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2004 BUDGET BRIEFING NOTE

Staffing for CRO Implementation

Issue/Background:

In his review of the Procurement Process, the Auditor General identified that Contract Release Orders (CROs) were not processed for all orders against blanket contracts. Blanket Contracts are a commitment to a vendor that if the City requires the particular good or service that the contract covers, the City will buy it from that vendor at the contracted price and terms during a specific period of time. Blanket contracts are also referred to as "Standing Orders", "Systems Contracts" or "Outline Purchase Agreements". The City has over 2,000 blanket order contracts. Since CROs track the usage of a contract, there is a risk that contract target values could be exceeded without the proper authority. This risk was borne out by a detailed analysis of blanket contract spending conducted recently by PMMD. A report to Council is pending on the results.

Consistent with the Auditor General's recommendations, and in view of recent issues related to spending in excess of some existing contracts , the Executive Management Team (EMT) directed that, effective April 1, 2004, CRO's were to be used for all orders against blanket contracts. After April 1, 2004 all blanket contract invoices must have a CRO for the invoices to be processed by Finance. Departments were directed to begin developing a phased implementation plan for 2004.

To prepare for implementation, Departments were asked to identify any additional resources required. Each department reviewed their current practices, the number of purchases made against blanket contracts and the number of blanket contracts used by their Departments. As examples, it was determined that implementing the use of CRO's for all purchases against blanket contracts would result in the processing of an estimated additional 35,000 CRO's annually in Works and Emergency Services, 25,000 CRO's in Economic Development Culture and Tourism and 20,000 in Community and Neighbourhood Services Department. Based on this review, the initial estimate is that full implementation of the CRO may require 24 additional staff across the Corporation, with an annualized budget impact of \$1.5M and approximately \$0.2M for start up. The Departments that identified the need for additional resources for CRO implementation were Works and Emergency Services (9 staff), Economic Development, Culture and Tourism (7 staff), Corporate Services (1) and Community and Neighbourhood Services (7 staff).

However, on the basis of phasing-in the CRO implementation and in consideration of the pro-rated costs required for only part of the year, the estimates were revised for 2004 on the basis of reducing the requested number of positions (from 24 to 12) and then prorating the funding for salary and benefits for an April 1st hire date. For the April 1 implementation, Departments are hiring a total of 11 clerical staff (4 in WES, 4 in EDCT and 3 in CNS) on a temporary six month contract to ensure that phased implementation can begin. The total 2004 budget allocated for implementing CRO's is

\$600,000.00. There is no additional pressure on the 2004 budget for this, as funding has been realized through adjustments to the 2004 budget for Fringe Benefits.

To prepare for the transition, Accounting Services and PMMD have been working together to revise the CRO training material and work with the operating departments to ensure that the departments are aware of the CRO processing options available to them to minimize the resource implications of implementing CRO's. As well, refresher training and training for new CRO processors and approvers are being conducted in March and into April. PMMD's buyers have also been provided refresher training on creating blanket contracts.

A well constructed blanket contract in the system can have a significant impact on the efficiency and effectiveness of processing subsequent CROs against it. To that end, PMMD is redrafting all the procedures associated with blanket contract cycle which includes needs identification, RFQ/RFP development, contract set-up, contract monitoring and dispute resolution.

The use of CRO's as a tool for ensuring appropriate contract management controls was identified by the Auditor General. Recent events regarding overspending on some blanket contracts demonstrated the urgency in introducing new control measures. To that end, EMT directed that CRO's be used for all purchases against blanket contracts, effective April 1, 2004. To ensure the appropriate training and implementation throughout the various departments, and in recognition of the increased workload, 11 temporary clerical staff will be hired for 6 months. At the end of the first quarter of implementing CRO's, there will be a review to assess the workload demands related to the overall contract management cycle, including any opportunities for reallocating existing resources. This will be reported out to BAC through the 2nd Quarter Operating Variance report in July. In the longer term, the use of the CRO and the resources required for implementation will also be considered in the context of the overall review and improvements to procurement practices in the City.

Key Point(s):

- **Effective April 1, 2004, EMT has directed that Contract Release Orders must be used for all purchases against Blanket Contracts to ensure the appropriate contract management controls are in place.**
- **CRO implementation is to be phased-in, with a quarterly reporting on the implementation status, including an assessment of processes and the required resources. This will be reported to the BAC as part of the 2nd quarter variance report.**
- **To fully implement CRO's, Department's have estimated the need for 24 additional staff. For 2004, as CRO implementation is phased in 11 temporary clerical staff are being hired on a 6 month basis.**
- **The 2004 cost for these additional staff to phase-in implementation of the CRO is \$600,000.00. There is no additional pressure on the 2004 budget related to these costs as funding is being realized through adjustments to the 2004 budget for Fringe Benefits.**

Questions & Answers:

What is a Blanket Contract?

Blanket Contracts are a commitment to a vendor that if the City requires the particular good or service that the contract covers, the City will buy it from that vendor at the contracted price and terms during a specific period of time. Blanket contracts are also referred to as “Standing Orders”, “Systems Contracts” or “Outline Purchase Agreements”.

How many Blanket Contracts does the City have?

The City has over 2000 blanket contracts.

What is a CRO?

CROs act as a purchase order to the vendor when the department wishes to purchase goods and services from the blanket contract. A CRO will commit the value of the purchase to the cost centre or capital project it is allocated to. This ensures that the cost centre and capital variance reports are current in that they show both the dollar value of invoices paid (net of applicable GST rebates) and the dollar value (including all applicable taxes before rebates) of firm purchase orders placed with a vendor (commitments). The CRO also determines where Accounts Payable will charge the goods and services. CROs provide both the departments and PMMD detailed information on commodities purchased against a specific contract. This allows for better variance analysis by departments and allows for better contract monitoring and procurement planning by Purchasing and the departments on subsequent RFQs and RFPs.

Date: March 23, 2004