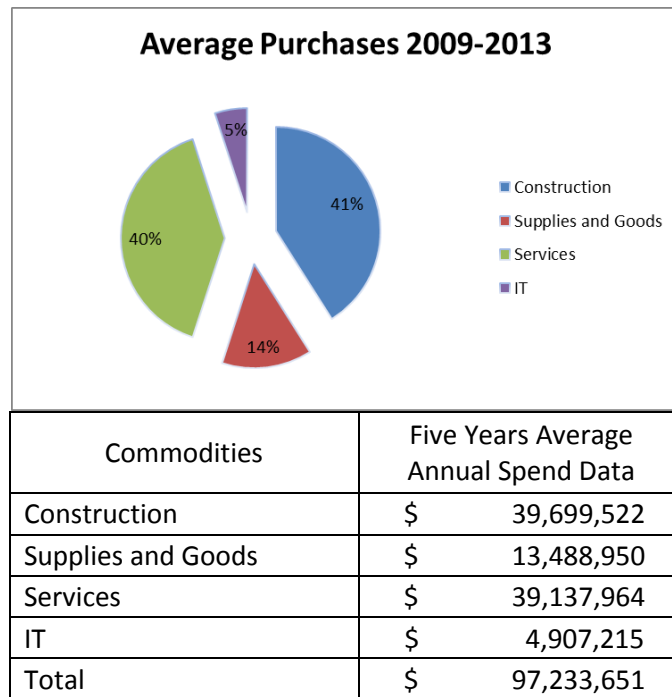


Figure 2: Five Year Average Purchases by Commodity from 2009 – 2013



Environment in Transition

The City of Vaughan has experienced exponential growth over the last 30 years, which brings a level of increasing demands and expectations. In addition, public procurement is in the midst of significant transition with escalating levels on common law and regulatory/policy of other levels of government, stimulated by reports and media controversy, such as the Bellamy and Gomery inquiries. Over the last two decades, removing barriers for suppliers and increasing transparency have become well recognized norms of government procurement forcing municipal procurement to be more strategic in design and deliberate in execution. As the City transforms and adapts to becoming a world class city, traditional business practices and legacy systems will need to evolve proactively and strategically. This is the case for most Ontario municipalities and the broader public sector.

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Collaborative Approach & Methodology

The Finance Commission, Internal Audit, and the Innovation & Continuous Improvement Department partnered in a collaborative effort to initiate a Procure to Pay (P2P) review project. Internal stakeholders representing City departments were asked to volunteer and participate in focus groups to share their perspectives and experiences. In total, over 50 participants contributed. In addition, suppliers were surveyed and a municipal jurisdictional review conducted. The project is the City's first attempt to review this cycle holistically and involve both internal and external stakeholders.

Complementing the above process, an external consultant was engaged to assess the City's existing procurement practices and provide key improvement recommendations focused on key areas such as, institutional governance and document drafting. The "snapshot review" serves as a benchmark to measure improvement efforts and provides a policy roadmap for improvement. The results of this exercise were generally consistent with other public institutions and reflective of the increasingly complex obligations and requirements to which public entities are subject to. While the actual practices at the City align closely with best practices, the current procurement policy requires further updating to enhance clarity and guidance. Additional efforts are underway to enhance the current policy.

The first phase of the P2P initiative and the basis for this report focuses on the current service delivery model, discovery findings, and opportunities for further review and areas for policy consideration. The second phase, to be delivered at a later date, will focus on phased detailed recommendations and the associated implementation over the next term of Council.

Recognition of Improvements Underway

Although the project focuses on continuous improvement 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. The following improvement initiatives have been implemented to date:

- A consolidated procurement policy update (2012)
- Implementation of annual procurement planning to assist in capacity planning and prioritization (2013)
- Low value purchase process enhancements to improve controls and reporting (2013)
- Initiation of a purchasing card (p-card) pilot aimed at lower transaction costs, improved controls and flexibility (2013)
- Enhanced new vendor verification system (2013)
- Capital project contingency guidance and spending controls (2013)

In addition, other improvement based initiatives have been incorporated in business plans such as; technology enhancements, customer surveys, automation, training programs and process improvements, which are dependent on resources and funding.

The Procure to Pay Framework – The Key to Organizational Change

The way the City acquires and pays for goods and services involves the entire organization. Good governance is the foundation and is supported by good policy, clear definition of roles and responsibilities and good understanding of the risks and the appropriate controls to address the risks. The success of managing any change to the P2P cycle will be based on the City's realization that there is no single solution to address the gaps within the existing cycle. The best way to demonstrate the components of the P2P cycle is to illustrate it showing all the building blocks that need to be working in concert so the City can maximize the benefits in acquiring those goods and services needed to sustain effective and efficient service delivery.

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Figure 3: P2P Framework and Governance

The following scenario illustrates the framework integration. For example, the implementation of technology, a change to organizational structure, and the introduction of education programs can support the continuous improvement efforts to effectively change processes, controls and culture. The organizational culture fosters an environment which is accepting and adaptable to business transformation initiatives. Communication focuses on providing information strategically to the right audience at the right time, before, during and after changes are implemented.

Risk and Control – Balancing Expectations

Given the high profile of procurement in the government, the importance of control frequently becomes an important issue. Applying too many controls can have the opposite desired effect and erode innovation opportunities. Risk and control are other components of the governance foundation that will be incorporated in future solutions. A vital step in improving control will be to ensure the City has the right balance of controls to manage key risks as well as deliver effective and flexible service.

Key Observations and Solutions

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. At this stage in the initiative, it is practical to provide brief highlights indicating the context and direction of the next steps. The success of managing any significant change to the P2P cycle will be based on the City's realization there is no single improvement, but rather a multi-pronged integrated corporate approach which will take time. Given the relationship between Purchasing and Accounts Payable, it is logical for the prominent focal point of the exercise to be procurement related, as it is an upstream process upon which Accounts Payable is dependent. It is assumed that improvements in these upstream corporate governance and processes will naturally remedy some of the challenges found in the Accounts Payable function. Listed below are some of the identified improvement opportunities.

1. Policy is a key priority

A policy is a principled framework to guide actions, behaviours and outcomes, which are then supported by procedures, processes and controls. Gaps between current practice and written policy were identified. For example, roles and responsibilities, project management, vendor performance, receiving, supplier's ethics, vendor debriefing process, change orders administration, and approval authority framework. These areas and other elements require further clarification including supporting procedures, training and "how to guides" to avoid confusion or inconsistent practices. In general, the current culture places too much responsibility on the Purchasing or Accounts Payable areas, which is more accurately a shared corporate responsibility across the City for ensuring proper procurement and payment.

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Solutions:

- After the P2P initial assessment was complete, the development of an updated Procurement Policy was initiated with external assistance. The draft policy is approximately 70% complete and further effort is required to continue expanded consultation to ensure changes are practical. A proposed revised policy is anticipated for early 2015 and will be presented to council for consideration.
- Develop procedures and processes

2. Accelerating the Process through Balanced Delegation of Authority

An approval authority framework aims to strike a balance between efficiency and accountability. Currently, relatively conservative authorization levels restrict operational flexibility impacting service delivery. Adjusting award thresholds can minimize process wait times and accelerate service delivery. A similar experience is encountered by the maximum threshold of \$3,000 for low value purchases, which generates added volume for purchasing to process. Items in the range of \$3,000 to \$10,000 consume a disproportionate amount of procurement resources, which can create capacity issues and take away efforts from more value added activities, such as higher risk projects, market research, monitoring, strategic sourcing/spend analysis and contract negotiation.

Solutions:

- Revisit signing authority and award approval framework and test tolerances between control and flexibility
- Implement and expand strategic sourcing methods to reduce the volume of low value purchases i.e. vendors of record, blanket orders, P-cards, cooperative programs, etc.

3. Project Planning and Staging

Project planning and staging is a very proactive element of the procurement process and provides clarity regarding the specific requirements, process steps and timelines, procurement method, etc. This information can help assess the priority of competing projects against available capacity. It also provides an opportunity to be proactive in role and responsibility assignment, managing expectations, assessing procurement opportunities, etc. For various reasons, the City's procurement environment is very reactive and rushed, contributing to bottlenecks, duplication, changing priorities and rework. Developing a procurement plan and standard cycle times will help to better manage the environment. A key element of success to ensure effective and efficient service delivery will be the commitment of business clients to timelines, priorities and lead time.

Solutions:

- Develop standard cycle times and submission requirement checklists
- Implement a rolling master procurement plan
- Determine a methodology for prioritizing requests

4. Strategic Procurement and Sourcing

Spend analysis is the first step in developing and achieving an overall procurement strategy for the organization. Organizations use spend analysis to leverage buying power, reduce costs, provide better management and oversight of suppliers, and to develop informed procurement strategies. Properly implemented, strategic sourcing will enable the organization to:

- Better understand the City's procurement requirements
- Assess sourcing methods with a focus on value enhancement

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- Conduct market research and identify industries that provide better supplier opportunities
- Build strategic business relationships and foster collaboration
- Monitor results to adjust the strategy
- Assess corporate skill sets

Currently the Purchasing department is focused on procurement processing due to substantial growth over the past number of years. Although staff perform an element of sourcing it is not formalized, and fully integrated into existing processes. Furthermore, the data to analyze will need to be developed to support this strategic and value-added process.

Solutions:

- Implement a spend analytics program and associated resources
- Establish a market research function to explore opportunities
- Enhance staff skill set to undertake the added responsibility

5. Improving Decision Effectiveness through Performance Reporting and Analytics

Management performance reporting is a critical activity providing feedback regarding process effectiveness, spending pattern analytics, vendor performance, internal business client performance, lead time, turnaround and capacity management. This fact based information is essential for continuous improvement and provides the foundation upon which value based purchasing rests i.e. internal diagnostics, risk identification and strategic sourcing. At the City, management reporting is focused on formal reporting of individual tenders or events. Implementing tools and leveraging systems for data collection, performance measurement, and monitoring would greatly assist in the effort to further develop the P2P cycle.

Solutions:

- Dedicate resources focused on performance reporting and compliance
- Develop performance metrics for critical process elements to assess efficiency and effectiveness
- Implement regular department management reporting to self-diagnose and communicate status
- Leverage data to determine procurement or payment strategies

6. Providing Value through Enhanced Legal Support

Given that procurement is evolving based on common law and regulatory/policy of other levels of government, there is need for increased legal support, specifically with regard to establishment of template procurement documents and contracts, review of specific more complex commercial agreements, on-going legal advice regarding supplier challenges and legislative and contract interpretation. The bidding contract sets out the “rules” that apply to the competitive procurement process. Layered on top of this legal framework is a collection of trade agreements and government guidelines that regulates procurement practices of government entities. Existing tender templates are construction focused, cumbersome and difficult to navigate. Non-construction requirements, templates are adapted from the construction template on a customized basis. This activity takes significant time and effort which could be alleviated through developing a series of modular templates for different types of goods and services.

Solutions:

- ARR for a Commercial/Procurement Lawyer complement (Legal Department) in 2015 Budget

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- Develop a series of modular procurement templates for each major type of good or service
- Implement a process to review tender documents to ensure consistency and alignment
- Implement a proactive approach to legislative compliance review in public procurement
- Improve access to legal advice for procurement and contract management related issues
- Revise vendor conflict of interest rules
- Revise policy regarding vendor barring
- Establish training and education for user departments
- Develop a series of template contracts, and
- Review and establish template forms

7. Ensure Alignment through Communication and Training

Procurement is a complex function guided by numerous policies and statutes. A comprehensive procurement policy training manual, one that lays out these policies and applicable laws is critical to ensuring that procurement staff and all stakeholders follow the proper procedures and rules so all will have a clear and consistent understanding of the required regulations. In the absence of such guidance, a lack of consistency in how procurement is carried out becomes likely, both within and outside the procurement organization. This can result in delays, reduced process confidence and miscommunication. A policy manual, comprehensive training program and communication strategy is necessary to ensure requirements are clearly understood and complied with:

Solutions:

- Communicate changes and initiatives in P2P with the organization and suppliers
- Orientation for new staff and education sessions for new Council members
- Host formal training and education sessions to generate awareness
- Develop on-line materials and tools to assist staff and suppliers navigate through the process
- Provide regular reporting to stakeholders on their procurement performance and status
- Host regular meetings to understand client needs and pain points

8. Efficiency and Effectiveness through Technology and Automation

There is a need to identify and implement technology that aides the P2P process and supports the overall IT strategy. The technology should create measureable results including but not limited to, reduced transaction costs, improved process efficiency and reduced cycle times. Technology can also help increase supplier access to bid opportunities, resulting in increased competition. Furthermore, leveraging e-procurement and purchase cards can enhance procurement flexibility and effectiveness. Some of these benefits 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, etc. in real time).
- Greater access to information increasing transparency
- Improved audit capabilities and control mechanisms

Solutions:

- Review of JD Edwards's functionality identifying areas for possible process improvements

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- Exploring e-commerce; more specifically e-sourcing, e-procurement, e-purchasing, e-auctions, e-tender, where tenders and bids to be made available on-line for review and download
- Automation to reduce paper based transactions and improved cycle-time for both procurement and payment
- Implement e-submission and e-prequalification to prevent bid submission errors and omissions
- Implement Electronic Funds Transfer (EFT) to replace paper based cheques
- Implement City wide Point of Sale system
- Expand the P-card program
- Develop an electronic vendor management/performance system

9. Invoice Processing

Challenges experienced by Accounts Payable relate to dependencies on support processes like signing authority and receiving, which are very manual, paper based, time consuming and typically require rerouting to departments for review and approval. Furthermore, purchase order inconsistencies can prevent timely invoice processing, payment and add to the workload. Payments to vendors are typically cheque based. The consequences associated with these challenges largely focus on inefficient use of time, timely reporting, information accuracy, relatively high processing transaction costs, and potentially early payment discounts missed. JD Edwards's functionality such as invoice scanning, automatic three way matching and workflow can greatly assist with transforming the current manual and paper based processes and redirect resources to more value added areas.

Solutions:

- Improve process procurement requirement as illustrated within the report
- Update the City's signing authority protocols to include a more holistic position based approach
- Track key metrics to determine pressure points and priority areas
- Investigate technology enhancements to improve effectiveness and efficiency, i.e., paperless processes, automated approval routing, electronic three way voucher matching, etc.
- Implement electronic funds transfer and other payment functionality

10. Environmental Stewardship

Sustainable purchasing is a growing global trend. Increasingly organizations are integrating social and environmental objectives into their purchasing process as a means to reduce their environmental footprint, leverage social benefits and foster a sustainable environment. Value for money includes the consideration of many factors such as cost, performance, availability, and quality. Green procurement also requires an understanding of the environmental aspects. One challenge is the balancing of full life-cycle costs, technical/quality requirements, and social responsibility. Other challenges relate to the need for tools, information and training to screen opportunities and measure sustainability impacts. Currently the City has indicated its interest in these objectives, but will need to formalize a framework and process to support the interest.

Solutions:

- Define objectives the City is interested in and tolerance for trade offs (price, quality, etc.)
- Determine standards and acceptable green certifications
- Incorporate guidance into the procurement policy
- Communicate directives internally and externally

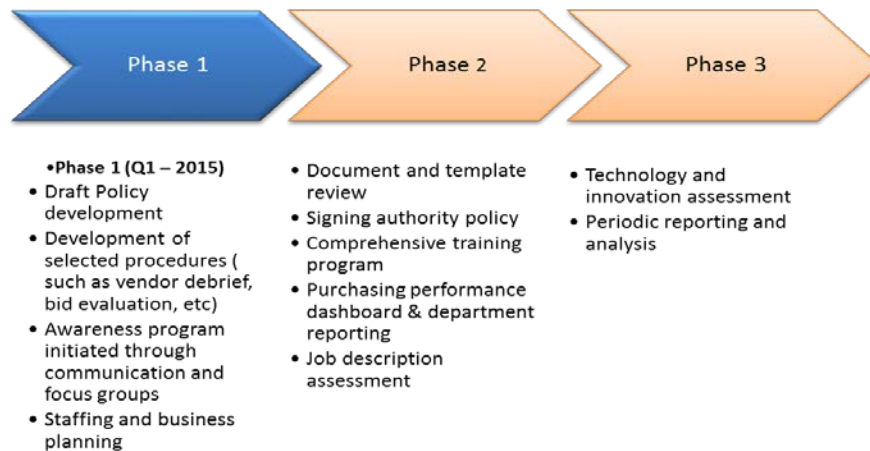
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Preliminary Implementation Guide and Roadmap

Individual improvement efforts were already identified and underway at the department level; however all P2P potential improvement opportunities are consolidated in a holistic and staged implementation plan and roadmap. Resources for implementation of phase 2 and 3 improvement initiatives will be assessed and finalized through continued business planning and 2015- 2018 budget deliberations. As the policy is being enhanced the timelines for next phases will be developed as many of these initiatives are to be continued on an on-going basis for continuous improvements.

Figure 4 Implementation Guide and Roadmap



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. Developing a P2P strategy is the next evolution and will complement the City's vision and mission.

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. The P2P implementation will be one of the most complex and resource intensive initiatives that the City has experienced spanning a multi-year horizon. The P2P Program will have impacts across the organization and therefore a comprehensive communication plan will be required to inform all stakeholders of changes and their role in the business transformation.

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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. The organizational culture fosters an environment which is accepting and adaptable to business transformation initiatives. Communication focuses on providing information strategically to the right audience at the right time, before, during and after changes are implemented.

In summary a list of the key opportunities include:

- Policy is a key priority
- Accelerating the process through balanced delegation of authority
- Project planning and staging
- Strategic procurement and sourcing
- Improving decision effectiveness through performance reporting and analytics
- Providing value through enhanced legal support
- Ensure alignment through communication and training
- Efficiency and effectiveness through technology and automation
- Environmental Stewardship
- Invoice processing

On an on-going basis these opportunities will be examined to realign resources to enhance service delivery to both internal and external stakeholders. The next step in the process is to formalize opportunities within the Procurement Policy and assess resource needs through the 2015-2018 financial planning process.

Attachments

Not applicable

Report prepared by:

John Henry
Commissioner of Finance & City Treasurer

Asad Chughtai
Director of Purchasing Services

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9/3/2014

Procurement to Payment (P2P) Process Review update

Finance and Administration Committee

September 3, 2014



Agenda

- Purpose and Objectives of Review
- Gathering Inputs for Change
- High Level P2P Model
- Implemented Improvements
- Procure to Pay Framework
- Key Opportunities
- The Benefits of Change
- Next Steps



2



Purpose and Objectives of P2P Review

Purpose

- Highlight governance, accountability and control concerns
- Review process effectiveness, efficiency and consistency

Objectives

- Assess P2P's contribution to organizational business needs
- Identify future improvement opportunities:
 - Processes
 - Accountability
 - Controls
 - Staffing
 - Systems
- Develop implementation strategy and phases



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Gathering Inputs for Change

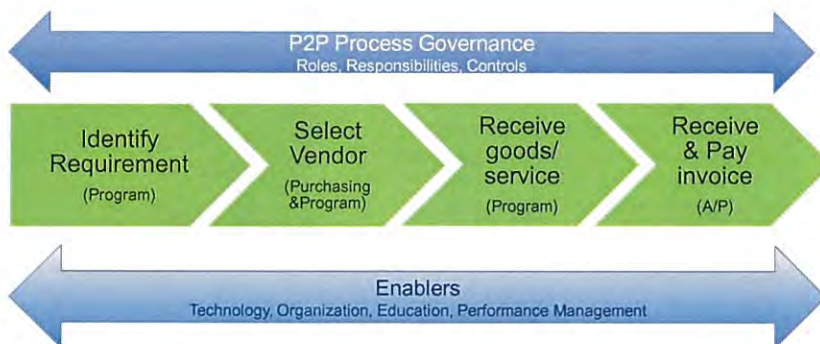
- **Approach**
 - Collaborative effort to initiate a Procure to Pay (P2P) review
 - Identify improvement opportunities
 - ✓ 36 recommendations from P2P Operational Review, 12 from external consultant
- **Participants** (direct involvement, focus groups, surveys)
 - Finance Commission, Internal Audit, and the Innovation & Continuous Improvement Departments
 - Internal stakeholder departments
 - Suppliers
 - Municipalities
- **External expertise engaged to:**
 - Assess the City's existing procurement practices
 - Provide key improvement recommendations such as, institutional governance and document drafting



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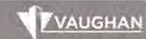
High Level P2P Model

Procure-to-pay processes involve all stages of a business' transactions and are integral to overall enterprise efficiency. It is paramount that the process be as efficient and effective as possible.



5

2013 data



Implemented Improvements

- Consolidated procurement policy update (2012)
- Annual demand planning to assist with prioritization and capacity planning (2013)
- Improved controls and reporting for low value purchases (LVP) (2013)
- Purchasing card pilot (2013)
- Enhanced new vendor verification system (2013)
- Capital project contingency guidance and spending controls (2013)



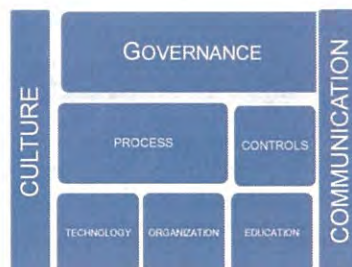
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P2P Framework – the key to organizational change

Procurement and payment for goods and services involves *the entire organization*

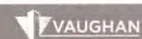
- Good governance is the foundation and is supported by:
 - good policy
 - clear definition of roles and responsibilities
 - understanding of the risks and appropriate controls to address risks
- No single change will address gaps
- Successful change requires a cross-departmental effort



Building blocks to a holistic and integrated implementation



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Key Opportunities

1. Policy is a key priority	2. Accelerating the process through balanced delegation of authority
3. Project planning & staging	4. Improving decision effectiveness through performance reporting and analytics
5. Strategic procurement and sourcing	6. Providing value through enhanced legal support
7. Ensure alignment through communication and training	8. Efficiency and effectiveness through technology and automation
9. Invoice processing	10. Environmental Stewardship



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The Key Priorities

1. Policy

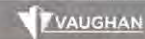
- The framework to guide actions, behaviours and outcomes
- Supported by procedures, processes and controls
- Draft policy approximately 70% complete
- Will provide revised policy for review by FAA in Q1 2015

2. Delegation of Authority

- Establish the right balance between efficiency and accountability
- Next steps
 - ✓ revisit signing authority and award approval framework
 - ✓ test tolerances between control and flexibility
 - ✓ implement/expand strategic sourcing to reduce LVP's



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The Key Priorities

3. Planning and Staging

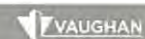
- Demand planning, aligning program needs with Purchasing resources
- Next steps
 - ✓ develop standard cycle times and master rolling procurement plan
 - ✓ develop prioritization criteria

4. Decision effectiveness through reporting and analytics

- Value based purchasing using fact based information
- Next steps
 - ✓ dedicate resources to performance reporting
 - ✓ develop/implement performance metrics and management reports to communicate status
 - ✓ leverage data to determine procurement/payment strategies



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The Key Priorities

5. Strategic Procurement and Sourcing

- Spend analysis informs the procurement strategies
- Next steps
 - ✓ implement a spend analytics program
 - ✓ conduct market research to identify opportunities
 - ✓ enhance staff skill set

6. Enhanced legal support

- Procurement contracts based on common law and government regulations and policy
- Next steps
 - ✓ develop modular procurement templates and contracts
 - ✓ ensure City complies with legislation for public procurement
 - ✓ revise conflict of interest and vendor barring rules
 - ✓ develop training and education for user departments



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The Key Priorities

7. Invoice processing

8. Communication and Training

9. Technology and Automation

10. Environmental Stewardship



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FINANCE, ADMINISTRATION AND AUDIT COMMITTEE – SEPTEMBER 3, 2014

PROCURE TO PAY (P2P) PROCESS REVIEW UPDATE

Recommendation

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There are no financial implications associated with this report at this time.

The intent of the review was to assess the Procure to Pay process and identify opportunities for innovation and continuous improvement. A preliminary phased implementation framework has been developed, but further detailed vetting will be required through collaborative discussions during the upcoming financial planning cycle.

Preliminary assessments indicate investment needs to support policy administration, document review and strategic sourcing. Later phases focus on technology investments which cannot be assessed at this stage, but after the governance and policy framework is finalized. It is anticipated, some recommendations will have long-term benefits, which could mitigate future pressures.

Communications Plan

At the core of this review is the underlying philosophy of "Collaboration". The initiative heavily leverages the insight, expertise and commitment of many disciplines including Purchasing, Accounting Services, Legal, Innovation and Continuous Improvement (ICI), Internal Audit, Information Technology Business Process Re-engineering, Change Management and Financial Planning. In addition, focus groups were utilized to obtain the perspectives and experiences of departments and suppliers participating in the P2P process.

Moving forward, a similar approach will be applied as it is understood that successful implementation of recommendations will be dependent on those involved in the day to day

activities. To ensure awareness of proposed changes and requirements, a communication strategy will be developed leveraging on-line tools, 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 report is to provide an update to Council on the status of the P2P initiative, highlight general themes and opportunities being considered for continuous improvement and lay out the next steps with respect to implementation.

Background - Analysis and Options

The P2P Process

In line with the City's Vision of providing service excellence and in the spirit of the Council's directive for Public Service Renewal, aiming higher and raising the bar, this review will focus on continuous improvement opportunities to better position this vitally important process for the City's future.

The P2P cycle as illustrated in Figure 1 is the process of obtaining goods and services required to do business within the City. On average, approximately \$100 Million annually is acquired across the major purchase categories as illustrated in Figure 2 below. This includes supplies and goods, services, construction and information technology. Delivering the P2P process effectively involves integration of many business functions, including but not limited to procurement, receiving, approval management, payment processing, accounting, vendor performance, and management reporting. There are also many distinct City activities, which have different and unique servicing needs and therefore a balancing act between flexibility and risk management is frequently required. In general the process is large, complex and very integrated, which will take time and effort for implementation, transition and acceptance of change.

Figure 1: P2P Process Cycle

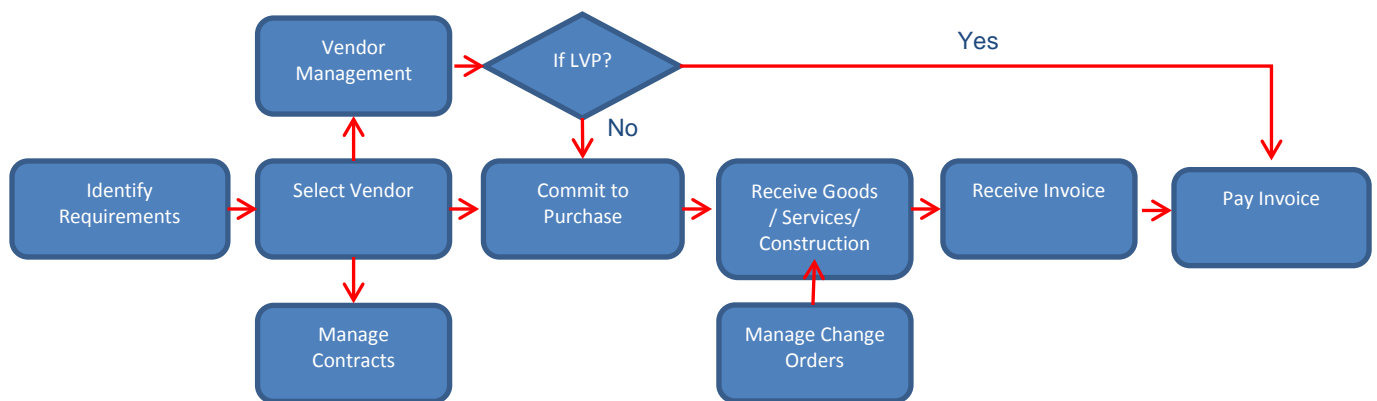
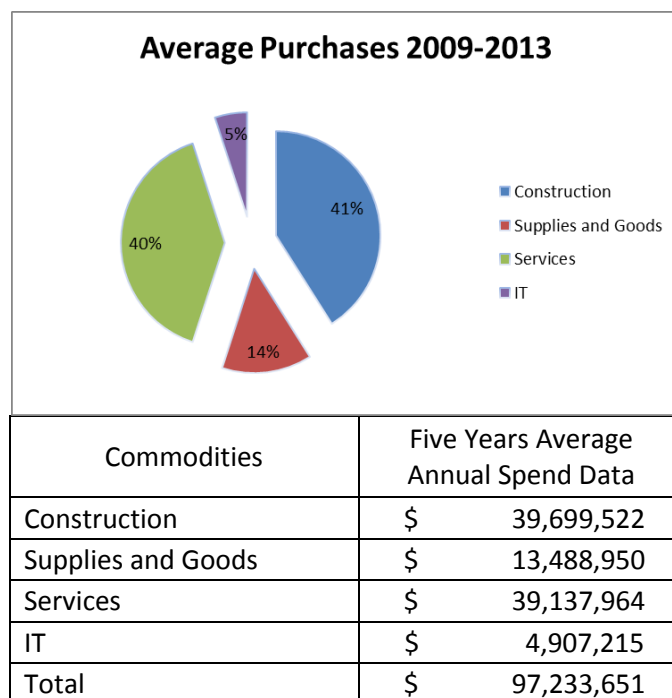


Figure 2: Five Year Average Purchases by Commodity from 2009 – 2013



Environment in Transition

The City of Vaughan has experienced exponential growth over the last 30 years, which brings a level of increasing demands and expectations. In addition, public procurement is in the midst of significant transition with escalating levels on common law and regulatory/policy of other levels of government, stimulated by reports and media controversy, such as the Bellamy and Gomery inquiries. Over the last two decades, removing barriers for suppliers and increasing transparency have become well recognized norms of government procurement forcing municipal procurement to be more strategic in design and deliberate in execution. As the City transforms and adapts to becoming a world class city, traditional business practices and legacy systems will need to evolve proactively and strategically. This is the case for most Ontario municipalities and the broader public sector.

Collaborative Approach & Methodology

The Finance Commission, Internal Audit, and the Innovation & Continuous Improvement Department partnered in a collaborative effort to initiate a Procure to Pay (P2P) review project. Internal stakeholders representing City departments were asked to volunteer and participate in focus groups to share their perspectives and experiences. In total, over 50 participants contributed. In addition, suppliers were surveyed and a municipal jurisdictional review conducted. The project is the City's first attempt to review this cycle holistically and involve both internal and external stakeholders.

Complementing the above process, an external consultant was engaged to assess the City's existing procurement practices and provide key improvement recommendations focused on key areas such as, institutional governance and document drafting. The "snapshot review" serves as a benchmark to measure improvement efforts and provides a policy roadmap for improvement. The results of this exercise were generally consistent with other public institutions and reflective of the increasingly complex obligations and requirements to which public entities are subject to. While the actual practices at the City align closely with best practices, the current procurement policy requires further updating to enhance clarity and guidance. Additional efforts are underway to enhance the current policy.

The first phase of the P2P initiative and the basis for this report focuses on the current service delivery model, discovery findings, and opportunities for further review and areas for policy consideration. The

second phase, to be delivered at a later date, will focus on phased detailed recommendations and the associated implementation over the next term of Council.

Recognition of Improvements Underway

Although the project focuses on continuous improvement 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. The following improvement initiatives have been implemented to date:

- A consolidated procurement policy update (2012)
- Implementation of annual procurement planning to assist in capacity planning and prioritization (2013)
- Low value purchase process enhancements to improve controls and reporting (2013)
- Initiation of a purchasing card (p-card) pilot aimed at lower transaction costs, improved controls and flexibility (2013)
- Enhanced new vendor verification system (2013)
- Capital project contingency guidance and spending controls (2013)

In addition, other improvement based initiatives have been incorporated in business plans such as; technology enhancements, customer surveys, automation, training programs and process improvements, which are dependent on resources and funding.

The Procure to Pay Framework – The Key to Organizational Change

The way the City acquires and pays for goods and services involves the entire organization. Good governance is the foundation and is supported by good policy, clear definition of roles and responsibilities and good understanding of the risks and the appropriate controls to address the risks. The success of managing any change to the P2P cycle will be based on the City's realization that there is no single solution to address the gaps within the existing cycle. The best way to demonstrate the components of the P2P cycle is to illustrate it showing all the building blocks that need to be working in concert so the City can maximize the benefits in acquiring those goods and services needed to sustain effective and efficient service delivery.

Figure 3: P2P Framework and Governance



The following scenario illustrates the framework integration. For example, the implementation of technology, a change to organizational structure, and the introduction of education programs can support the continuous improvement efforts to effectively change processes, controls and culture. The organizational culture fosters an environment which is accepting and adaptable to business

transformation initiatives. Communication focuses on providing information strategically to the right audience at the right time, before, during and after changes are implemented.

Risk and Control – Balancing Expectations

Given the high profile of procurement in the government, the importance of control frequently becomes an important issue. Applying too many controls can have the opposite desired effect and erode innovation opportunities. Risk and control are other components of the governance foundation that will be incorporated in future solutions. A vital step in improving control will be to ensure the City has the right balance of controls to manage key risks as well as deliver effective and flexible service.

Key Observations and Solutions

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. At this stage in the initiative, it is practical to provide brief highlights indicating the context and direction of the next steps. The success of managing any significant change to the P2P cycle will be based on the City's realization there is no single improvement, but rather a multi-pronged integrated corporate approach which will take time. Given the relationship between Purchasing and Accounts Payable, it is logical for the prominent focal point of the exercise to be procurement related, as it is an upstream process upon which Accounts Payable is dependent. It is assumed that improvements in these upstream corporate governance and processes will naturally remedy some of the challenges found in the Accounts Payable function. Listed below are some of the identified improvement opportunities.

1. Policy is a key priority

A policy is a principled framework to guide actions, behaviours and outcomes, which are then supported by procedures, processes and controls. Gaps between current practice and written policy were identified. For example, roles and responsibilities, project management, vendor performance, receiving, supplier's ethics, vendor debriefing process, change orders administration, and approval authority framework. These areas and other elements require further clarification including supporting procedures, training and "how to guides" to avoid confusion or inconsistent practices. In general, the current culture places too much responsibility on the Purchasing or Accounts Payable areas, which is more accurately a shared corporate responsibility across the City for ensuring proper procurement and payment.

Solutions:

- After the P2P initial assessment was complete, the development of an updated Procurement Policy was initiated with external assistance. The draft policy is approximately 70% complete and further effort is required to continue expanded consultation to ensure changes are practical. A proposed revised policy is anticipated for early 2015 and will be presented to council for consideration.
- Develop procedures and processes

2. Accelerating the Process through Balanced Delegation of Authority

An approval authority framework aims to strike a balance between efficiency and accountability. Currently, relatively conservative authorization levels restrict operational flexibility impacting service delivery. Adjusting award thresholds can minimize process wait times and accelerate service delivery. A similar experience is encountered by the maximum threshold of \$3,000 for low value purchases, which generates added volume for purchasing to process. Items in the range of \$3,000 to \$10,000 consume a disproportionate amount of procurement resources, which can create capacity issues and take away efforts from more value added activities, such as higher risk projects, market research, monitoring, strategic sourcing/spend analysis and contract negotiation.

Solutions:

- Revisit signing authority and award approval framework and test tolerances between control and flexibility
- Implement and expand strategic sourcing methods to reduce the volume of low value purchases i.e. vendors of record, blanket orders, P-cards, cooperative programs, etc.

3. Project Planning and Staging

Project planning and staging is a very proactive element of the procurement process and provides clarity regarding the specific requirements, process steps and timelines, procurement method, etc. This information can help assess the priority of competing projects against available capacity. It also provides an opportunity to be proactive in role and responsibility assignment, managing expectations, assessing procurement opportunities, etc. For various reasons, the City's procurement environment is very reactive and rushed, contributing to bottlenecks, duplication, changing priorities and rework. Developing a procurement plan and standard cycle times will help to better manage the environment. A key element of success to ensure effective and efficient service delivery will be the commitment of business clients to timelines, priorities and lead time.

Solutions:

- Develop standard cycle times and submission requirement checklists
- Implement a rolling master procurement plan
- Determine a methodology for prioritizing requests

4. Strategic Procurement and Sourcing

Spend analysis is the first step in developing and achieving an overall procurement strategy for the organization. Organizations use spend analysis to leverage buying power, reduce costs, provide better management and oversight of suppliers, and to develop informed procurement strategies. Properly implemented, strategic sourcing will enable the organization to:

- Better understand the City's procurement requirements
- Assess sourcing methods with a focus on value enhancement
- Conduct market research and identify industries that provide better supplier opportunities
- Build strategic business relationships and foster collaboration
- Monitor results to adjust the strategy
- Assess corporate skill sets

Currently the Purchasing department is focused on procurement processing due to substantial growth over the past number of years. Although staff perform an element of sourcing it is not formalized, and fully integrated into existing processes. Furthermore, the data to analyze will need to be developed to support this strategic and value-added process.

Solutions:

- Implement a spend analytics program and associated resources
- Establish a market research function to explore opportunities
- Enhance staff skill set to undertake the added responsibility

5. Improving Decision Effectiveness through Performance Reporting and Analytics

Management performance reporting is a critical activity providing feedback regarding process effectiveness, spending pattern analytics, vendor performance, internal business client performance, lead time, turnaround and capacity management. This fact based information is essential for continuous improvement and provides the foundation upon which value based purchasing rests i.e. internal diagnostics, risk identification and strategic sourcing. At the City, management reporting is focused on

formal reporting of individual tenders or events. Implementing tools and leveraging systems for data collection, performance measurement, and monitoring would greatly assist in the effort to further develop the P2P cycle.

Solutions:

- Dedicate resources focused on performance reporting and compliance
- Develop performance metrics for critical process elements to assess efficiency and effectiveness
- Implement regular department management reporting to self-diagnose and communicate status
- Leverage data to determine procurement or payment strategies

6. Providing Value through Enhanced Legal Support

Given that procurement is evolving based on common law and regulatory/policy of other levels of government, there is need for increased legal support, specifically with regard to establishment of template procurement documents and contracts, review of specific more complex commercial agreements, on-going legal advice regarding supplier challenges and legislative and contract interpretation. The bidding contract sets out the “rules” that apply to the competitive procurement process. Layered on top of this legal framework is a collection of trade agreements and government guidelines that regulates procurement practices of government entities. Existing tender templates are construction focused, cumbersome and difficult to navigate. Non-construction requirements, templates are adapted from the construction template on a customized basis. This activity takes significant time and effort which could be alleviated through developing a series of modular templates for different types of goods and services.

Solutions:

- ARR for a Commercial/Procurement Lawyer complement (Legal Department) in 2015 Budget
- Develop a series of modular procurement templates for each major type of good or service
- Implement a process to review tender documents to ensure consistency and alignment
- Implement a proactive approach to legislative compliance review in public procurement
- Improve access to legal advice for procurement and contract management related issues
- Revise vendor conflict of interest rules
- Revise policy regarding vendor barring
- Establish training and education for user departments
- Develop a series of template contracts, and
- Review and establish template forms

7. Ensure Alignment through Communication and Training

Procurement is a complex function guided by numerous policies and statutes. A comprehensive procurement policy training manual, one that lays out these policies and applicable laws is critical to ensuring that procurement staff and all stakeholders follow the proper procedures and rules so all will have a clear and consistent understanding of the required regulations. In the absence of such guidance, a lack of consistency in how procurement is carried out becomes likely, both within and outside the procurement organization. This can result in delays, reduced process confidence and miscommunication. A policy manual, comprehensive training program and communication strategy is necessary to ensure requirements are clearly understood and complied with:

Solutions:

- Communicate changes and initiatives in P2P with the organization and suppliers
- Orientation for new staff and education sessions for new Council members
- Host formal training and education sessions to generate awareness
- Develop on-line materials and tools to assist staff and suppliers navigate through the process
- Provide regular reporting to stakeholders on their procurement performance and status
- Host regular meetings to understand client needs and pain points

8. Efficiency and Effectiveness through Technology and Automation

There is a need to identify and implement technology that aides the P2P process and supports the overall IT strategy. The technology should create measureable results including but not limited to, reduced transaction costs, improved process efficiency and reduced cycle times. Technology can also help increase supplier access to bid opportunities, resulting in increased competition. Furthermore, leveraging e-procurement and purchase cards can enhance procurement flexibility and effectiveness. Some of these benefits 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, etc. in real time).
- Greater access to information increasing transparency
- Improved audit capabilities and control mechanisms

Solutions:

- Review of JD Edwards's functionality identifying areas for possible process improvements
- Exploring e-commerce; more specifically e-sourcing, e-procurement, e-purchasing, e-auctions, e-tender, where tenders and bids to be made available on-line for review and download
- Automation to reduce paper based transactions and improved cycle-time for both procurement and payment
- Implement e-submission and e-prequalification to prevent bid submission errors and omissions
- Implement Electronic Funds Transfer (EFT) to replace paper based cheques
- Implement City wide Point of Sale system
- Expand the P-card program
- Develop an electronic vendor management/performance system

9. Invoice Processing

Challenges experienced by Accounts Payable relate to dependencies on support processes like signing authority and receiving, which are very manual, paper based, time consuming and typically require rerouting to departments for review and approval. Furthermore, purchase order inconsistencies can prevent timely invoice processing, payment and add to the workload. Payments to vendors are typically cheque based. The consequences associated with these challenges largely focus on inefficient use of time, timely reporting, information accuracy, relatively high processing transaction costs, and potentially early payment discounts missed. JD Edwards's functionality such as invoice scanning, automatic three way matching and workflow can greatly assist with transforming the current manual and paper based processes and redirect resources to more value added areas.

Solutions:

- Improve process procurement requirement as illustrated within the report
- Update the City's signing authority protocols to include a more holistic position based approach
- Track key metrics to determine pressure points and priority areas
- Investigate technology enhancements to improve effectiveness and efficiency, i.e., paperless processes, automated approval routing, electronic three way voucher matching, etc.
- Implement electronic funds transfer and other payment functionality

10. Environmental Stewardship

Sustainable purchasing is a growing global trend. Increasingly organizations are integrating social and environmental objectives into their purchasing process as a means to reduce their environmental footprint, leverage social benefits and foster a sustainable environment. Value for money includes the consideration of many factors such as cost, performance, availability, and quality. Green procurement also requires an understanding of the environmental aspects. One challenge is the balancing of full life-cycle costs, technical/quality requirements, and social responsibility. Other challenges relate to the need for tools, information and training to screen opportunities and measure sustainability impacts. Currently

the City has indicated its interest in these objectives, but will need to formalize a framework and process to support the interest.

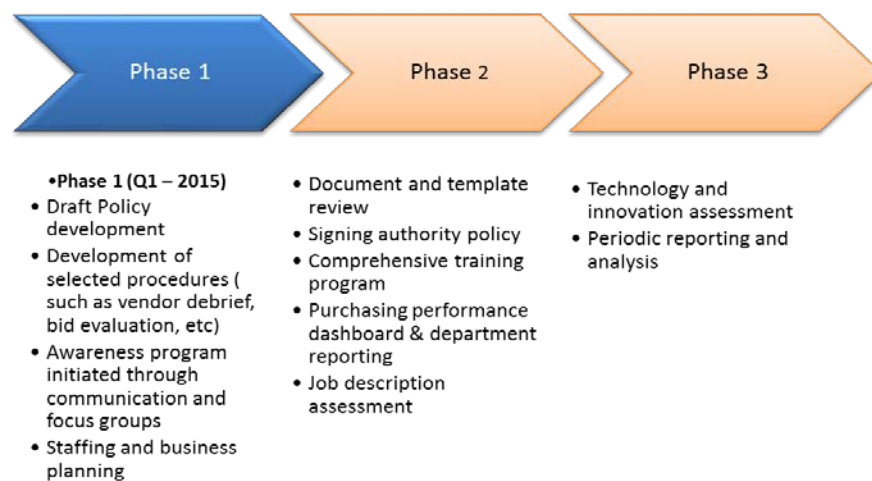
Solutions:

- Define objectives the City is interested in and tolerance for trade offs (price, quality, etc.)
- Determine standards and acceptable green certifications
- Incorporate guidance into the procurement policy
- Communicate directives internally and externally

Preliminary Implementation Guide and Roadmap

Individual improvement efforts were already identified and underway at the department level; however all P2P potential improvement opportunities are consolidated in a holistic and staged implementation plan and roadmap. Resources for implementation of phase 2 and 3 improvement initiatives will be assessed and finalized through continued business planning and 2015- 2018 budget deliberations. As the policy is being enhanced the timelines for next phases will be developed as many of these initiatives are to be continued on an on-going basis for continuous improvements.

Figure 4 Implementation Guide and Roadmap



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. Developing a P2P strategy is the next evolution and will complement the City's vision and mission.

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. The P2P implementation will be one of the most complex and resource intensive initiatives that the City has experienced spanning a multi-year horizon. The P2P Program will have impacts across the organization and therefore a comprehensive communication plan 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. The organizational culture fosters an environment which is accepting and adaptable to business transformation initiatives. Communication focuses on providing information strategically to the right audience at the right time, before, during and after changes are implemented.

In summary a list of the key opportunities include:

- Policy is a key priority
- Accelerating the process through balanced delegation of authority
- Project planning and staging
- Strategic procurement and sourcing
- Improving decision effectiveness through performance reporting and analytics
- Providing value through enhanced legal support
- Ensure alignment through communication and training
- Efficiency and effectiveness through technology and automation
- Environmental Stewardship
- Invoice processing

On an on-going basis these opportunities will be examined to realign resources to enhance service delivery to both internal and external stakeholders. The next step in the process is to formalize opportunities within the Procurement Policy and assess resource needs through the 2015-2018 financial planning process.

Attachments

Not applicable

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