



STAFF REPORT ACTION REQUIRED

TTC Corporate Policy Review: Policy 6.5 Authorization for Expenditures & Other Commitments

Date:	March 23, 2016
To:	TTC Board
From:	Chief Executive Officer

Summary

The Authorization for Expenditures and Other Commitments Policy sets out the levels required for Board and senior management approval for such purchases and related activities. The purpose of this report is to update the policy with various revisions.

Recommendations

It is recommended that the Board approve:

1. Increasing authorization for the Chief Executive Officer for Leasing Realty and Concession to \$1M per annum (from \$200K per annum) bringing the CEO's signing authority over a typical 5-year lease in line with the CEO's current authorization limit of \$5M.
2. Incorporation of a new "Segregation of Duties" section (Section 4.0) to improve internal controls;
3. That the Head of Materials & Procurement approve any necessary term extensions to single-source contracts where there are no financial impacts, but competition for the specified requirement exists; and
4. The updated definitions and housekeeping changes to the policy as set out in this report, and as attached.

Financial Summary

This report has no financial impact but does establish current authorization for expenditures limits for the TTC Board and TTC staff.

Accessibility/Equity Matters

There are no accessibility or equity issues associated with this report.

Comments

The recommended changes to the Authorization for Expenditures and Other Commitments Policy are detailed as tracked changes in Appendix “B”.

Authorization for the CEO for Leasing Realty and Concession has been increased to \$1M per annum (from \$200K per annum) which brings the CEO’s signing authority over a typical 5 year lease in line with the authorization limit of \$5M for the CEO. All operating leases will be reviewed by the TTC’s internal Finance and Administration Executive Committee prior to submitting for the appropriate authorization for expenditure approval. The current \$200K per annum limit is considered to be very low based on current market costs for leased facilities, and has a detrimental impact on TTC’s ability to respond to good opportunities in an expedient manner. In addition, revisions to this section of the policy have not been included in the most recent policy updates.

A fundamental element of internal control is the segregation of key duties. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of the procurement process. The requisition, ordering, receiving, and payment activities need to be appropriately segregated if all control objectives are to be met. For example, those who perform the ordering (purchasing) activity are not to perform any receiving activity and are not to perform any approval for payment activity to meet the intent of conflict of interest guidelines. For the purpose of improving these controls, a new Segregation of Duties clause has been added (4.0).

Redefining sole source to single source and vice versa based on the same change happening to the TTC Procurement Policy. These definitions are being reversed to align with that in use by other public entities (sole is the only available source and single is the preferred of more than one source available).

Term extensions to single source contracts will now require approval from the Head of Materials and Procurement to add another level of control.

Metrolinx has been added to Section 3.7.11 to expand the TTC’s partner roster on procurement matters.

Housekeeping revisions: “Commission” changed to Board or TTC, updated name for the Audit Committee, etc.

Contacts

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Jim Lee – Head of Materials and Procurement, 416-393-3113

Attachments

Appendix A – Authorization for Expenditures and Other Commitments Policy- Updated Version

Appendix B - Authorization for Expenditures and Other Commitments Policy – Tracked Changes Version

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APPENDIX A

SUBJECT	CLASSIFICATION	DATE APPROVED	P/I NUMBER
Authorization for Expenditures and Other Commitments	Finance	March 23, 2016	6.5.1

1.0 RESPONSIBILITY

Head of Finance

Head of Materials and Procurement (M&P).

2.0 PURPOSE

To establish the guidelines and requirements for the classification and control of expenditures and other commitments which require either Board approval or Chief Executive Officer (CEO) approval at various dollar value limits.

The authorization for expenditures deals with authority to make purchases or commitments on behalf of the TTC. The approval of invoices for payment is separate and distinct from the authorization for expenditures. The approval of invoices for payment only involves the approval to make payments (based on receipt of satisfactory goods and services at agreed prices). Please refer to the Delegation of Invoice Approval Authority Policy for further guidance.

3.0 DELEGATION

3.1 The authorization for expenditures and other commitments covers both budgeted and unbudgeted items as outlined in Table 1 below. Budgeted items include the acquisition or disposition of goods and services; contract amendments; leasing, realty and concession agreements; utilities, and other operating agreements. Purchase authorization and contract amendment authority can be delegated for budgeted items and unbudgeted items, however unbudgeted items cannot be delegated below a department head level.

For leasing, realty and concession agreements, the limits also apply to the ability to enter into revenue generating agreements.

For Purchasing Cards, the limit shall be as identified in the Procurement Policy. Reference the Petty Cash Policy for petty cash expenditures.

3.2 The signing authority of the CEO may be delegated in writing, as the CEO deems appropriate. (Refer to Delegation of Management Authority Policy).

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3.3 Authorization for expenditures and other commitments are established up to the following limits, noting that these represent total contractual values including applicable taxes per commitment request, unless noted otherwise:

Authorization for Expenditures and Other Commitments (Table 1)				
APPROVER	UNBUDGETED ITEMS	BUDGETED ITEMS		
		Goods & Services	Contract Changes / Amendments	Leasing Realty & Concession (per annum)
Board	\$500,000+	\$5.0 million+ *	\$2.5 million+ **	\$1.0 million+
Chief Executive Officer (CEO)	\$500,000	\$5.0 million	\$2.5 million	\$1.0 million

3.4 Exceptions to Table 1:

- i) * Board approval is also required for:
 - (a) Single source requirements greater than \$500,000 in accordance with the Procurement Policy; and
 - (b) Requirements greater than \$500,000 where based on the stated evaluation criteria as set out in the specific Request document, the recommended company is not the highest evaluated compliant bid (which includes the evaluation of pricing), if applicable, or lowest priced compliant bid. These exceptions will also require the review and approval of Legal Department regardless of the value.

ii) ** Contract Changes / Amendments:

(a) Single Source Contract Amendments – Approvals required for contract amendments for any Single Source contract are outlined below:

Contract Value Plus Cumulative Contract Amendments	Approval Requirement
Up to \$100,000	Head of M&P
>\$100,000 ≤ \$250,000	Chief Financial and Administration Officer (CFAO)
>\$250,000 ≤ \$500,000	Chief Executive Officer (CEO)
>\$500,000	Board

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(b) Re-allocation of Funds Amendments - In the event an authorized procurement involves contract awards to multiple companies, who are awarded contracts with the same scope and nature, the Board delegates amendment authority to the CEO, to re-allocate funds amongst the companies as needed provided the originally approved total aggregate amount, including any subsequent authorized amendments, is not exceeded.

- 3.5 Items which normally would not require Board approval may be brought to the Board at the discretion of the CEO.
- 3.6 The Board delegates authority to the Chair, Vice-Chair and CEO to authorize items that would normally be authorized by the Board when the approval is required prior to the next Board meeting. If the Chair and/or the Vice-Chair are not available, authority will be deemed to be delegated to any two (2) Board members and the CEO. These authorizations are to be followed up by a notice of award report that is to be submitted to the next scheduled Board meeting, for information.
- 3.7 Notes:
- 3.7.1 Any authority levels delegated below the CEO including department head level requires the written approval of the CEO.
- Any authority levels delegated below a department head level requires the written approval of a department head. A department head must identify all positions in his/her department and corresponding authorization limits and contract amendment authority on the Authorized Signatures Listing.
- 3.7.2 Each level of management must delegate his/her full authority during periods of absence in accordance with the Delegation of Management Authority Policy.
- 3.7.3 The Head of Legal Department has authorization delegated by the Board specifically related to legal issues and claims settlements which are subject to the procedures outlined under the Engagement of Outside Counsel and Settlement of Claims Policies.
- 3.7.4 An information report outlining amounts written off will be submitted to the Audit and Risk Management Committee on an annual basis. Specific authority to approve write-offs will be delegated by the CEO (e.g., tangible

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property is issued but no money is received, such as lost fare media) for decisions undertaken in the normal exercise of duties.

- 3.7.5 For unbudgeted project activity or procurement items, any original amount plus amendments that cumulatively total more than \$500,000 requires Board approval.

For requests up to \$500,000, the CEO may authorize proceeding with an unbudgeted item providing that the expenditure can be accommodated within existing budgets. If as a result of a required amendment(s) the cumulative value of the unbudgeted item will exceed the CEO's limit, then the appropriate higher level of approval will be required prior to proceeding with the amendment(s).

- 3.7.6 If all or any part of the work associated with a new contract or a change to a contract that must commence immediately for reasons of safety, security, critical schedule requirements or to avoid delay claims, and authorization for such work cannot be obtained in a timely manner, then designated staff may authorize such work to commence on an interim basis up to their level of authority. Approval for the full value of such work should be obtained before expenses incurred exceed the interim authorization or such further interim authorization that may be subsequently obtained by a higher authority; otherwise the work on the change should be stopped until appropriate authorization is obtained. For safety critical requirements, work should proceed and appropriate authority must be sought at the earliest opportunity.

Inappropriate use of this process may result in a reduction of authority limits.

- 3.7.7 Where the value of an original contract for the purchase of goods / services is less than \$5 million, prior to the point where the aggregate of the original purchase plus subsequent approved and planned amendments will exceed \$7.5 million, then Board approval of an amendment will be required even if the value of such amendment is less than \$2.5 million. Once the Board authorizes an amendment, normal authorizations will resume as delegated for any additional amendments.

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3.7.8 The authorization levels shown are for individual contract amendments and apply to the increases in the contract value for an addition to the scope of work. The authorization levels do not apply to the following: reductions in scope which do not conflict with TTC approved design objectives; direct substitutions for work within the scope which do not represent a change to the intent of the scope of work; increases or decreases due to changes in the rate or applicability of a tax or duty; the value of a cash allowance or escalation costs included in a contract; closeout of the remaining unspent value of upset limit contracts; or a no cost time extension that otherwise includes no change to the scope of the existing upset limit contract.

Any extension to an expiry date for a term contract where competition for the specified requirement exists will be considered a single source and must be substantiated and approved by the Head of M&P.

3.7.9 Leasing, realty, and concession contracts having a term over ten years (including all renewal options) require Board approval regardless of the amount. For leasing contracts having a term of ten years or less, the authorization level contained in Table 1 denotes the annual value, including the cost of leasehold improvements split over the initial term of the lease.

3.7.10 Utilities, statutory payments and other agencies payments and commitments (including municipal payments) not covered by a specific contract, are deemed authorized within the approved budget authority (expenditures or revenues) and may be approved by staff with the appropriate delegated authority related to the following: utilities, taxes, permits, employee related deductions and payments, continuation of operating service and use of facility agreements with other agencies (new agreements will require Board approval) and municipal payments such as city staff Legal and Facility & Real Estate, Special Project and Transportation Planning resource requirements for work performed directly on TTC approved budget activities.

3.7.11 City of Toronto (including its Agencies, Boards, Commissions and Corporations – known as ABCCs) and Metrolinx contracts for work undertaken on behalf of the TTC and for which City or Metrolinx contracts will be issued to third parties will be approved within staff's delegated approval with the exception that the CEO will have unlimited authority.

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4.0 SEGREGATION OF DUTIES

A fundamental element of internal control is the segregation of key duties. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of the procurement process and for independent reviews of the work performed. The requisition, ordering, receiving, and payment activities need to be appropriately segregated if all control objectives are to be met.

For example, departments purchasing material directly (i.e. NOT received by TTC Central Stores) must ensure that the individual who orders, requisitions, purchases or receives goods cannot be authorized to approve invoices for payment. Invoice approval should always be granted to employees at one level of authority higher than those who order, requisition, purchase or receive material. Those employees approving invoices for payment must always ensure that an approved Purchase Order was prepared, and that a confirmation of receipt exists and is consistent with the invoice and purchase order.

5.0 REFERENCE SOURCES

- CEO Delegation of Authority for Expenditures Listing
- Authorized Signatures Listing
- Delegation of Management Authority Policy
- Engagement of Outside Counsel Policy
- Procurement Policy
- Settlement of Claims Policy
- Petty Cash Policy
- City of Toronto Municipal Code, Chapter 279, Article 2

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1.0 RESPONSIBILITY

Head of Finance

Head of Materials and Procurement (M&P).

2.0 PURPOSE

To establish the guidelines and requirements for the classification and control of expenditures and other commitments which require either ~~Commission Board~~-approval or Chief Executive Officer (CEO) approval at various dollar value limits.

The authorization for expenditures deals with authority to make purchases or commitments on behalf of the Commission/TTC. The approval of invoices for payment is separate and distinct from the authorization for expenditures. The approval of invoices for payment only involves the approval to make payments (based on receipt of satisfactory goods and services at agreed prices). ~~The authorization for expenditures deals with authority to make purchases or commitments on behalf of the Commission.~~ Please refer to the Delegation of Invoice Approval Authority ~~Policy/policy~~ for further guidance.

3.0 DELEGATION

3.1 The authorization for expenditures and other commitments covers both budgeted and unbudgeted items as outlined in Table 1 below. Budgeted items ~~include~~ are comprised of the acquisition or disposition of goods and services; contract amendments; leasing, realty and concession agreements; utilities, ~~statutory payments and agencies limits including City of Toronto contracts~~ and other operating agreements. Purchase authorization and contract amendment authority can be delegated for budgeted items and unbudgeted items, however unbudgeted items cannot be delegated below a department head level.

For leasing, realty and concession agreements, the limits also apply to the ability to enter into revenue generating agreements.

For Purchasing Cards, the limit shall be as identified in the Procurement Policy. Reference the Petty Cash Policy for petty cash expenditures.

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3.2 The signing authority of the CEO may be delegated in writing, as the CEO deems appropriate. (Refer to Delegation of Management Authority [Policy](#)).

3.3 Authorization for expenditures and other commitments are established up to the following limits, noting that these represent total contractual values including applicable taxes per commitment request, unless noted otherwise:

Commencing Projects/Authorizing Contracts Authorization for Expenditures and Other -and Commitments (Table 1)				
APPROVER	UNBUDGETED ITEMS	BUDGETED ITEMS		
		Goods & Services	Contract Changes / Amendments	Leasing Realty & Concession (per annum)
Commission Board	\$500,000+	\$5.0 million+ *	\$2.5 million+ **	\$1.0 million+ \$200,000+
Chief Executive Officer (CEO)	\$500,000	\$5.0 million	\$2.5 million	\$1.0 million \$200,000

***3.4** Exceptions [to Table 1:](#)

- i) ~~Commission~~ * [Board](#) approval is also required for:
 - (a) [Sele Single](#) source requirements greater than \$500,000 in accordance with the Procurement Policy; and
 - (b) Requirements greater than \$500,000 where ~~the~~ [based on the stated evaluation criteria as set out in the specific Request document, the recommended company is not the highest evaluated compliant bid \(which includes the evaluation of pricing\), if applicable, or lowest priced compliant bid](#) recommended company is not: (1) the lowest priced compliant bid; or (2) the best qualified and either lowest priced or acceptable priced proposal. These exceptions will also require the

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review and approval of ~~the~~ Legal Department regardless of the value.

ii) ** Contract Changes / Amendments

(a) Single Source Contract Amendments – Approvals required for contract amendments for any Single Source contract are outlined below:

<u>Contract Value Plus Cumulative Contract Amendments</u>	<u>Approval Requirement</u>
<u>Up to \$100,000</u>	<u>Head of M&P</u>
<u>>\$100,000 ≤ \$250,000</u>	<u>Chief Financial and Administration Officer (CFAO)</u>
<u>>\$250,000 ≤ \$500,000</u>	<u>Chief Executive Officer (CEO)</u>
<u>>\$500,000</u>	<u>Board</u>

(b) "Re-allocation of Funds Amendments" – In the event an authorized procurement involves contract awards to multiple companies, who are awarded contracts with the same scope and nature, the Board delegates amendment authority to the CEO, to re-allocate funds amongst the companies as needed provided the originally approved total aggregate amount, including any subsequent authorized amendments, is not exceeded.

3.54 Items which normally would not require ~~CommissionBoard~~ approval may be brought to the ~~CommissionBoard~~ at the discretion of the CEO.

3.65 The ~~CommissionBoard~~ delegates authority to the Chair, Vice-Chair and CEO to authorize items that would normally be authorized by the ~~Commission Board~~ when the approval is required prior to the next ~~Commission Board~~ meeting. If the Chair and/or the Vice-Chair are not available, authority will be deemed to be delegated to any two (2) ~~Board members (Commissioners)~~ and the CEO. These authorizations are to be followed up by a notice of award ~~Commission~~ report that is to be submitted to the next scheduled ~~CommissionBoard~~ meeting, for information.

~~3.6 — Exception to Contract Changes / Amendments in Table 1
"Re-allocation of Funds Amendments" — In the event an authorized procurement involves contract awards to multiple companies, who are awarded contracts with the same scope and nature, the CommissionBoard delegates amendment authority to the CEO, to re-allocate funds amongst the companies as needed provided the originally approved total aggregate amount, including any~~

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3.7 ~~subsequent authorized amendments, is not exceeded.~~
Notes:

3.7.1 Any authority levels delegated below the CEO including department head level requires the written approval of the CEO.

Any authority levels delegated below a department head level requires the written approval of a department head. A department head must identify all positions in his/her department and corresponding authorization limits and contract amendment authority on the Authorized Signatures Listing.

3.7.2 Each level of management must delegate ~~their~~-his/her full authority during periods of absence in accordance with the Delegation of Management Authority Policy.

3.7.3 The Head of Legal Department has authorization delegated by the ~~Commission Board~~ specifically related to legal issues and claims settlements which are subject to the procedures outlined under the Engagement of Outside Counsel and Settlement of Claims Policies.

3.7.4 An information report outlining amounts written off will be submitted to the Audit ~~and Risk Management~~ Committee on an annual basis. Specific authority to approve write-offs will be delegated by the CEO (e.g., tangible property is issued but no money is received, such as lost fare media) for decisions undertaken in the normal exercise of duties.

3.7.5 For unbudgeted project activity or procurement items, any original amount plus amendments that cumulatively total more than \$500,000 requires ~~Commission Board~~ approval.

For requests up to \$500,000, the CEO may authorize proceeding with an ~~Unbudgeted Item~~unbudgeted item providing that the expenditure can be accommodated within existing budgets. If as a result of a required amendment(s) the cumulative value of the ~~unbudgeted item~~ ~~Unbudgeted Item~~ will exceed the CEO's limit, then the appropriate higher level of approval will be required prior to proceeding with the amendment(s).

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3.7.6 If all or any part of the work associated with a new contract or a change to a contract that must commence immediately for reasons of safety, security, critical schedule requirements or to avoid delay claims, and authorization for such work cannot be obtained in a timely manner, then designated staff may authorize such work to commence on an interim basis up to their level of authority. Approval for the full value of such work should be obtained before expenses incurred exceed the interim authorization or such further interim authorization that may be subsequently obtained by a higher authority; otherwise the work on the change should be stopped until appropriate authorization is obtained. For safety critical requirements, work should proceed and appropriate authority must be sought at the earliest opportunity.

Inappropriate use of this process may result in a reduction of authority limits.

3.7.7 Where the value of an original contract for the purchase of goods / services is less than \$5 million, prior to the point where the aggregate of the original purchase plus subsequent approved and planned amendments will exceed \$7.5 million, then ~~Commission Board~~ approval of an amendment will be required even if the value of such amendment is less than \$2.5 million. Once the ~~Commission Board~~ authorizes an amendment, normal authorizations will resume as delegated for any additional amendments.

3.7.8 The authorization levels shown are for individual contract amendments and apply to the increases in the contract value for an addition to the scope of work, ~~however, where multiple amendments relate to the same scope of work the cumulative change value for all "same scope work" should be considered as the authorization level required.~~ The authorization levels do not apply to the following: reductions in scope which do not conflict with ~~Commission TTC~~ approved design objectives; direct substitutions for work within the scope which do not represent a change to the intent of the scope of work; increases or decreases due to changes in the rate or applicability of a tax or duty; the value of a cash allowance or escalation costs included in a contract; closeout of the remaining unspent value of upset limit contracts; or a no cost time extension that otherwise includes no change to the scope of the existing upset limit contract.

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Any extension to an expiry date for a term contract where competition for the specified requirement exists will be considered a single source and must be substantiated and approved by the Head of M&P.

- 3.7.9 Leasing, realty, and concession contracts having a term over ten years (including all renewal options) require ~~Commission Board~~ approval regardless of the amount. For leasing contracts having a term ~~up to of~~ ten years ~~or less~~ the authorization level contained in Table 1 denotes the ~~guaranteed~~ annual value, including the cost of amortized leasehold improvements split over the initial term of the lease.
- 3.7.10 Utilities, statutory payments and other agencies payments and commitments (including municipal payments) not covered by a specific contract, are deemed authorized within the approved budget authority (expenditures or revenues) and may be approved by staff with the appropriate delegated authority related to the following: utilities, taxes, permits, employee related deductions and payments, continuation of operating service and use of facility agreements with other agencies (new agreements will require ~~Commission Board~~ approval) and municipal payments such as city staff Legal and Facility & Real Estate, Special Project and Transportation Planning resource requirements for work performed directly on TTC approved budget activities.
- 3.7.11 City of Toronto (including its Agencies, Boards, Commissions and Corporations – known as ABCCs) and Metrolinx contracts for work undertaken on behalf of the ~~Commission-TTC~~ and for which City or Metrolinx contracts will be issued to third parties will be approved within staff's delegated approval with the exception that the CEO will have unlimited authority.

4.0 SEGREGATION OF DUTIES

A fundamental element of internal control is the segregation of key duties. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of the procurement process and for independent reviews of the work performed. The requisition, ordering, receiving, and payment activities need to be appropriately segregated if all control objectives are to be met.

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For example, departments purchasing material directly (i.e. NOT received by TTC Central Stores) must ensure that the individual who orders, requisitions, purchases or receives goods cannot be authorized to approve invoices for payment. Invoice approval should always be granted to employees at one level of authority higher than those who order, requisition, purchase or receive material. Those employees approving invoices for payment must always ensure that an approved Purchase Order was prepared, and that a confirmation of receipt exists and is consistent with the invoice and purchase order.

45.0 REFERENCE SOURCES

- ~~CEO Delegation of Authority for Expenditures Listing Executive & Department Head Authorization Listing~~
- Authorized Signatures Listing
- Delegation of Management Authority Policy
- Engagement of Outside Counsel Policy
- Procurement Policy
- Settlement of Claims Policy
- Petty Cash Policy
- City of Toronto Municipal Code, Chapter 279, Article 2

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