Accounts Payable Audit Report

April 2, 2021

Mayor

Betsy Price

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Department of Internal Audit**

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FORT WORTH

The Accounts Payable Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2020 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- evaluate internal controls governing the security of the City's accounts payable/ACH process;
- evaluate the City's process for taking advantage of early payment discounts;
- identify the time lag between vendor invoice dates, receipt of goods and/or services and City payments;
- ensure that payments were adequately supported; and,
- determine whether user departments conducted quality control audits as required.

Audit Scope

Our audit included a review of accounts payable transactions for the period October 1, 2019 through September 30, 2020.

Opportunities for Improvement

Take advantage of early payment discounts

Executive Summary

As part of the Fiscal Year 2020 Annual Audit Plan, the Department of Internal Audit conducted an Accounts Payable Audit. Based on our audit results, internal controls governing the security of the City's accounts payable process, including ACHs, were adequate.

The Financial Management Services (FMS) Department has implemented policies and procedures to help ensure that City payments are made to legitimate businesses. The FMS Department has also enhanced its ACH process to ensure proper controls over the electronic submittal of vendor payments.

Existing policies and procedures help ensure that vendor invoices are adequately supported, accurate and paid in a timely manner. Also, departments are required to conduct monthly quality control audits to verify, on a sample basis, that vendor payments are accurate and adequately supported.

A majority of City vendor payments were made within 30 days of the vendor's invoice date. However, the City did not always take advantage of early payment discounts. For example, the City sometimes made vendor payments within the early payment discount period, but did not apply the discount towards the vendor's gross invoice amount. In other instances, the City did not pay vendor invoices within the early payment discount period.

In FY2020, the City applied early payment discounts (totaling $2,783.46) to 83 of 206 randomly sampled vendor invoices. However, the City did not take discounts on the remaining 123 invoices. As a result, $4,512.77 in discounts were either not taken or were missed. This audit finding is discussed in further detail within the Detailed Audit Finding section of this report.
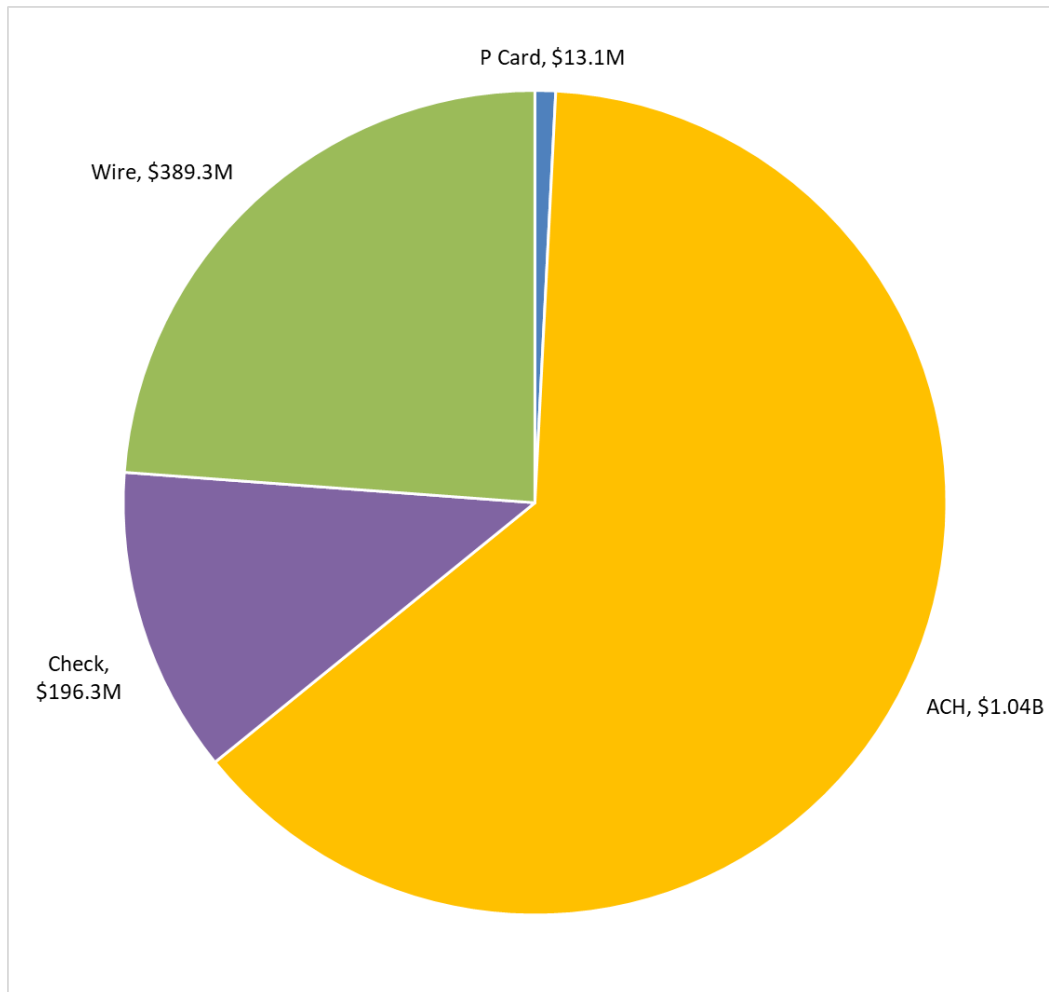
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Background

The City of Fort Worth remits payments to City vendors via Automated Clearing House (ACH), wire transfers, paper checks and procurement cards. City contracts state that the City agrees to pay all invoices for accepted work within 30 days of receiving the invoices, and that the City will only pay for work that is completed in accordance with the terms and specifications contained in the contractual agreements.

As noted in the following chart, the City remits the majority of its vendor payments via ACH. In FY2018, the City of Fort Worth was victim to an ACH scam. Upon receipt of fraudulent documentation, City Accounts Payable staff changed the bank account number that the City had on file (for a particular vendor) to a bank account number referenced in the fraudulent documentation. As a result, a City payment was electronically deposited into to a bank account that belonged to someone other than the intended vendor. The City promptly modified its procedures to adequately address control weaknesses within the ACH process.

The City Paid Over $1.6B to Vendors During Fiscal Year 2020
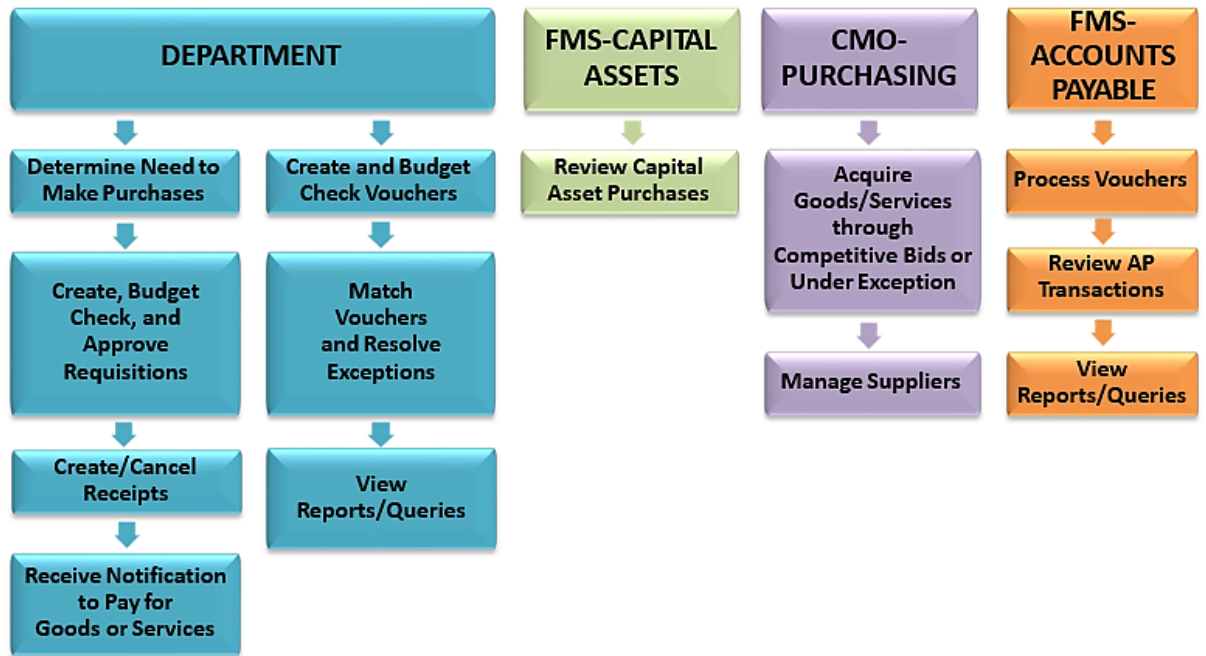

Source: PeopleSoft Financials

The City of Fort Worth uses a three-way matching procedure to help ensure that vendor payments are accurate. Before a vendor payment is processed, the three-way matching procedure (which is a best practice) identifies a "match" of the purchase order, receipt of goods and/or services and the vendor invoice.

The City's accounts payable function is decentralized, and requires coordination among user departments and the Financial Management Services (FMS) Department.

- User departments are responsible for ordering goods/services, managing vendor contracts, creating payment vouchers, reviewing payment vouchers for accuracy, properly receiving authorized goods/services and providing supporting documentation (within PeopleSoft) to the Central Accounts Payable service area of the Treasury Division (within the FMS Department).

- Central Accounts Payable is responsible for verifying that vendor disbursements are payable to the correct vendor, addressed to the correct remit-to address, and in the correct amount. In addition, Central Accounts Payable is responsible for ensuring that vendor invoice numbers and invoice dates were entered accurately in PeopleSoft.

- Duties required to process accounts payable transactions are adequately segregated. For example, City departments do not issue vendor payments. Instead, Central Accounts Payable is responsible for issuing vendor payments for all departments. In addition, invoices paid by wire transfer are processed and made through the Cash Management section of the Treasury Division, and are entered and recorded in PeopleSoft by authorized Central Accounts Payable staff.

- The Purchasing Division of the FMS Department generally procures goods and services on behalf of City departments. The Purchasing Division helps ensure compliance with City policy and applicable procurement law.

- Vendor management staff, within the Purchasing Division, verify vendor registrations and account changes.

- Since the Information Technology Solutions Department is responsible for the City's network and computer system, the Chief Technology Officer is responsible for approving all information technology procurements that will connect to the City's network, before the information technology assets are purchased.
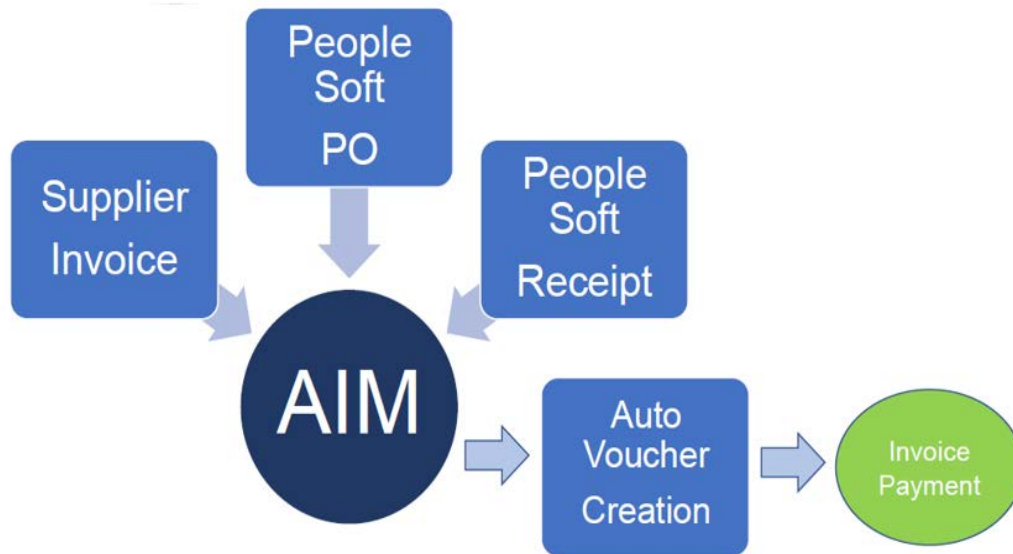
Source: City of Fort Worth Intranet

On January 29, 2019, the Mayor and City Council authorized an agreement (M&C P-12292/City Secretary Contract #51829) with Carahsoft Technology Corporation for software, training, services and support for an accounts payable invoice processing solution, Automated Invoice Management (AIM). The FMS Department indicated that the AIM solution would further enhance invoice payment efficiencies through the use of advanced optical character recognition, and by centralizing the electronic receipt of vendor invoices directly in Central Accounts Payable. Centralizing the electronic receipt of vendor invoices allows for enhanced monitoring by Central Accounts Payable. For example, when using the decentralized accounts payable process, invoices were not visible (to Central Accounts Payable) until the invoices were keyed into PeopleSoft by user departments. An illustration of the payment process, via the AIM solution, is as follows.
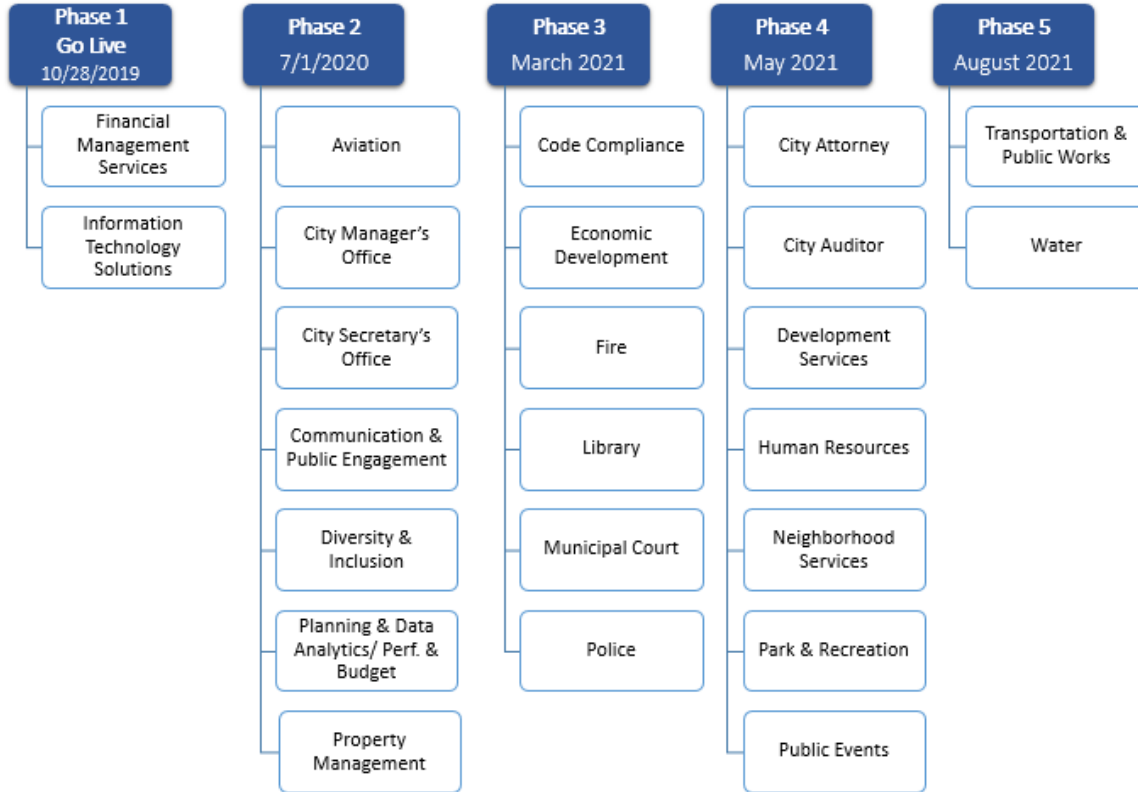
Automated Invoice Management (AIM) Solution

Source: Financial Management Services

The AIM solution converts electronic vendor invoice images to machine readable text, extracts invoice information, populates an invoice template, then systematically attempts three-way matching (i.e., matching the invoice to the purchase order and the receipt of goods and/or services). Once the three-way match is accomplished, the AIM solution systematically transitions the invoice to PeopleSoft. A payment voucher is then automatically created for processing by Central Accounts Payable.

In October 2019, the FMS and Information Technology Solutions Departments were the first two departments to go live with the AIM solution. The original plan was to implement the solution across all City departments, in six phases, by August 2021. However, implementation delays resulted from operational impacts associated with the City's COVID-19 response. The implementation schedule was, therefore, compressed into five phases (as depicted in the following chart). Internal Audit was informed that the City's compressed implementation plan should still allow completion by the initial target implementation date (August 2021), barring any unforeseen setbacks.

Phase 1 Go Live 10/28/2019	Phase 2 7/1/2020	Phase 3 March 2021	Phase 4 May 2021	Phase 5 August 2021
Financial Management Services	Aviation	Code Compliance	City Attorney	Transportation & Public Works
Information Technology Solutions	City Manager's Office	Economic Development	City Auditor	Water
	City Secretary's Office	Fire	Development Services	
	Communication & Public Engagement	Library	Human Resources	
	Diversity & Inclusion	Municipal Court	Neighborhood Services	
	Planning & Data Analytics/ Perf. & Budget	Police	Park & Recreation	
	Property Management		Public Events	

Source: Financial Management Services Department

The FMS Department stated that construction invoices, with retainage withheld, are excluded from the CFW's AIM implementation plan. They also indicated that customer refunds resulting from program cancellations and/or citizen overpayments are also excluded from the City's AIM implementation plan.

- The FMS Department indicated that during the design of the AIM solution, the City's Capital Delivery team (consisting of project management staff from various departments) was in the process of exploring a specialized project management and approval work flow system to more efficiently process the routing of construction invoices with retainage withheld.

- Customer refunds, such as Municipal Court bond refunds (generated from the Municipal Court software) and facility rental customer refunds (generated from the Park and Recreation software) are generally payable to one-time vendors (e.g., vendors who are not assigned a unique vendor i.d. within PeopleSoft).

The FMS Department stated that the City processes more than 70,000 invoices annually, and that the majority of the City's invoices (80% - 90%) should be processed through the AIM solution, once AIM is fully implemented. Additionally, the AIM solution should reduce manual invoice data entry throughout the City, for invoices processed through AIM.

In addition to improving the ACH process and centralizing CFW accounts payable, the FMS Department has taken additional measures to help ensure accounts payable accuracy and efficiency. On February 1, 2020, the FMS Department introduced an Administrative Regulation (General Accounts Payable Guidelines) as guidance to help reduce/eliminate vendor payment challenges such as duplicate payments, payment of exempted sales taxes, etc. These guidelines require that each department conduct monthly quality control audits of at least 2% of the monthly invoice vouchers processed by their departments.

Objectives

The objectives of this audit were to:

- evaluate internal controls governing the security of the City's accounts payable process, including ACHs;

- evaluate the City's process for taking advantage of early payment discounts;

- identify the time lag between vendor invoice dates, receipt of goods and/or services and City payments;

- ensure that payments were adequately supported; and,

- determine whether user departments conducted quality control audits, as required by City policy.

Scope

Our audit included a review of accounts payable transactions from October 1, 2019 through September 30, 2020.

Since Internal Audit routinely conducts wire transfer, city-wide procurement card and duplicate payment reviews, this audit did not include a review of those procurement methods. Additionally, this audit did not include a review of the AIM solution, which will be considered for a subsequent audit.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:
- interviewed FMS Department staff, including the Purchasing Division;

- reviewed applicable City policy and state regulations;

- ensured validity of vendors and adequacy of documentation supporting vendor invoices;

- reviewed and analyzed vendor bid responses, contracts and invoices;

- identified time lag between vendor invoice dates, receipt of goods and/or services and City payments;

- consulted user departments to obtain reasons for vendor payment delays;

- verified the three-way match;

- determined whether early payment discounts were taken, when applicable;

- evaluated the overall accounts payable process;

- reviewed departmental quality control audits; and,

- evaluated internal controls related to accounts payable activities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Chapter XXVIII of the Fort Worth City Charter established the CFW's Department of Internal Audit independent of management, reporting directly to the Fort Worth City Council. We utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework when evaluating internal controls.

The following internal control components and corresponding principles were considered significant to the audit objectives. COSO is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

Internal Control Component	Principles
Control Environment	Managerial oversight, integrity, ethics and responsibility; staff recruitment, development, retention, performance and accountability
Control Activities	Policies, procedures and systems
Risk Assessment	Clearly-defined objectives to identify risks, define risk tolerances, and implement necessary controls (e.g., written policies and procedures)
Information and Communication	Communication of necessary quality information
Monitoring	Monitoring and evaluating the effectiveness of internal controls

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Audit Results

We concluded that the FMS Department established policies and procedures to help ensure the security of payments made to City vendors (e.g., via ACH and check). The FMS Department also implemented city-wide policies to help ensure that vendor payments were accurate. Based on our test results, documentation supporting vendor payments was adequate and FMS procedures ensured that accounts payable payments were made to legitimate vendors.

FMS sent routine reports to departments, to provide an idea of how departments were performing in terms of payment timeliness. Departments were also informed of noncompliance with monthly quality control audit requirements, incomplete documents and/or other errors that would have caused vendor payment delays.
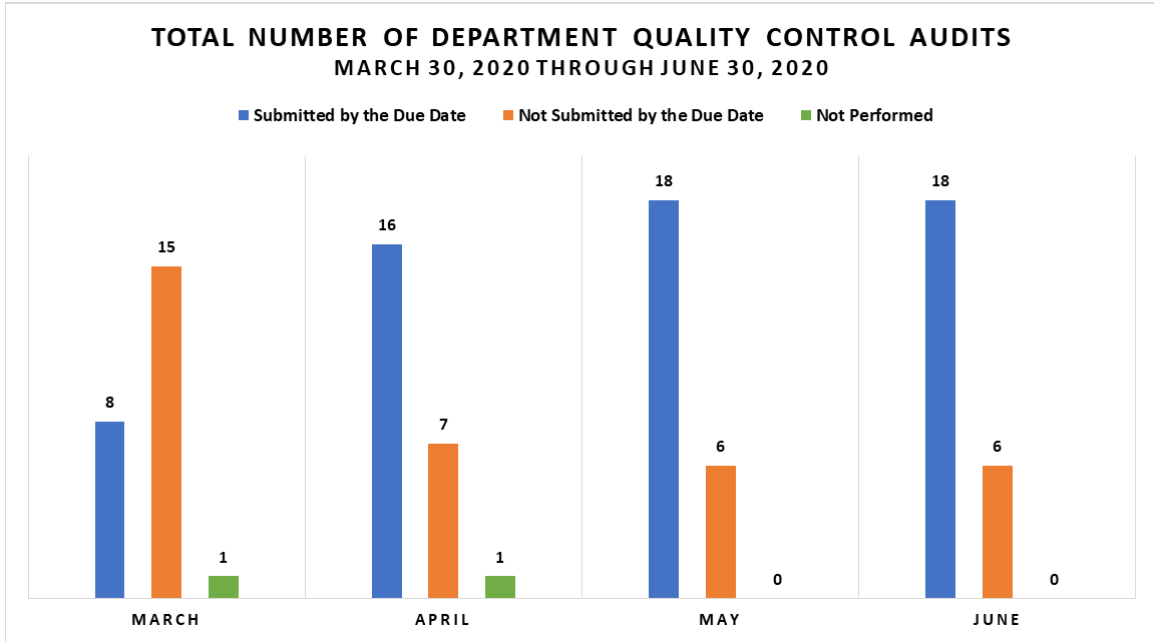
Based on our review of the modified ACH process (which is documented in the FMS Department's policies and procedures), controls were put into place to prevent the reoccurrence of a similar scam previously mentioned in the Background section of this report. Additionally, based on our test results, the Central Accounts Payable service area staff complied with those modified ACH procedures. Vendor bank account changes made during our audit period were proper, adequately supported, and legitimately requested from the vendor.

Monthly Departmental Quality Control Self Audits
Section 7.24 of the Financial Management Services Administrative Regulation for General Accounts Payable requires that departments conduct monthly self audits of at least 2% of the prior month volume of vendor invoice vouchers. Although some departmental quality control self audits were submitted after the due date, we noted that late departmental submissions declined since the requirement was implemented in March 2020. In reference to quality control audits between March 2020 and June 2020:

- 60 were submitted to the FMS Department by the due date;
- 34 were submitted to the FMS Department after the due date; and,
- two (2) were not performed.

In reference to the two self audits that were not performed, the FMS Department determined that the non-submitting department had no accounts payable transactions during those two reporting periods. The FMS Department further indicated that City departments would be informed that emails would be required (in the future) to confirm that no invoices were paid during the reporting periods.

TOTAL NUMBER OF DEPARTMENT QUALITY CONTROL AUDITS
MARCH 30, 2020 THROUGH JUNE 30, 2020

Source: Financial Management Services Department files

Vendor Payment Time Lag

Internal Audit randomly selected 52 vendor payments for testing, which resulted in a total of 118 vendor invoices. Based on City departmental date stamps and/or vendor invoice receipt dates documented within PeopleSoft, all but three of the 118 vendor invoices were noted as being received within 30 days of the vendor invoice date.

Of the 118 vendor invoices, City payments were made within these four ranges of days from the vendor invoice dates:

- 98 invoices (83.1%) were paid within one to 30 days;
- 11 invoices (9.3%) were paid within 31 to 60 days;
- Five invoices (4.2%) were paid within 61 to 90 days; and,
- Four invoices (3.4%) were paid beyond 90 days.

Three of the 118 vendor invoices were from Minority Business Enterprise (MBE) vendors. Of those three MBE vendors, one was paid within one day of the invoice date. A second MBE vendor was paid 28 days after the vendor's invoice date, and 28 days after the invoice was date-stamped by the procuring department (i.e., the vendor's invoice date and the procuring department's date stamp were the same). The third MBE vendor was paid 39 days after the invoice date, but only eight days after the invoice was date-stamped by the department.

To increase the audit coverage of payments made to MBE vendors, Internal Audit identified vendors who were noted as MBEs within PeopleSoft. We then randomly selected 45 CFW payments to those MBE vendors, which resulted in a total of 77 invoices. Based on our review, a majority (70.1%) of the 77 MBE invoices were paid within 30 days of the invoice date. Of the 77 vendor invoices, payments were made within these four ranges of days from the vendor invoice dates:

- 54 invoices (70.1%) were paid within one to 30 days;
- 14 invoices (18.2%) were paid within 31 to 60 days;
- Five invoices (6.5%) were paid within 61 to 90 days; and,
- Four invoices (5.2%) were paid beyond 90 days.

All but eight of the 77 vendor invoices were noted as being received (by the City) within 30 days of the vendor invoice date (based on City departmental date stamps, or vendor invoice receipt dates documented within PeopleSoft). It should be noted that one of the invoices paid within 31 to 60 days of the vendor's invoice date was a retainage payment. That payment delay was not considered an exception.

According to City departments, reasons for vendor payment delays (to both non-MBE and MBE vendors) included invoice processing between divisions within the same procuring department, routing invoices for approval, receiving invoices late, misplacing invoices, and the Coronavirus pandemic. City management was aware of weaknesses that are common within a decentralized accounts payable process, and as discussed in the Background section of this report, had begun a phased-in approach to centralize the City's accounts payable function. The City's full implementation of the AIM solution should help alleviate issues that resulted in invoice payment delays experienced by user departments for non-construction invoices and/or construction invoices with retainage withheld. It should be noted that Internal Audit saw no evidence of late fees paid on vendor invoices included in our sample.

Early Payment Discounts
The City discounted approximately 40% (83 of the 206) of randomly sampled vendor invoices that were paid within the available discount period. As a result, the City took advantage of $2,783.46 of $7,296.23 that was available in early payment discounts. The remaining $4,512.77 was either not taken or missed.

We also concluded that City staff was inconsistent in recording discounted vendor payments. In some instances, departments entered the gross invoice amount and the applied discount, separately. In other instances, departments entered invoice amounts net of the applied discount. For example, for a vendor invoice totaling $823.20, with a $16.46 early payment discount, the department would have entered the invoice amount as $806.74.

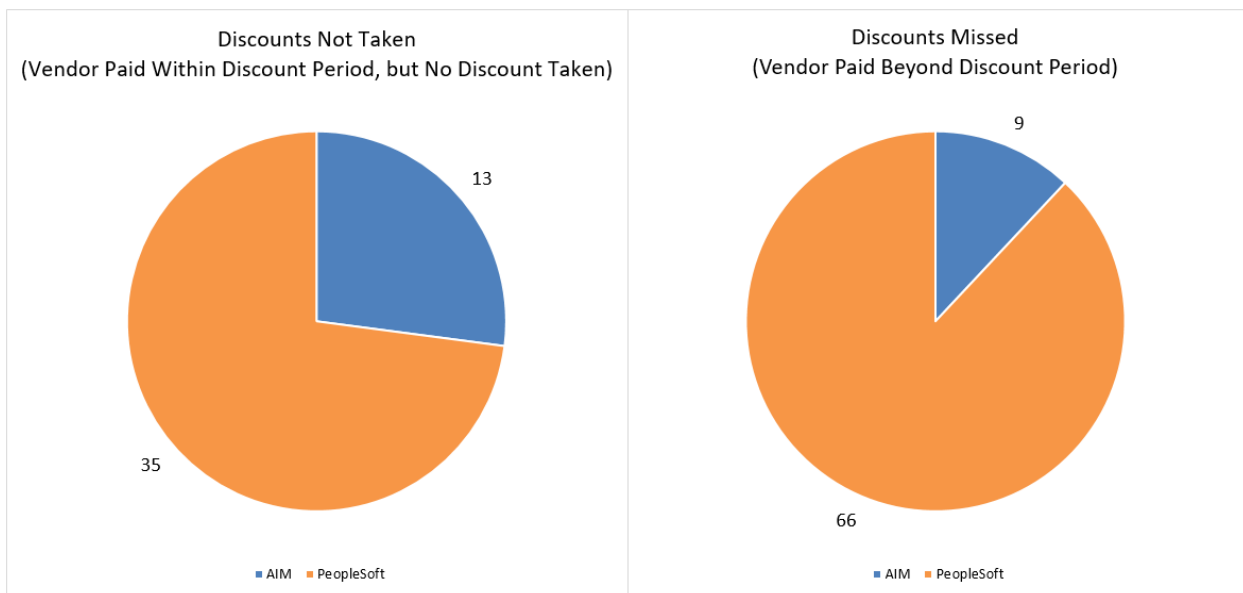| High	Medium	Low
	<u>Early payment discounts either not taken (i.e., paid within the early payment discount period, but the discount not taken) or missed (i.e., paid beyond the early payment discount period)</u>	

Detailed Audit Finding

1. **The City did not always take advantage of available early payment discounts.**

   Based on our audit results, early payment discounts were available, but were not always taken. In some instances, early payment discounts were not taken, although payments were made within the vendors' early payment discount periods. In other instances, early payment discounts were missed because vendor payments were made beyond the vendors' early payment discount periods.

   The FMS Department indicated that three vendors offered early payment discounts to the CFW. Internal Audit's random sample identified one additional vendor that offered an early payment discount. However, based on our test results, only three of the four vendors received check or ACH payments from the City during our audit period. Our audit testing, therefore, consisted of a review of invoices from those three vendors.

   Internal Audit randomly selected 208 invoices from the three vendors. Two of those invoices were invoice credits. For the remaining 206 invoices, and based on dates the City received the vendor invoices:

   - 83 were paid within the discount period, and discounted
   - 48 were paid within the discount period; however, early payment discounts were not taken
     - 13 of the 48 invoices were processed through the AIM solution
     - 35 of the 48 were processed via PeopleSoft
   - 75 were not paid within the discount period, so the discounts were missed
     - Nine (9) of the 75 invoices were processed through the AIM solution
     - 66 of the 75 invoices were processed via PeopleSoft

Discounts Not Taken (Vendor Paid Within Discount Period, but No Discount Taken): AIM 13, PeopleSoft 35. Discounts Missed (Vendor Paid Beyond Discount Period): AIM 9, PeopleSoft 66.

   Discounts were taken on approximately 40.3% (83 of the 206) of the randomly sampled vendor invoices. The City, therefore, took advantage of $2,783.46 of the $7,296.23 that was available in early

payment discounts. As shown in the following tables, the remaining $4,512.77 was either not taken or missed.

Discount Summary, Based on Date Vendor Invoice Was Received							
	Total Discounts Applied		Total Discounts Not Taken		Total Discounts Missed		
Department	Count	Amount	Count	Amount	Count	Amount	Count	Total
Water	52	$1,128.53	29	$402.39	35	$924.78	116	$2,455.70
Transportation and Public Works	15	956.01	2	209.72	3	1,105.90	20	2,271.63
Property Management	6	354.60	12	1,190.16	22	459.16	40	2,003.92
Park and Recreation	7	324.26	4	87.91	6	88.65	17	500.82
Police	0	-	0	-	7	35.30	7	35.30
Economic Development	1	16.46	0	-	1	8.54	2	25.00
Public Events	2	3.60	0	-	0	-	2	3.60
Information Technology Solutions	0	-	1	0.02	1	0.24	2	0.26
Totals:	83	$2,783.46	48	$1,890.20	75	$2,622.57	206	$7,296.23

Source: PeopleSoft

Discount Summary, Based on Date Goods/Services Were Received, per PeopleSoft							
	Total Discounts Applied		Total Discounts Not Taken		Total Discounts Missed		
Department	Count	Amount	Count	Amount	Count	Amount	Count	Total
Water	52	$1,128.53	49	$850.27	15	$476.90	116	$2,455.70
Transportation and Public Works	15	956.01	3	211.78	2	1,103.84	20	2,271.63
Property Management	6	354.60	20	1,307.81	14	341.51	40	2,003.92
Park and Recreation	7	324.26	10	176.56	0	-	17	500.82
Police	0	-	0	-	7	35.30	7	35.30
Economic Development	1	16.46	1	8.54	0	-	2	25.00
Public Events	2	3.60	0	-	0	-	2	3.60
Information Technology Solutions	0	-	1	0.02	1	0.24	2	0.26
Totals:	83	$2,783.46	84	$2,554.98	39	$1,957.79	206	$7,296.23

Source: PeopleSoft

The preceding tables are not intended to suggest that Internal Audit is recommending that early payment discount calculations be based on when an invoice is received, as vendor payment would not be expected if the goods/services have not been received by the CFW. Instead, our reason for showing calculations based on both the vendor invoice receipt date and the date on which goods/services were received is to only emphasize that the City did not take advantage of early payment discounts.

We did note that the AIM solution systematically date-stamps invoices that the vendor electronically submits to the City. However, based on our test results, the systematic date-stamp is not uploaded to PeopleSoft. Uploading vendor invoices that are systematically date-stamped from AIM to PeopleSoft would help ensure that vendor invoice receipt dates (captured in PeopleSoft) are more accurate, and would provide a more reliable source when determining whether early payment discounts are applicable.

Under the current process, procuring departments enter discounts within PeopleSoft. Additionally, Central Accounts Payable notifies procuring departments when discounts are observed on vendor invoices, but not taken by the procuring departments. Based on our test results, early payment discount terms were not entered into PeopleSoft upon contract award. The FMS Department indicated that PeopleSoft will automatically calculate early payment discounts, if those discount terms are setup on the vendor's file. However, PeopleSoft could inaccurately apply early payment discounts if the vendor does not offer the same early payment discount on all of its CFW contracts.

Section 7.24 of the City's General Accounts Payable Guidelines states that as a part of each department's monthly quality control audit, departments must ensure that eligible early payment discounts were taken. Those guidelines further state that if an eligible early payment discount was not taken, the department management should investigate the cause and implement appropriate operational

changes to ensure future discounts are taken when available. Additionally, departments are instructed that if (during the quality control audit) the invoice amount paid is greater than the current activity on the invoice, less any appropriate discounts taken, the department management is responsible for contacting the vendor/supplier and obtaining reimbursement or a credit for the overpayment if an overpayment was made.

Recommendation 1A*: Department Heads from each applicable department should determine whether it is cost prohibitive to request a refund or invoice credit from vendors to whom the City made payment within the early pay discount period, but did not apply the discount.*

Auditee's Response: Concur. Department Heads from each applicable department will be responsible for seeking a refund or an invoice credit for eligible prompt payment discounts that were not taken as identified by Internal Audit in connection with this audit. Evidence of receipt and deposit of the refund or invoice credit must be provided to Central Accounts Payable, via email to ZZ_FIN_AccountsPayable on or before the target implementation date noted below.

>   **Target Implementation Date:** July 31, 2021

>   **Responsibility:** Applicable Department Heads

>   **Applicable Department Head:** Reginald Zeno, Chief Financial Officer

>   **Applicable Deputy City Manager:** Jay Chapa

Recommendation 1B: *The Chief Financial Officer should consider requiring that Purchasing Division staff input early payment discount terms within PeopleSoft, based on vendor bids and upon contract execution.*

Auditee's Response: Concur. Currently, payment terms are defined at the Supplier level in PeopleSoft, not at the individual contract level. A system assessment would need to be completed in order to determine if the system can be configured to automatically deduct prompt payment discounts based on the payment terms defined at the individual contract level or if a system customization will be required. The target implementation date below is the estimated date to complete the system assessment. Once the system assessment is complete, a project plan will need to be put together, prioritized appropriately, and funded to move forward the required system configuration change(s) and/or customization. Any system customization will require a cost/benefit evaluation prior to execution.

>   **Target Implementation Date:** September 30, 2021

>   **Responsibility:** Cynthia Garcia, Chief Procurement Officer

>   **Applicable Department Head:** Reginal Zeno, Chief Financial Officer

>   **Applicable Deputy City Manager:** Jay Chapa

Recommendation 1C: *The Chief Financial Officer, in conjunction with the City Attorney's Office, should review City contracts to determine whether additional clarification is necessary (i.e., that the net 30 payment term is applicable, if and when an early payment discount has not been offered by the vendor).*

Auditee's Response: Concur. The Chief Procurement Officer will work with the City Attorney's Office to ensure all procurement contracts managed by the Purchasing Division include the vendor's payment terms (if appropriate) or the standard net 30 language. For contracts that are executed without any participation by the Purchasing Division, Departments will work with the City Attorney's Office to ensure that the vendor's payment terms or the standard net 30 language is included.

Target Implementation Date: April 1, 2021

Responsibility: Cynthia Garcia, Chief Procurement Officer and Applicable Department Heads

Applicable Department Head: Reginal Zeno, Chief Financial Officer

Applicable Deputy City Manager: Jay Chapa

Acknowledgements

The Department of Internal Audit would like to thank the Financial Management Services and user departments for their cooperation and assistance during this audit.