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Audit of Late Fees Paid by the City of Fort Worth

June 19, 2020



**City of Fort Worth
Department of Internal Audit**

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The Audit of Late Fees Paid by the City of Fort Worth 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:

- identify the financial impact of late fees paid to vendors; and,
- determine whether late fees were adequately tracked and monitored.

Audit Scope

Our audit covered the period from October 1, 2017 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement

Timely payment of vendor invoices

Adequate preparedness for timely vendor delivery

Executive Summary

As part of the Fiscal Year 2020 Annual Audit Plan, the Department of Internal Audit conducted an audit of late fees paid by the City of Fort Worth. Based on our audit results, and as noted in the following table, the City paid \$38,833.77 in late fees/finance charges to 10 vendors, across seven departments for the two-year period ending September 30, 2019. Total late fees/finance charges paid represented approximately 0.50% of the total dollar transactions tested. Since we identified repeating occurrences of late fees/finance charges to the same vendor, we concluded that late fees were not being adequately tracked or monitored. It should be noted that although we observed late fee payments to one Water Department vendor from FY2018 through May 2019, no late fees were incurred from June 2019 and through September 2019.

SUMMARY OF LATE FEES PAID		
Department	Number of Exception Invoices	Late Fee
Water	122	\$24,145.30
Information Technology Solutions	21	14,194.98
Planning and Development	2	339.51
Police	4	80.00
Property Management	4	38.95
Transportation and Public Works	1	22.50
Code Compliance	1	12.53
Totals	155	\$38,833.77

Source: Accounts Payable Invoices

When reviewing vendor invoices and City payments, we noted that in addition to late fees, the City sometimes paid service charges. Upon further examination, Internal Audit concluded the City sometimes paid service charges because the City did not adequately prepare worksites prior to the vendor’s delivery of the procured products and/or services. Based on our test results, the City paid \$5,150.00 in unnecessary service charges during FY2018.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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Objectives

The objectives of this audit were to identify the financial impact of late fees paid to vendors, and to determine whether late fees were adequately tracked and monitored.

Scope

Our audit included the period from October 1, 2017 through September 30, 2019. Specific vendor invoices beyond this period were reviewed as deemed necessary. For example, vendor invoices beyond FY2019 were reviewed if we identified a pattern of late fees being paid to a specific vendor.

While reviewing invoices for late fees paid, Internal Audit expanded testing to review FY2018 invoices from one vendor that repeatedly charged the City a service charge.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- analyzed PeopleSoft data to identify vendor transactions (e.g., purchase orders and direct pay procurements) with the words “late fees” in the comment field, or a range of 30 or more days between the vendor invoice date and City payment date;
- calculated the number of days lapsed (e.g., number of days from when the invoice was received by the procuring department to when the invoice was received by the Financial Management Services Department); and,
- evaluated internal controls related to late fee payments.

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 objective.

Chapter XXVIII of the Fort Worth City Charter established the City of Fort Worth’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.



Methodology (continued)

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



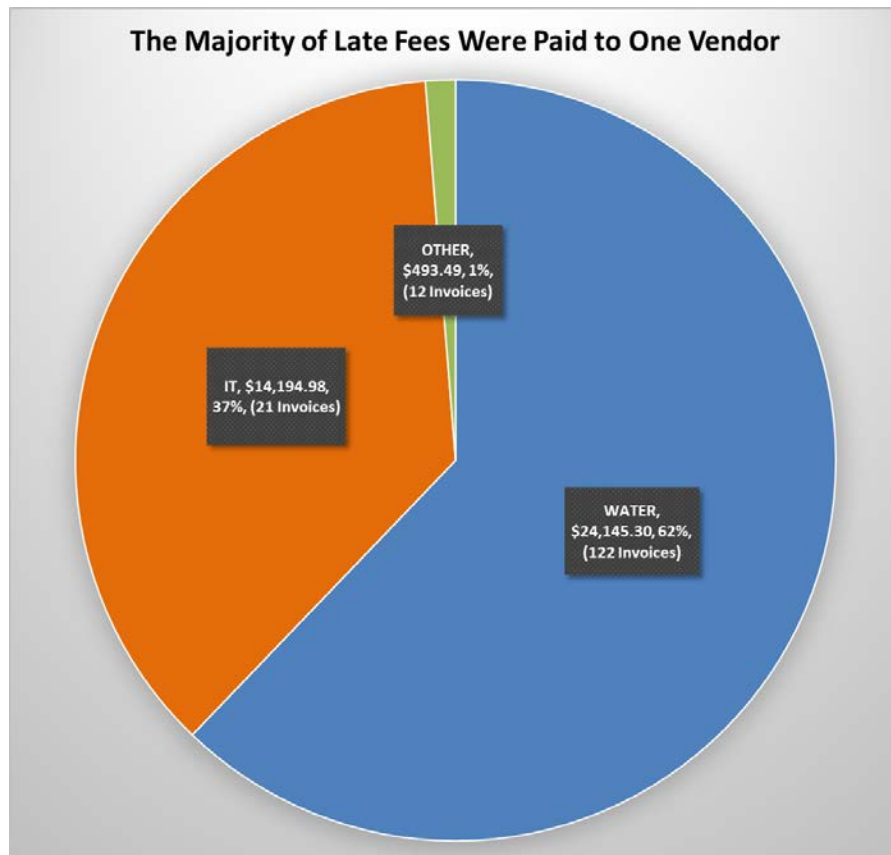
Overall Risk Evaluation

High	Medium	Low
	Paying late fees	
	Paying unnecessary service charges	

Detailed Audit Findings

1. The City paid \$38,833.77 in late fees.

For the two-year period ended September 30, 2019, the City of Fort Worth paid a total of \$38,833.77 in late fees/finance charges to 10 vendors, across seven departments. Total late fees paid represented approximately 0.50% of the total dollar transactions tested. Total late fees paid, by department, are detailed within the [Executive Summary](#) of this report.



Source: Accounts Payable Invoices

Based on our analysis, approximately 98% of City late fees were paid to three City vendors.

- Brenntag Southwest was paid late fees totaling \$24,145.30 (122 invoices), with the number of days late ranging from two to 144 days. Approximately 94% of the late payment invoices were confined to operations at the Village Creek Water Reclamation Facility.

In four instances, the City paid late fees even though the payment was not late. Water Department staff confirmed that those invoices were paid using the past due amount. Water staff further indicated that they have spoken with the vendor and the vendor will provide the City a credit once the department completes its research.

It should be noted that no late fees were incurred on Brenntag Southwest invoices dated June 2019 through September 2019.

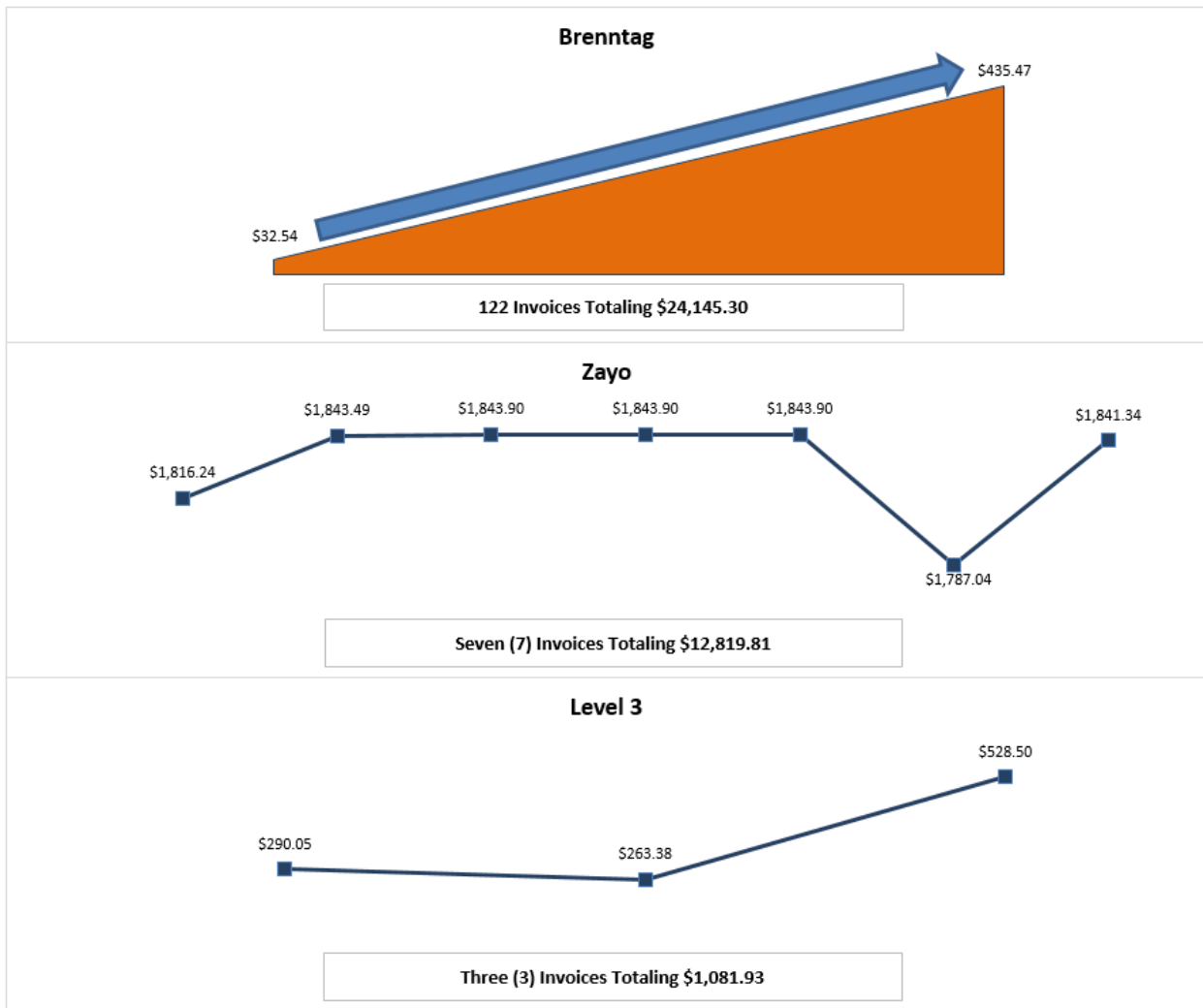


- Zayo was paid late fees totaling \$12,819.81 (seven of 16 sampled invoices), with the number of days late ranging from one to 73 days.

Information Technology Solutions (ITS) Department staff indicated that contributing factors for late payments included understaffing during the audit period, and due to the departure of a highly-tenured employee. ITS staff also indicated that in the process of “staffing-up”, there were several months where a combination of system changes and new hire training caused payment delays. To further exacerbate the issue, ITS staff said the extra monies spent on late fees depleted the available spending authority, causing further late fees while renewal of spending authority was sought. ITS staff indicated that their department is now adequately staffed, and payments are being processed within the normal and acceptable range. It should be noted that the ITS Department is part of a City pilot program by which invoices are received and processed centrally by the Financial Services Management Department.

- Level 3 Communications was paid late fees totaling \$1,081.93 (three invoices), with the number of days late ranging from one to eight days.

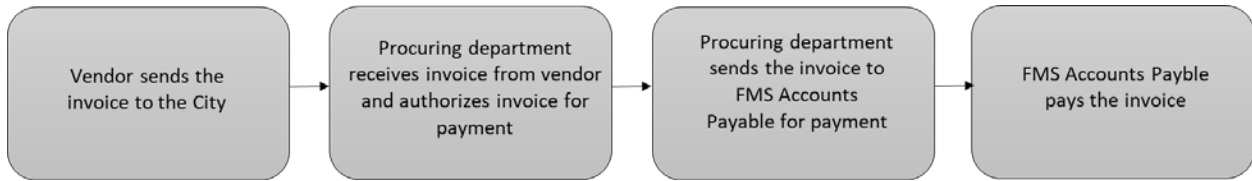
Top Three Vendors with Late Fees Paid



Source: Accounts Payable Invoices



The process by which vendor invoices (generated from purchase orders and direct pay procurements) are paid, is noted in the following illustration.



Based on our test results, procuring departments and the Financial Management Services Department sometimes stamped the dates on which invoices were received within the respective departments. Departmental stamp dates (when affixed) sometimes extended beyond 30 days of the vendors’ invoice dates. Total lag time between departmental and Financial Management Services’ stamp dates ranged up to 84 days, while total lag time between Financial Management Services’ stamp dates and vendor payment dates extended up to nine days. Based on invoice stamp dates, late fees were generally incurred because procuring departments did not submit vendor invoices to the Financial Management Services Department in a timely manner. However, it should be noted that invoices could have been held during any step in the process (e.g., mail room, procuring department, FMS, etc.) before reaching department staff and/or being stamped.

Section V.A. of City of Fort Worth Financial Directive 16 states that the entry of invoices should be completed within five business days of receipt so invoices can be processed timely. Additionally, Section 7.20 of the City’s General Accounts Payable Guidelines (which became effective subsequent to our audit) references prompt payments to avoid penalties or late charges. Those Guidelines also reference Title 10, Subtitle F, Chapter 2251 of the Texas Government Code also known as the “The Prompt Pay Act”.

Recommendation 1: *The City Manager should require that invoices are forwarded to the Financial Management Services Department in a timely manner, to ensure that invoices are processed timely and thus avoid late fees.*

Auditee’s Response: Concur. On January 28, 2020, the City Manager approved the Administrative Regulation: General Accounts Payable Guidelines (“AP Guidelines”). The AP Guidelines document provides a detailed framework for all staff to ensure vendor/suppliers are paid accurately, timely, and only once for goods or services.

Section 7.20 of the AP Guidelines requires Departments to initiate payment as soon as possible (but no later than 5 business days) upon receipt of the vendor/supplier invoice. This means that Department Accounts Payable Staff must create an invoice voucher in PeopleSoft ERP System (“PeopleSoft”) within 5 business days of receipt of the vendor/supplier invoice.

All Departments can monitor their outstanding invoices by reviewing the Invoice Aging (Open Invoice/Voucher Aging Report) that is available under the CFW Purchasing Reports menu in PeopleSoft. This report details the age of each unpaid invoice and can easily be downloaded into Excel to provide greater analysis flexibility and the ability to filter by department business unit.

Beginning July 2020, Central Accounts Payable send out a monthly Invoices Paid report to all Department Heads and Assistant Directors, which will detail the “days to payment” by comparing the supplier invoice date to the invoice payment date. This report is available under the CFW Purchasing Reports menu in PeopleSoft and can easily be downloaded into Excel to provide greater analysis flexibility.



For questions concerning the requirements as outlined in the AP Guidelines document or for assistance with running these reports on demand, departments can contact Central Accounts Payable at zz_FIN_AccountsPayable or at extension 2451.

Target Implementation Date: July 2020 for the monthly distribution of the monthly Invoices Paid report

Responsibility: John Samford, Assistant Finance Director & City Treasurer

Applicable Deputy City Manager: Jay Chapa

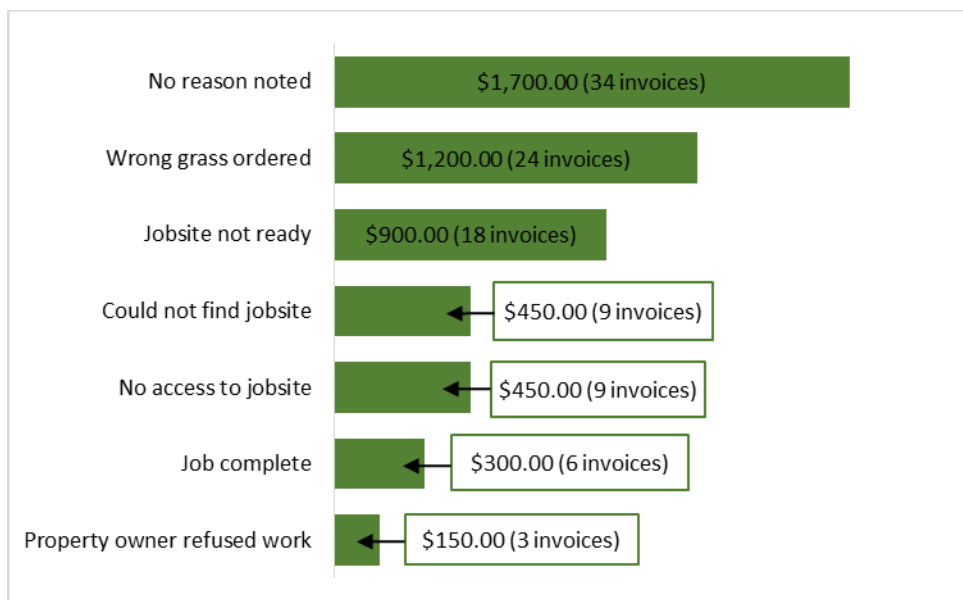
2. The City paid \$5,150.00 in service charges for work that could not be performed by the vendor.

In FY2018, the City paid service charges totaling \$5,150.00 (103 invoices) for work that could not be performed by the vendor. The vendor’s work orders noted the following reasons as to why the work could not be performed. The City did not:

- ensure that the worksite was ready (e.g., not enough dirt for sod installation);
- contact the property owner to make sure the owner would be home to provide access to the worksite;
- verify that the owner wanted the work performed;
- properly mark worksite locations for sod installation; or,
- order the correct grass type.

Internal Audit identified additional invoices where the corresponding work orders either did not provide reasons for the service charges, or the work orders indicated that the jobs were performed/completed. Since Internal Audit was unable to determine the reasons for these service charges, we were unable to determine whether the service charges were warranted or appropriate.

The City Paid \$5,150.00 in Service Charges on 103 Invoices Because Work Could Not Be Completed





Water Department staff confirmed several reasons for the vendor’s service charges, including wrong addresses provided to the vendor, City staff ordered the wrong grass types, worksites were not ready for sod installation, and the vendor was requested to make additional trips to City worksites.

Best practices dictate that City staff should ensure that worksites are ready for vendor delivery prior to requesting goods and/or services. By not doing so, the City incurs additional and unnecessary costs, and experiences delays in service delivery.

Recommendation 2: *The Water Department Director should require that staff ensure that worksites are made ready for vendor delivery prior to requesting sod delivery, installations, etc., and the correct product is ordered.*

Auditee’s Response: Concur. The Water Department uses a contract (North Texas Hydromulching and Services - PSK 9841) to install various types of sodded grass in lawns that have been disturbed by water or sewer repair activities. A \$50.00 minimum service charge, described in the table below as a wrong grass fee, is applied by the contractor when information on the work order (W/O) contains an incorrect address, grass type, or is not ready for the sod to be placed. Sodded grass types listed on the work order may include Common Bermuda, St. Augustine, Tiff 419 Bermuda, Zoysia, and Buffalo Grass, and should be specified to match the existing grass type. The charges are also applied if the job site is not prepared for grass installation, which would occur if the excavation area has not been filled and leveled. When the job site is not ready or when incorrect information is included in the work order results in the contractor having to visit a site twice, then the contractor charges a “Wrong Grass” fee in the amount of \$50.00. Since the 2018 audited year, these fees have trended down significantly, as shown in the below table.

Fiscal Year	# of Wrong Grass Fees	% of Total Grass W/Os	Total # of Grass W/Os	Cost of Wrong Grass Fees	Total Cost of Grass Sod W/Os
2018	103	13%	770	\$5,150	\$57,023
2019	57	7%	871	\$2,850	\$84,428
2020 (YTD thru 06/10/20)	25	4%	557	\$1,250	\$49,205

In response to this audit recommendation, we have reviewed and revised the business process associated with this activity. Requests for grass will not be processed without full customer contact information, as well as verified address and type of grass needed. The contractor will contact the customer prior to delivery, to minimize multiple trips. The contractor will also carry multiple sodded grass types on their trucks whenever possible. Water Department Superintendents will be notified: (1) of inaccurate or incomplete work order information, and (2) every time a vendor has to visit a job site twice, so that additional training and coaching of requestors and site preparation crews can be conducted quickly.

Target Implementation Date: June 17, 2020

Responsibility: Water Department Field Operations Managers, Supervisors, Warehouse and Dispatch staff

Applicable Department Head: Chris Harder, Water Department Director

Applicable Assistant City Manager: Dana Burghdoff



Acknowledgements

The Department of Internal Audit would like to thank all City departments for their cooperation and assistance during this audit.



Exhibit – Grass Sod Workflow Standard Operating Procedures (Water Department)

GRASS SOD INSTALLATION

REVISED: 06/16/20

REVISED: 12/22/16

EFFECTIVE: 5/31/11



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GRASS SOD WORKFLOW

1. INTRODUCTION

A. Intent of Procedure

The intent of this procedure is to explain the steps involved in ordering grass and sod along with stating the responsibilities of each party involved in the process.

B. Responsibilities

1. This procedure will be filed in the SOP folder of the network, and will also available as hard copies in SOP ring binders kept in Supervisors' offices. Field Operations management will conduct an annual review of this procedure in February of each year. Field Operations management will review the program during the same time period and determine whether any changes or updates are needed to the procedure.
2. Supervisors will ensure that their staff understand and follow this procedure.
3. The Crews will be responsible to notify Dispatch that grass sod or grass products are needed (Size, Type, Etc.) upon completion of street repair or earthwork.
4. Dispatch will initiate the grass order and contractor notification via email to the Warehouse and Vendor/ Contractor.
5. Warehouse staff will receive information from Dispatch and follow established purchasing procedures.

2. GRASS SOD AND GRASS PRODUCTS

A. Request

1. Prior to notifying Dispatch of a grass sod or grass product request, the Crew requesting grass will complete the following check list, **for each address** where grass is needed:
 - Customer name, address, and phone number. If the customer is not available, leave a business card requesting a call from the customer, prior to ordering the grass.
 - Excavation filled with top soil and leveled.
 - Grass type needed, as confirmed with customer.
 - Size of grass area. The crew should always give two (2) dimensional sizes (i.e. 6x5 or 12x6). No square footage.
 - Location of area needing grass (front yard, backyard, alley, etc.).
2. Dispatch will create a separate child work order for each address identified by the



requesting crew, and the work order will be placed on hold for “JOBSITE” in the “CNTRCTR” MRC. The Grass Sod Work Order form will be filled in and emailed to the grass vendor, as well as copied to the Warehouse.

B. Installation

1. The contractor will contact the customer prior to delivery, to minimize multiple trips. The contractor will also carry multiple sodded grass types on their trucks whenever possible.
2. Contractor will complete the grass work order within 48 hours of notification.
3. Contractor will notify Dispatch whenever a work order has incorrect or incomplete information, and whenever they have to visit a job site twice. Dispatch will notify Superintendents of all cases of inaccurate or incomplete work order information, and every time a vendor has to visit a job site twice, so that additional training and coaching of requestors and site preparation crews can be conducted quickly.
4. Upon completion of work, the Contractor will email/ fax job details & specific product totals to Dispatch.
5. Dispatch will email a scanned copy of the completion notification from Vendor/Contractor to the Warehouse staff and the Utility Cuts Supervision.

C. Inspection/ Quality Control

1. Upon notification of completion from Contractor, the Utility Cuts Supervisors will place the ticket in a RTW (ready to work) status and will ensure that a site inspection is conducted to verify that the work is satisfactory.
2. If the installation is unsatisfactory or if additional issues remain, the assigned inspection Crew/ Supervisor will place the ticket on hold and the Utility Cuts Supervisor will contact the contractor to get a resolution (Example- not enough grass, bad grass, etc.) and notify the Warehouse.
3. If there are no problems during the jobsite inspection, the assigned inspection Crew/ Supervisor will place the Maximo child ticket in a WCC (work crew complete) status.
4. The Utility Cuts Supervisor will manage the CNTRCTR MRC. If a job goes over 30 days, the Utility Cuts Supervisor contact the contractor and Warehouse to address the issue.

D. Completion

1. The Warehouse staff will reconcile the initial work orders, completed work order receipt and invoices then proceed with the purchasing payment process.