



Auditor General Findings – TTC Procurement & Policies Progress Update

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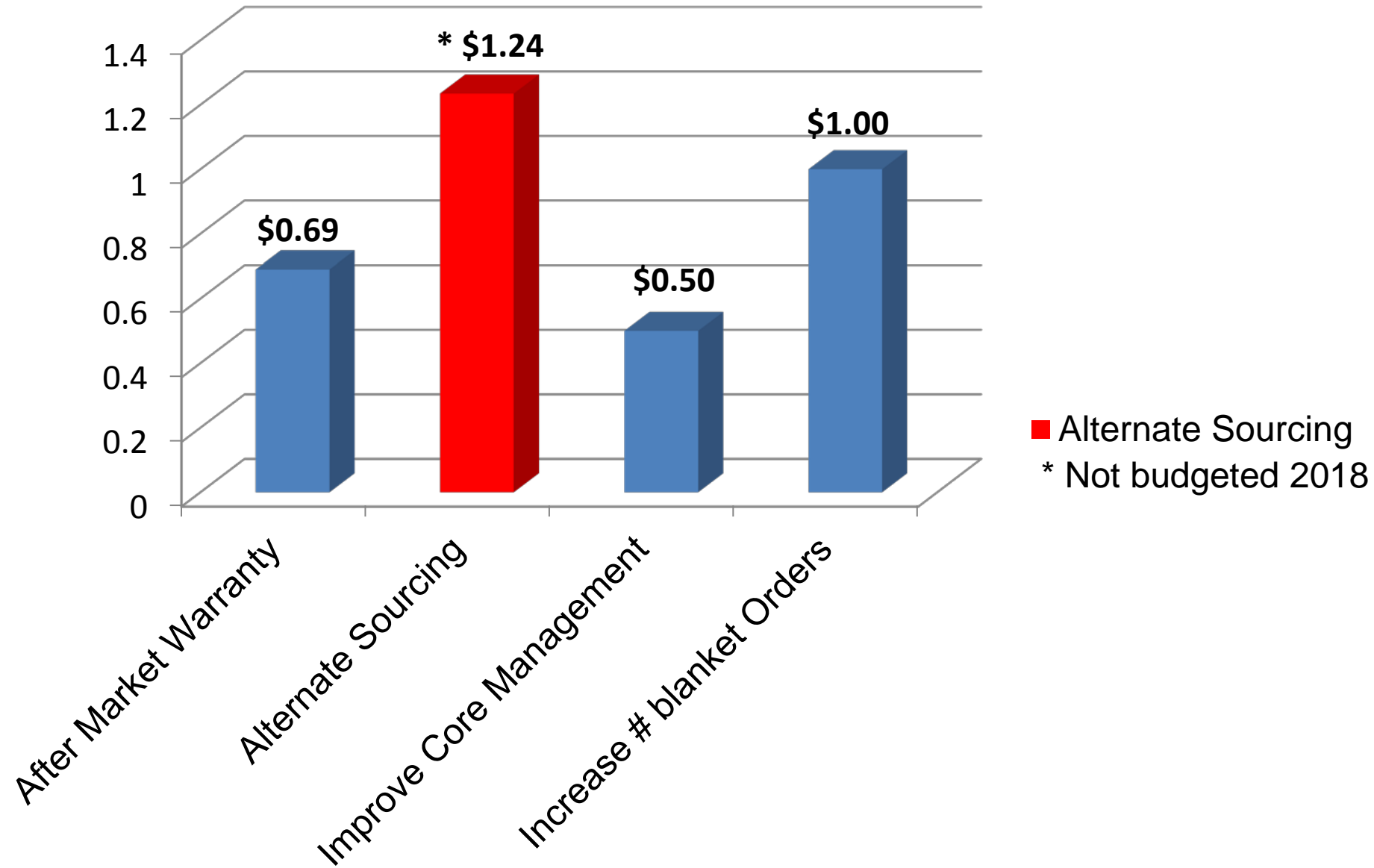
1 | Overview

The Materials and Procurement department have made significant progress in the last 6 – 7 months in addressing the Auditor General’s 2017 report, as follows:

Auditor General Finding	Action to Date
After-Market Warranties	Recruiting an Aftermarket Coordinator to pursue warranty credits
Alternate Sourcing	Issued a Request for Information (RFI) to solicit alternate parts opportunities; over 100 alternate parts quoted
Core Management	Implemented a Standard Operating Procedure (SOP) to ensure all cores are properly tracked in TTC Warehouse Management system
Blanket Orders	Creating significant number of blanket orders to leverage spend, improve discounts, avoid price increases, and improve buyer efficiency

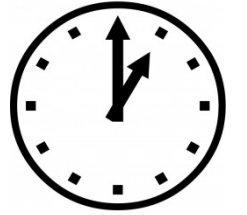
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Overall Budgeted Savings 2018 = \$2.19 Million



3

Next Steps – Aftermarket Warranty Program



- 1) Warranty clock negotiation – negotiating with each of the top nine *highest spend* vendors representing 86% of the identified aftermarket credit opportunity. Request vendors start the warranty clock at point of part installation on a vehicle, not from purchase date
- 2) Recruiting for an Aftermarket Warranty Coordinator – assume resource cost of \$85K - \$100K, payback for position justified based on potential savings
- 3) Serialization - bar-coding system being implemented to track serialized parts, many vendors require tracking of serial number – Do not currently track parts by serial number today
- 4) Evaluation Criteria - 5%-10% evaluation criteria for Aftermarket Warranty terms in future bids
- 5) Savings - TTC 2018 savings estimate is \$690K based on an potential **30%** warranty credit

4 | Alternate Sourcing Summary

Issued a Request for Information (RFI) to all vendors with TTC spend greater than \$200K

- Requested vendors quote a supply of all “equivalent” parts to our Original Equipment Manufacturer (OEM) specifications – 419 inventory items included in the RFI
- 100 alternate parts were quoted, plan to request samples of each equivalent part, starting with highest valued parts
- Field personnel to test the part in vehicles to determine performance quality, need to deduct a \$125 K resource cost for a full time testing technologist from any future savings estimates
- If part meets performance expectation, request pricing based on annual estimated requirements
- Assuming alternate pricing is more price competitive than OEM part price, or overall owning cost is less than existing vendor; ascertain savings opportunity. If performance and savings are justified, include the new part in future bids

5 | Core Management/Controls

- 1) Lock on new part: Only a planner can order a new part, the “Buy-Code” is locked for all users except for planners.
- 2) Data Entry: All cores are required to be received and then entered in to the TTC Warehouse system as per the introduction of our SOP. The process needs to be audited to ensure compliance. In the past, many cores were only entered when there was demand
- 3) Standard Operating Procedure: SOP is finalized and rolled out to all warehouse locations defining the core management process, shared with the Auditor General
- 4) Cores Refurbished to Date: Over 36,000 cores returned to manufacturers for refurbishment from 2011 – 2017. Additional thousands of cores rebuilt annually by the TTC in Duncan shops

6 | Blanket Orders Created - 2017

The TTC added about \$78 Million in blanket orders in 2017 with the following benefits:

- 1) Reduced order processing time – Minimal or no buyer processing, eliminates the need for buyers to process about 3,200 requisitions, and thereby increases buyer productivity
- 2) Leverages our spend - Drives improved discounts or allows us to avoid price increases with vendors
- 3) Commitment of Business – Gives vendors a greater volume of business which incentivizes them to provide improved delivery and overall service

7 | Next Steps

- 1) Policies & Procedures: EY consultant to review and comment on our Policies & Procedures and recommend changes based on industry best practices, partnering with engineering firm for technical reviews of our processes, and AG finding recommendations
- 2) Blanket Orders: Continuing to create additional blanket orders to leverage TTC spend and drive buyer productivity
- 3) After Market Warranty: Recruiting of an After Market Warranty Coordinator to pursue and identify parts for warranty credit; ensure credit is received by the TTC
- 4) Core Management: Rolled out a Standard Operating Procedure to ensure cores are properly managed and utilized to drive savings
- 5) Alternate Sourcing: Pursuing pricing and samples of alternate parts quoted by the vendor for testing on TTC vehicles

| Questions