

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: December 17, 2008

SUBJECT: TTC CORPORATE POLICY REVIEW – POLICY 13.5
AUTHORIZATION FOR EXPENDITURES & OTHER
COMMITMENTS, 13.11 DELEGATION OF DEPARTMENTAL
EXPENDITURE AUTHORITY, & POLICY 5.3 PROCUREMENT

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve the following TTC Corporate Policies as amended for implementation effective January 2009, which policies are attached hereto as Appendix 'A', "B" and "C":

1. Policy 13.5, Authorization for Expenditures and Other Commitments;
2. Policy 13.11, Delegation of Departmental Expenditure Authority; and
3. Policy 5.3, Procurement.

BACKGROUND

The recommended changes in the policies noted above are related to the authorization of expenditures and facilitate the processing of standard procurement activities for items approved in the Operating or Capital budgets, while maintaining the integrity of the Commission's procurement process.

DISCUSSION

The subject three policies are inter-related as the Procurement policy sets out the rules under which the TTC will process its purchase requirements while the Authorization for Expenditures and Other Commitments policy primarily sets out the levels required for Commission and senior management approval (i.e. currently Deputy General Manager and above) for such purchases and related activities. The Delegation policy sets out the rules for delegating authorization limits below the Deputy General Manager level (i.e. Department Head level). Because of the inter-relationship between these policies, staff has reviewed them collectively to determine the potential administrative benefits that could be realized through the implementation of integrated changes in each of these policies.

To summarize the most noteworthy changes being recommended in the revised policies, staff is recommending increases in the approval levels in the Authorization for Expenditures and Other Commitments policy to bring the Commission more in line with the City of Toronto's (City) authorization levels. These recommendations also recognize the controls and checks and balances inherent in the TTC's procurement process that are required to precede a request for the authorization of an expenditure.

In consideration of the increase in authorization levels, staff is recommending that the Procurement policy be revised to reduce the level at which procurement requirements are publicly advertised from \$200,000 down to \$60,000. This will provide public access to significantly more of the Commission's requirements (approximately 250 purchases) and ensure the widest possible exposure of the Commission's formal purchases to interested parties.

Once an expenditure has been approved in a budget, the next step is to undertake the appropriate procurement process to solicit bids from interested parties and once received, these bids are evaluated based on a structured process and a specified set of criteria all of which are in accordance with federal, provincial and municipal laws, by laws and regulations. The Procurement policy provides the framework for how bids are solicited, evaluated and awarded. The recommended Commission authorization levels in this report (\$5,000,000) apply to only those purchases being made to the lowest compliant or best overall bidder as any exceptions to that will continue to require Commission approval based on the current authorization levels (i.e. > \$500,000). Further, if during any procurement process, the bid from the apparent low bidder is determined to be commercially or technically unacceptable, that bid will be reviewed by TTC's Legal and Claims Department to validate that decision. This will serve as a further check to ensure that the evaluation of bids during a procurement process is fair and consistent and will further ensure the integrity of the procurement process.

A more detailed explanation of the recommended changes to the subject three policies follows:

Policy 13.5, Authorization for Expenditures and Other Commitments

The attached revised Authorization for Expenditures and Other Commitments policy is submitted for Commission approval with the following key recommended changes (Reference attached Appendix "A" - Policy 13.5.6 Section 3.3, Table 1, for complete details).

Currently the Commission approves purchases over \$500,000, amendments over \$250,000 and unbudgeted expenditures over \$100,000. In determining the recommended adjustments to the authorization levels, staff reviewed the Commission's historical purchase requirements and also considered the current authorization levels for the City of Toronto (City) which are as follows:

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- ≤ \$500,000 Approved by Division Head and Purchasing Director, who also approve amendments up to \$250,000.
- > \$500,000 & ≤ \$20,000,000
Approved by the Bid Committee which includes the following City staff (or their designate) and a quorum is two voting members: City Manager; Chief Financial Officer; and the Division Head who initiated the call. The Bid Committee also approves amendments between \$250,000 to \$500,000 jointly with the Purchasing Director.
- > \$20,000,000 Approved by the appropriate Standing Committee (comprised of Councillors), who also approve amendments greater than \$500,000.

The City's Division Heads report to the Deputy City Manager, who reports to the City Manager. The Deputy City Manager and City Manager independently have \$500,000 authority and delegate authority to the Division Heads to a maximum of \$500,000 depending on the nature of their business.

Under the new recommended authorization limits, the Commission will continue to approve higher valued purchases (over \$5,000,000) which include: all revenue vehicles, large construction and engineering / architectural contracts, Wheel Trans taxi contracts, electricity, natural gas, diesel fuel, etc.

It is also recommended that Commission approval be required for expenditures under the following circumstances (exceptions): (a) sole source requirements greater than \$500,000; and (b) requirements greater than \$500,000 where the recommended company is not: (1) the lowest priced compliant tenderer; or (2) the best qualified and either lowest priced or acceptable priced proposal subject to the review and approval of TTC's Legal and Claims Department. In addition, the Chief General Manager or the Commission may require that any purchase be considered by the Commission for approval regardless of value.

These recommended changes are made in consideration of the controls on expenditures imposed by the budget processes and the checks and balances in the procurement process. To summarize this process, all formal requirements will be publicly advertised and all bids will be considered by staff from the Materials and Procurement Department (M&P). M&P will prepare a commercial analysis, which explains the procurement process and includes a recommendation for award based on the evaluation of the bids received. Legal and Claims Department will be required to review any circumstance where an apparent low bidder was found to be unacceptable. As well any recommended award to other than the lowest or best qualified bidder will be subject to Commission approval if the value exceeds \$500,000. Staff considers that the controls, checks and balances will continue to ensure a fair and consistent procurement process, despite the increase in expenditure authorization levels.

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In addition, staff currently submits the Summary of Authorized Expenditures report to the Commission on a monthly basis, which currently lists contract awards between \$200,000 and \$500,000 and sole source purchases greater than \$60,000. Staff is recommending revising this report to list contract awards between \$1,000,000 and \$5,000,000 as well as continuing to report sole source purchases greater than \$60,000 approved by the Chief General Manager.

Regarding inventory purchases, it is also recommended that the authority of the Manager – Materials and Procurement be increased from \$125,000 to \$1,000,000 to approve inventory purchases (subject to the above noted exceptions) as they represent routine on-going operational requirements with the vast majority of purchases related to parts required for the Commission's revenue vehicle fleets or for facilities maintenance.

In addition, it is recommended that the Chief General Manager and the Manager - Materials and Procurement have the authority to re-allocate funds amongst companies within the total aggregate original approved upset limit amount (plus all authorized amendments) for all companies where there are multiple companies who are awarded contracts with the same scope and nature and where a process exists to ensure actual commitments to the various companies under contract are fairly and adequately controlled (e.g. safety shoe contracts, work clothing contracts, etc.). The Manager – Materials and Procurement will have such amendment authority up to \$2,500,000 per contract, and the Chief General Manager for amounts greater than \$2,500,000 per contract.

Policy 13.11, Delegation of Departmental Expenditure Authority

The attached revised Delegation of Departmental Expenditure Authority policy is submitted for Commission approval with the recommended changes (Reference attached Appendix "B" - Policy 13.11.5 for complete details).

The Delegation policy currently requires written approval by the CGM for authority delegated below the Deputy General Manager level. Staff recommend the Department Head's written approval be required for authority delegated within his/her department and that any such single delegation to a subordinate is not to exceed \$100,000.

Policy 5.3, Procurement

The attached revised Procurement policy is submitted for Commission approval with the recommended changes (Reference attached Appendix "C" - Policy 5.3.7 for complete details of all recommended changes). The Procurement policy ensures that Commission requirements are available for interested companies to bid on and ensures that the evaluation of bids is fair and consistent.

Staff is recommending lowering the current limit to publicly advertise bids from requirements greater than \$200,000 down to \$60,000 (formal requirements). Currently bids exceeding \$200,000 are publicly advertised on TTC's web site and below that M&P use their bidders list to invite companies to submit a bid. As part of

this recommended change, staff will be increasing the issuance of bids electronically whenever possible. The benefits of publicly advertising all formal requirements and issuing bids electronically include the potential for an increase in competition, and savings in paper and courier costs (as there will be less courier requirements to deliver).

This change will ensure that all formal bids (i.e. those above \$60,000) will be publicly advertised and available to be bid on by any interested company.

Staff is also recommending the transaction limit for the Purchasing Card be raised from \$2,000 to \$5,000. This will reduce the number of low value incidental purchases processed by M&P and provide a faster, more convenient method to make incidental, non stock buys under \$5,000. Note that the Purchasing Card transaction limit for the City of Toronto ranges from \$7,500 to \$25,000 based on operational requirements, however based on a review of the TTC's low value purchases the \$5,000 limit is appropriate for the Commission.

The recommended changes to the Procurement policy will ensure that any significant purchase by the Commission will be posted on the TTC's web site and will be available to any interested company. Further, any time the apparent lowest bid is considered not acceptable, it will be reviewed and validated by TTC's Legal and Claims Department. In addition, any time where the lowest priced compliant tenderer is not being recommended for award, then Commission approval will be required for any purchase greater than \$500,000.

Subject to the Commission's approval, the recommended changes to the subject three policies will take effect as of January 2009 as this will facilitate the implementation of the related administrative changes.

JUSTIFICATION

The recommended changes update the Authorization for Expenditure and Other Commitments policy, the Delegation of Departmental Expenditure Authority policy, and the Procurement policy relate to authorization levels and also include various specified administrative improvements that will expedite the processing of procurement requirements while ensuring that the integrity of the procurement process is maintained.

November 24, 2008

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Attachments: Appendix A
Appendix B
Appendix C

Appendix A

The following are attached:

- A copy of Policy 13.5.6, Authorization For Expenditures and Other Commitments showing changes (old changes striked-out and new changes are underlined in bold), and
- A clean and final version of Policy 13.5.7, Authorization For Expenditures and Other Commitments, as revised.

Appendix B

The following are attached:

- A copy of Policy 13.11.5, Delegation of Departmental Expenditure Authority showing changes (old changes striked-out and new changes are underlined in bold), and
- A clean and final version of 13.11.6, Delegation of Departmental Expenditure Authority as revised.

Appendix C

The following are attached:

- A copy of Policy 5.3.7, Procurement showing changes (old changes ~~striked-out~~ and new changes are underlined in bold), and
- A clean and final version of Policy 5.3.8, Procurement as revised.