

OFFICE OF THE CITY AUDITOR
PERFORMANCE AUDIT
October 2017

**General Services’
Payment Process
Should Better Protect
Public Resources**



**CITY OF
KANSAS CITY,
MISSOURI**

Office of the City Auditor
21st Floor, City Hall, 414 E. 12th St.
Kansas City, MO 64106

816-513-3300
cityauditor@kcmo.org
@KCMOCityAuditor
KCMO.GOV/CITYAUDITOR

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

Office of the City Auditor

21st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

816-513-3300
Fax: 816-513-3305

October 16, 2017

Honorable Mayor and Members of the City Council:

The General Services Department's process of paying for goods and services could be strengthened to better protect city resources.

The General Services Department made payment errors which should have been caught during the review and approval process. Vendors were paid twice for the same invoice, wrong vendors were paid, and taxes were paid. Incorrect payments waste city resources.

The timeliness of General Services payments has declined and some payments have been late. Vendors' and General Services' actions have caused payment delays. Vendors sent invoices to the wrong locations and/or did not include a purchase order number on their invoices. General Services employees did not approve vouchers or resolve match exceptions timely, and did not know how to enter requisitions correctly. In addition, General Services divisions did not create receivers, create change orders, or forward copies of invoices soon enough to ensure timely payments.

The department paid more for goods and services than necessary. Discounts were lost because pay terms were incorrect or payments were not made within the discount period. Some invoices were paid too soon because staff selected "due now" rather than entering the due date from the invoices. Late fees were incurred when payments were not made on time.

We make recommendations to better protect city resources; to strengthen the payment review and approval process; and to increase timely payments.

The draft report was sent to the directors of general services and finance on September 11, 2017, for review and comment. Their responses are appended. We would like to thank staff from General Services and Finance for their assistance and cooperation during this audit. The audit team for this project was Vivien Zhi, Nancy Hunt, and Sue Polys.


Douglas Jones
City Auditor

General Services' Payment Process Should Better Protect Public Resources

Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Payments Processed by General Services	2
General Services Accounts Payable Process	3
Findings and Recommendations	5
Summary	5
Payment Errors Do Not Protect Resources	5
Vendors Paid Twice	5
Payments Made to Wrong Vendors	6
Taxes Paid	6
Multiple Factors Contribute to Payment Delays	7
Timeliness of Payments Declined	7
Accounts Payable Not Receiving All Vendor Invoices Timely	7
Purchase Order Number Not Always Included on Invoice	8
Change Orders Not Created Timely	9
Errors in Creating Requisitions	9
Receivers Not Created Timely	10
Match Exceptions Not Resolved Timely	10
Vouchers Not Approved Timely	11
Correct Pay Terms and Timely Payments Protect Resources	11
Discounts Lost Due to Incorrect Pay Terms and Untimely Payments	11
Pay Terms and Invoice Dates Should Be Verified During Approval Process	13
Some Payments Made Too Soon	13
Late Fees Incurred	14
Recommendations	14
Appendix A	17
Director of General Services' Response	17
Appendix B	23
Director of Finance's Response	23

General Services' Payment Process Should Better Protect Public Resources

List of Exhibits

Exhibit 1. General Services Vouchers Paid, Fiscal Year 2014 – 2017	2
Exhibit 2. Timeliness of Payments, Fiscal Year 2014 - 2017	7

Introduction

Objectives

We conducted this audit of the General Services Department's payment process under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides "findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability."¹

This report is designed to answer the following question:

- Does the General Services Department's process of paying for goods and services protect city resources?

Scope and Methodology

Our review focuses on reviewing the General Services Department's process of paying for goods and services. Our audit methods included:

- Analyzing General Services accounts payable data from May 1, 2013 to April 30, 2017, to determine how long it took the department to pay vendors.
- Analyzing General Services accounts payable data from May 1, 2013 to October 31, 2016, to determine whether the department's payment process followed city and department accounts payable policies and guidelines.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

- Selecting a judgmental sample of General Services accounts payable transactions and reviewing supporting documents to determine whether the payment information entered into PeopleSoft was correct and payments were accurate and to identify problems in the department's processes that contributed to incorrect, late, or early payments.
- Interviewing and observing General Services employees to understand the department's payment process.

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. No information was omitted from this report because it was deemed privileged or confidential.

In conducting our work, we identified a number of duplicate payments and payment errors. We communicated them to the director of general services in a separate memorandum in March 2017 so that staff could correct the errors more timely.

Background

Payments Processed by General Services

The General Services Department is composed of four divisions: Administration, Information Technology, Facilities Management, and Procurement. The department processed over 11,000 vouchers² totaling more than \$184 million for goods and services in fiscal year 2017. (See Exhibit 1.)

Exhibit 1. General Services Vouchers Paid, Fiscal Year 2014 – 2017

Fiscal Year	Number of Vouchers	Amount Paid
2014	12,590	\$147,726,443
2015	11,285	\$179,927,049
2016	10,461	\$182,742,746
2017	11,063	\$184,488,679

Source: PeopleSoft Financials.

² A voucher is a PeopleSoft document that captures invoice information, including invoice date, invoice amount, pay term, purchase order number, vendor name and address, goods and services purchased, and other information.

General Services Accounts Payable Process

All General Services payments are processed by the department's Accounts Payable Section. The process varies depending on whether or not the transaction involves a purchase order.

Purchase Order Payments. Purchase order payments require a three-way match. General Services implemented the three-way match process in May 2016. The process, when operating as designed, strengthens controls by providing for segregation of duties, improving accountability, and helping ensure payments are accurate.

The three-way match involves the creation and matching in PeopleSoft³ of the purchase order, voucher, and receiver. The purchase order authorizes the purchase, encumbers the funds to pay the invoice, and sets out the quantity and/or estimated cost of the goods or services to be provided by the vendor. General Services Accounts Payable Section employees enter information from the vendor's invoice, generating a voucher. General Services division employees create a receiver in PeopleSoft to document goods or services received.

PeopleSoft performs a three-way match to determine whether the dollar amount or quantity on the voucher matches what was received and what was authorized by the purchase order. Once the match is made and approvals are applied, PeopleSoft will generate the payment based on the invoice date and payment terms or based on the payment due date in the system.

Direct Payments. Payments to vendors that do not involve a purchase order are referred to as direct payments. Expenses such as utilities, dues and memberships, and subscriptions are paid as direct payments.⁴

A three-way match is not used for direct payments because a purchase order is not involved. General Services Accounts Payable Section employees enter information from the vendor's invoice into PeopleSoft, which generates a voucher. Once a voucher is approved, PeopleSoft generates the payment based on the invoice date and payment terms or payment due date in the system.

³ PeopleSoft is the city's financial management system.

⁴ Contract Guidebook, Direct Payment Procedure, Kansas City, Missouri, May 2005.

General Services' Payment Process Should Better Protect Public Resources

Findings and Recommendations

Summary

The General Services Department made payment errors which should have been caught during the review and approval process. Vendors were paid twice for the same invoice, wrong vendors were paid, and taxes were paid. Incorrect payments waste city resources.

The timeliness of General Services' payments to vendors has declined and some payments have been late. Vendors' and General Services' actions have delayed payments. Vendors sent invoices to the wrong locations and/or did not include the correct purchase order number on their invoices. General Services employees did not approve vouchers or resolve match exceptions timely, and did not know how to enter requisitions correctly. In addition, General Services divisions did not create receivers, create change orders, or forward copies of invoices soon enough to ensure timely payments.

Discounts were lost because pay terms were incorrect or payments were not made within the discount period. Some invoices were paid too soon because Accounts Payable Section staff selected "due now" rather than entering the due date from the invoice. Late fees were incurred when payments were not made on time.

Payment Errors Do Not Protect Resources

The General Services Department made payment errors which should have been caught during its review and approval process. Vendors were paid twice for the same invoice, the wrong vendor was paid, and taxes were paid.

Vendors Paid Twice

General Services made at least 19 duplicate payments to vendors from May 1, 2013 thru October 31, 2016, totaling over \$24,000. The duplicate payments ranged from about \$4 to \$8,700. Most of the duplicate payments were made because the invoice numbers were entered incorrectly and those errors were not caught during the General Services' voucher review and approval process.

PeopleSoft prevents duplicate payments by disallowing the use of an invoice number more than once with the same vendor when creating a voucher. Finance Department's Manual of Instruction (MI) 2-21 requires the department head or designee that approves payments to compare the invoice number on the vendor's invoice to the invoice number entered in the PeopleSoft voucher.⁵

Payments Made to Wrong Vendors

General Services paid nine wrong vendors about \$53,000 from May 1, 2013 thru October 31, 2016. MI 2-21 directs city staff performing the final review and approval to ensure that the correct vendor is paid. The records of the payments made in error had invoices attached for the wrong vendors. These errors should have been caught during the voucher review and approval process.

Taxes Paid

Although the city is exempt from paying taxes, the General Services Department paid taxes on some Missouri Gas Energy (MGE) bills. MI 2-21 requires individuals approving payments to review invoices for taxes that should be omitted under state law. Between May 2013 and October 2015, the department paid more than \$15,000 in city, county, and state taxes on MGE bills for one location. In December 2015, General Services Accounts Payable Section staff started to deduct the taxes from payments. Because the bills were not paid in full, MGE began charging late fees on the account. As of June 2016, the department had paid almost \$300 in late fees on the account.

Department management has contacted MGE and requested removal of taxes from bills based on the city's exempt status. General Services management stated many bills have been updated, but a few have not.

Paying vendors twice, paying the wrong vendor, and paying taxes when exempt wastes city resources as staff spend time identifying and recovering incorrect payments. In some cases, the department may never recover the funds.

To eliminate payment errors and better protect city resources, the director of general services should ensure vouchers are reviewed and approved in accordance with Manual of Instruction 2-21.

⁵ *Manual of Instruction 2-21, "Accounts Payable Payment Documents Review", August 1, 2013.*

Multiple Factors Contribute to Payment Delays

The timeliness of General Services payments has declined and some payments have been late. Vendors' and General Services' actions have delayed payments. Vendors sent invoices to the wrong locations and/or did not include the purchase order number on their invoices. General Services employees did not approve vouchers or resolve match exceptions timely, and did not know how to enter requisitions correctly. In addition, General Services divisions did not create receivers, create change orders, or forward copies of invoices soon enough to ensure timely payments.

Timeliness of Payments Declined

General Services' percentage of payments made to vendors within 30 days has declined. The General Services Department's goal is to pay vendors within thirty days of the invoice date, 95 percent of time. Only 59 percent of the department's invoices were paid within thirty days of the invoice date in fiscal year 2017. Over the last three fiscal years, the percentage of payments that met the department's goal has declined. (See Exhibit 2.)

Exhibit 2. Timeliness of Payments, Fiscal Year 2014 - 2017

Number of Days	2014	2015	2016	2017
30 or Less	58.2%	72.4%	68.8%	59.1%
31 to 60	29.2%	17.0%	19.4%	21.4%
61 to 90	6.2%	5.0%	6.1%	8.3%
91 to 180	5.1%	3.6%	4.7%	8.1%
181 to 360	1.1%	1.6%	0.7%	2.6%
361 or More	0.3%	0.4%	0.3%	0.4%

Source: PeopleSoft Financials and City Auditor's Office calculations.

Accounts Payable Not Receiving All Vendor Invoices Timely

Although vendors are supposed to send invoices to the General Services' Accounts Payable Section, vendors sent invoices to various General Services locations. Vendors did not follow the department's billing instructions, and General Services locations that receive the invoices did not provide copies to the department's Accounts Payable Section timely.

Not all vendors send invoices directly to the Accounts Payable Section. General Services' purchase orders contain a "Bill To" address of the 11th floor – City Hall, followed by the street address. A printed line just below the "Bill To" address says "Submit Duplicate Invoice To Bill To Address." More recent purchase orders also contain a request near the end of the purchase order "****Please submit invoices to GSD-AP@kcmo.org."

In 2016, General Services determined that vendors only addressed 18 percent of vendor invoices to the 11th floor of city hall. Although General Services mailed post cards to vendors requesting that the city's billing address be changed to the 11th floor of city hall, vendors continue to send invoices to other General Services locations, which delays payments.

To decrease payment delays caused by vendors sending invoices to locations other than the Accounts Payable Section, the director of general services should ensure staff confirm the department's billing address when placing orders for goods and services.

Divisions are not providing invoices timely to accounts payable. Some vendors include invoices with deliveries or mail invoices to the "ship to" location rather than to the Accounts Payable Section which contributes to delayed payments. In addition, divisions do not always forward the invoices right away. For example, one division sends the invoices to the Accounts Payable Section weekly or less frequently. Without the invoice, Accounts Payable Section staff cannot begin processing the payment.

To reduce payment delays, the director of general services should ensure divisions forward invoices to the General Services' Accounts Payable Section timely.

Purchase Order Number Not Always Included on Invoice

Vendors do not always include the purchase order number on invoices even though the department's purchase orders state, "When submitting your invoice for payment, include this Purchase Order Number on each invoice." For example, a janitorial vendor did not include purchase order information on its invoices. In fiscal year 2017, almost 85 percent of this vendor's invoices were not paid within 30 days of the invoice date. According to Accounts Payable Section staff, having the correct purchase order information helps them create accurate and timely vouchers.

Purchase orders also warn vendors that "***Any invoice WITHOUT A VALID PURCHASE ORDER NUMBER will be returned, delaying payment on the invoice." In the past, when the invoice did not include the purchase order number, Accounts Payable Section staff attempted to research and identify the correct number or forwarded the invoices to General Services division managers to research and identify the correct number. Both methods took staff time and delayed payment processing. At the beginning of fiscal year 2018, General Services began returning some invoices without a valid purchase order number to the vendor. Vendors

that fail to provide purchase order numbers on invoices will be more likely to add the correct number to future invoices when the link between the purchase order number and timely payment becomes clear.

Change Orders Not Created Timely

Purchase orders that run out of money can cause late payments. If a purchase order is set up as amount-only, the vendor can bill the department with multiple invoices and the department can make multiple payments. A receiver, however, cannot be created unless there are sufficient funds remaining in the purchase order to pay the invoice. When a purchase order runs low on funds, divisions are responsible for creating change orders that add money to the purchase order. Payments to vendors can be delayed because purchase orders do not have sufficient funds. For example, in October 2016, the Accounts Payable Section received an invoice from a mechanical service vendor, but a change order was not created until two months later, contributing to the late payment of the invoice.

To improve the timeliness of payments, the director of general services should ensure change orders are created timely.

Errors in Creating Requisitions

Errors made when Accounts Payable Section staff create requisitions can result in late payments. A purchase order is created once a requisition is approved. The requisition specifies whether the line items in the purchase order will be quantity-based or dollar amount-only. If a line item in a quantity-based purchase order is set to one unit, the line item in the purchase order will be automatically closed by PeopleSoft when the line item is matched to a single voucher even though all of the funds in the line item have not been expended. For example, a line item in a purchase order for the Information Technology Division was incorrectly set up as a quantity-based line item for one unit in the amount of \$25,495. The first invoice of \$12,000 was paid against the line item in March 2017. Because the line item was set as one unit, the line item was closed and the remaining balance in the purchase order line was liquidated. To pay for the second invoice, the Accounts Payable Section staff had to create another requisition and purchase order. The payment for the second invoice was more than six months after the invoice date.

The Accounts Payable Section employees told us they were trained to enter "amount-only" in the "distribution by" field to indicate the purchase order line item was amount only. However, they were

not instructed to check the "amount-only" box on the requisition line detail until April 2017.

To address late payments caused by requisition errors, the director of general services should ensure employees are trained on entering requisitions correctly.

Receivers Not Created Timely

Division staffs do not always create receivers promptly. In the three-way match process, the receiver documents that the goods or services were received. If a receiver is not created timely, vendor payments can be delayed. For example, the city's garage door vendor submitted an invoice dated October 31, 2016, and due in 30 days. The Accounts Payable Section staff created a voucher on November 3, 2016, but the General Services division staff did not create the receiver until November 29 although the work was completed on October 29. Approvals were applied on November 30, with the payment made on December 2, a few days later than the department's payment goal.

In order to pay for goods and services timely, the director of general services should ensure division staff create receivers promptly.

Match Exceptions Not Resolved Timely

General Services does not always resolve match exceptions timely which can cause payment delays. Match exceptions must be researched and corrected before a payment can be generated by PeopleSoft. At the fiscal year 2017 closing, 200 General Services' vouchers had match exceptions, meaning that the purchase order, voucher, and receiver did not match. Most of these vouchers were created in April 2017, however, 20 vouchers were created in late 2016 or early 2017 which means payments to these vendors were several months late. Vouchers not paid by the end of the fiscal year are deleted from PeopleSoft and Accounts Payable Section staff must re-enter the vouchers before payments can be processed in the next fiscal year, further delaying payments and costing additional staff time.

In order to make payments more timely, the director of general services should ensure that match exceptions are resolved promptly.

Vouchers Not Approved Timely

Vouchers are not always approved timely. General Services Accounts Payable staff receive a daily report that identifies the vouchers ready for approval. PeopleSoft requires three levels of approval. Once the third level approval is applied, the vouchers are ready to be paid when the payment date criteria is met. If the third level approval is not applied to the vouchers timely, the voucher may not be paid on time. For example, a mowing vendor submitted an invoice dated October 17, 2016 with a pay term of net 30. The voucher was created on October 26. The corresponding receiver was created on November 1. After the three way match batch process in PeopleSoft, the voucher was ready for approval the next day. However, the voucher was not approved until November 29. The payment to the vendor was made on November 30, two weeks late.

In order to pay for goods and services on time, the director of general services should ensure staff approve payments daily.

Correct Pay Terms and Timely Payments Protect Resources

Discounts were lost because pay terms were incorrect or payments were not made within the discount period. Some invoices were paid too soon because Accounts Payable Section staff selected "due now" rather than entering the due date from the invoice. Other payments incurred late fees when payments were not made on time.

Discounts Lost Due to Incorrect Pay Terms and Untimely Payments

General Services lost some early payment discounts because Accounts Payable Section staff did not enter the correct pay terms in PeopleSoft; discount pay terms were not always updated in PeopleSoft to reflect the contract; or payments were not made within the discount period.

General Services lost some discounts because staff did not enter the correct pay terms in PeopleSoft. When a discount pay term is not entered, PeopleSoft cannot automatically calculate and take the discount, and the city will pay more than necessary. We reviewed a sample of invoices submitted by a plumbing supply vendor in fiscal year 2017. Although some invoices for this vendor offered a discount pay term, the related vouchers did not. As a

result, PeopleSoft was unable to calculate the discount and appropriate payment date. The department's payments to this vendor did not take advantage of the offered discount because Accounts Payable Section staff did not update the pay terms.

To ensure the department receives eligible discounts, the director of general services should ensure that staff enter discount pay terms when offered on invoices.

Some early payment discounts were lost because discount pay terms were not always updated in PeopleSoft to reflect the contract the city had with a vendor. The city's PeopleSoft default pay term is "net 30" – meaning the payment will be made in full, 30 days after the invoice date. When a vendor has a contract that specifies a pay term other than net 30, Procurement is responsible for notifying the Finance Department to reset the pay term. When the pay term is not correct, a vendor may not be paid according to the pay term and the city may not be able to take advantage of discounts. For example, the initial term of the city's contract for office supplies began in November 2011. Although the contract specified a prompt pay discount of 0.5 percent discount for invoices paid within 10 days by check or a 2 percent discount for invoices paid within 10 days by ACH, the pay term was not corrected in PeopleSoft until May 2015. As a result, the city lost potential early payment discounts for almost four years.

When General Services enters into a contract that covers all purchases from a vendor, the contract specifies a pay term other than net 30, and the term is based on the invoice date, the vendor's default pay term should be reset to take advantage of payment discounts.

In order to pay vendors within the agreed upon time frame and take available discounts, the director of general services should ensure Procurement Division staff request the Finance Department update pay terms when contracts contain pay terms other than net 30.

General Services has not processed payments in time to take advantage of all early payment discounts. MI 2-21 directs that "Payment shall be made in time to take advantage of any discounts offered by the vendor whenever possible and/or practical."⁶ Only three General Services vendors are set up in PeopleSoft Financials with early payment discount terms. The department lost discounts offered by these vendors because it did

⁶ *Manual of Instruction 2-21, VI.A, "Accounts Payable Payment Documents Review", August 1, 2013.*

not make payments within the early discount period. Between May 2013 and October 2016, General Services lost almost \$31,000 in early payment discounts from the three vendors with established discounts.

To take advantage of discounts, the director of general services should ensure staff prioritize processing invoices from vendors offering established discounts.

Pay Terms and Invoice Dates Should Be Verified During Approval Process

When Accounts Payable Section staff enter correct payment terms and invoice dates on vouchers, vendors will be paid the correct amount and can be paid more timely. PeopleSoft processes a payment based on the payment terms and invoice date entered in the voucher. Inaccurate pay terms or invoice dates can affect PeopleSoft's ability to calculate the correct payment date. Pay terms and invoice dates should be confirmed during the review and approval process and should have prevented some lost discounts we identified in this report. MI 2-21, however, does not include the pay term or invoice date on its list of items to compare when reviewing and approving vouchers prior to making payments.

To ensure the city takes advantage of discounts and makes timely payments, the director of finance should update Manual of Instruction 2-21 to include checking the pay term and invoice date as part of the payment review and approval process.

Some Payments Made Too Soon

Some invoices were paid sooner than they should have been because staff selected "due now" rather than entering the due date from the invoice. The city's Accounts Payable Training Manual states that accounts payable staff should not change the pay term to "due now" unless it is indicated on the vendor's invoice.⁷ Scheduling payments for when they are due and creating vouchers as soon as possible permits the city treasurer to invest city funds until needed.

In fiscal year 2017, 18 percent of General Services vouchers had "due now" as the pay term although some of the vendors' invoices we reviewed had specific due dates rather than requesting immediate payment. Incorrectly entering the pay term as "due now" can result in payments being made before they are due and a loss of investment income for the city.

⁷ *PeopleSoft 9.1 Accounts Payable Training Manual*, City of Kansas City, Missouri, August 2016, p. 6.

To improve the city's investment efforts, the director of general services should ensure that, when paying invoices, staff enter the pay terms on the invoices.

Late Fees Incurred

General Services has paid late fees that could have been avoided by scheduling and approving payments ahead of time. Several vendors, such as the property owner of the Century Tower building and the city's insurance financing company, impose late fees when payments are not received on time. Between fiscal year 2015 and 2017, the department paid almost \$40,000 in late fees to these two vendors. The monthly due dates and amounts due for each vendor did not change for each period. PeopleSoft has the capability to schedule payments in advance. The department could take advantage of the PeopleSoft's payment scheduling function to schedule and approve these payments in advance. The actual payments would then occur on the dates specified and the city would avoid late fees.

To avoid late fees, the director of general services should ensure that whenever appropriate, staff use PeopleSoft's payment scheduling function to schedule and approve payments, including rent and insurance financing payments, in advance.

Recommendations

1. The director of general services should ensure vouchers are reviewed and approved in accordance with Manual of Instruction 2-21.
2. The director of general services should ensure staff confirm the department's billing address when placing orders for goods and services.
3. The director of general services should ensure divisions forward invoices to the General Services' Accounts Payable Section timely.
4. The director of general services should ensure change orders are created timely.
5. The director of general services should ensure employees are trained on entering requisitions correctly.

6. The director of general services should ensure division staff create receivers promptly.
7. The director of general services should ensure that match exceptions are resolved promptly.
8. The director of general services should ensure staff approve payments daily.
9. The director of general services should ensure that staff enter discount pay terms when offered on invoices.
10. The director of general services should ensure Procurement Division staff request the Finance Department update pay terms when contracts contain pay terms other than net 30.
11. The director of general services should ensure staff prioritize processing invoices from vendors offering established discounts.
12. The director of finance should update Manual of Instruction 2-21 to include checking the pay term and invoice date as part of the payment review and approval process.
13. The director of general services should ensure that, when paying invoices, staff enter pay terms based on the invoices.
14. The director of general services should ensure that whenever appropriate, staff use PeopleSoft's payment scheduling function to schedule and approve payments, including rent and insurance financing payments, in advance.

Appendix A

Director of General Services' Response

General Services' Payment Process Should Better Protect Public Resources



**Inter-Departmental Communication
General Services Department**

RECEIVED

OCT 13 2017

CITY AUDITOR'S OFFICE

Date: October 12, 2017
To: Douglas Jones, City Auditor
From: Earnest Rouse, Assistant City Manager/Director of General Services
Subject: Response to Performance Audit: *General Services' Payment Process Should Better Protect Public Resources*

1. The director of general services should ensure vouchers are reviewed and approved in accordance with Manual of Instruction 2-21.

Agree. Staff will ensure vouchers are reviewed and approved in accordance with Manual of Instruction 2-21 which requires a designated staff to sign or electronically approve the payment document by comparing the hard copy invoices to the electronic vouchers. At minimum, the following will be compared:

1. Vendor listed is the correct vendor;
2. Purchase Order (PO) number is the correct PO number for the correct purchase/division;
3. Invoice date provided is the same as data entered;
4. Invoice number provided is the same as data entered;
5. Invoice amount provided is the same as data entered;
6. Pay term is the same as data entered and meets the payment criteria specified in Section VI above;
7. Taxes and shipping charges are omitted as applicable by contract/state law; and
8. Direct pay.

2. The director of general services should ensure staff confirm the department's billing address when placing orders for goods and services.

Agree. The director will ensure staff confirms the department's billing address when placing orders for goods and services by requiring staff to communicate in writing and by phone directly to vendor representatives providing services to the department.

3. The director of general services should ensure divisions forward invoices to the General Services' Accounts Payable Section timely.

Agree. The director will ensure divisions forward invoices to the General Services Accounts Payable Section timely, by requiring field staff to submit invoices to the centralized email or physical location.

4. The director of general services should ensure change orders are created timely.

Agree. The Accounts Payable Unit is working to develop and implement an electronic work order system to expedite change order requests. The goal is to obtain an electronic approval workflow that

Mr. Douglas Jones
October 12, 2017
Page Two (2)

will be used when the system is implemented. Staff will revise the current policies and procedures to align with the electronic workflow. The system will document at a minimum the change order number requested, the change order amount, reason for the change and timeliness of creation. All users will be trained and a manual will be developed to include procedures and process flow.

5. The director of general services should ensure employees are trained on entering requisitions correctly.

Agree. The Accounts Payable Unit staff will attend FMS 9.1 ePro Requisition training provided by the Finance Department. The training provides detailed instructions on city policies and procedures for requisitioning. In addition, job aides and on-the-job training will be provided to staff to supplement the FMS 9.1 ePro Requisition class to ensure all staff is trained on entering requisitions correctly.

6. The director of general services should ensure division staff create receivers promptly.

Agree. The director of general services will ensure division staff meets the department key performance metric of creating a receipt within 2-days of acknowledgement of goods, creation of voucher, or whichever occurs sooner. Staff will receive a receipt report on a daily basis to alert them when a receiver needs to be created. The director will require the Accounts Payable Unit to provide a monthly status report monitoring receipt timeliness.

7. The director of general services should ensure that match exceptions are resolved promptly.

Agree. The Accounts Payable Unit will generate a daily exception report and address exceptions timely by determining the necessary corrections needed to resolve errors. The Unit will communicate corrections needed to resolve the exception to the appropriate staff person. To ensure exceptions are resolved promptly, staff will monitor and make note of how quickly errors are resolved. Divisions with untimely resolutions will receive notification and monitored to demonstrate improvement.

8. The director of general services should ensure staff approve payments daily.

Agree. Accounts payable staff will approve payments daily. Staff will apply levels s1 and level 3 approval to payment vouchers that have completed the three-way match PeopleSoft review and are error free using an auto-generated report listing all vouchers ready for approval. The director will ensure staff approves payments daily by implementing a performance metric and monitoring results monthly.

9. The director of general services should ensure that staff enter discount pay terms when offered on invoices.

Agree. Staff will review invoices relevant to this recommendation to ensure the discount pay term listed on the invoice be reflected in PeopleSoft when creating vouchers for payment. If PeopleSoft does not accurately reflect the discount term, staff will contact Finance to request that the term is updated in PeopleSoft and then enter the discount term for the voucher. Staff responsible for approving payment will review vendors with payment terms to ensure accuracy.

10. The director of general services should ensure Procurement Division staff request the Finance Department update pay terms when contracts contain pay terms other than net 30.

Agree. Procurement Division staff will perform a review of active vendors with negotiated discount pay terms and communicate these terms to Finance Department for updating in PeopleSoft.

Mr. Douglas Jones
October 12, 2017
Page Three (3)

11. The director of general services should ensure staff prioritize processing invoices from vendors offering established discounts.

Agree. Staff will prioritize processing invoices from vendors offering established discounts. Vendors with discounts will be flagged using a PeopleSoft query report to prioritize invoice processing.

13. The director of general services should ensure that, when paying invoices, staff enter pay terms based on the invoices.

Agree. Staff will review each invoice and enter pay terms accordingly. Staff with responsibility for approving vouchers will review the terms and ensure payment is correct.

14. The director of general services should ensure that whenever appropriate, staff use PeopleSoft's payment scheduling function to schedule and approve payments, including rent and insurance financing payments, in advance.

Agree. Staff will use PeopleSoft's payment scheduling function to schedule and approve payments, including rent and insurance financing payments, in advance. Training and standardized instructions will be provided to staff on how to use the PeopleSoft scheduling function.

cc: Troy M. Schulte, City Manager
Yolanda McKinzy, Assistant to Director, Business and Support

Appendix B

Director of Finance's Response



Inter-Departmental Communication Finance Department

RECEIVED

OCT 02 2017

CITY AUDITOR'S OFFICE

Date: October 2, 2017
To: Douglas Jones, City Auditor
From: Randall J. Landes, Director of Finance
Subject: Response to Performance Audit: *General Services' Payment Process Should Better Protect Public Resources*

12. The director of finance should update Manual of Instruction 2-21 to include checking the pay term and invoice date as part of the payment review and approval process.

Agree.

Manual of Instruction (MI) No. 2-21 has been updated to include guidance for departments relative to checking the pay term and invoice date as part of the payment review and approval process. The revised MI is attached for your information.

cc: Troy M. Schulte, City Manager

MI No. 2-21
Accounts Payable Payment Documents Review
MANUAL OF INSTRUCTION
ACCOUNTS DIVISION

MI No. 2-21
October 2, 2017

SUBJECT: ACCOUNTS PAYABLE PAYMENT DOCUMENTS REVIEW

I. SCOPE: The following instruction provides policy guidelines for the review of accounts payable payment documents

II. APPLICATION: This instruction is applicable to all departments, boards, and agencies of the City of Kansas City, Missouri.

III. AUTHORITY: This instruction is written pursuant to authority contained in Section 403 of the Charter of the City of Kansas City, Missouri and in RSMo 34.057.

IV. RESCISSION: This instruction supersedes MI No. 2-21, dated August 1, 2013.

V. PURPOSE: To inform departmental accounts payable associates about the procedures to review payment documents prior to application of department approvals.

VI. POLICY: It is the policy of the City of Kansas City, Missouri that vendors or contractors shall be paid in a timely manner. Payment in a timely manner is defined as the following in order of preference.

- A. Payment shall be made in time to take advantage of any discounts offered by the vendor whenever possible and/or practical.
- B. Absent "A" above, payment shall be made in compliance with the agreed upon terms in the contract.
- C. Absent "A" and "B" above, payment shall be made within thirty days after the latter of:
 1. the delivery of goods or services.
 2. the date upon which the invoice is delivered to the City representative designated in the contract to receive the invoice.
 3. acceptance of the goods or services by the designated City representative as satisfactory under the contract.

4. compliance with all contractual terms which are a condition precedent to payment.
5. the invoice date.
6. this provision shall not apply to contracts for goods or services:
 - a. which are subject to Section 34.057, RSMo. Supp 1993, which provide for a different payment schedule negotiated between the parties,
 - b. which are subject to contrary federal or state funding requirements, or are dependent upon state or federal grant funds which are not timely received by the City.
- D. To receive early payment discounts:
 1. make payments within the allowable time to receive the discount
 2. allow PeopleSoft to calculate the discount by entering the proper invoice date and applicable payment terms.
- E. All payments should be made against purchase order encumbrances except as allowed in Administrative Regulation 3-21, Contract and Procurement Policies and Procedures, Direct Payment Policy.

VII. RESPONSIBILITY:

- A. The City Controller or an authorized representative must approve and schedule documents for a payment.
- B. The department's Accounts Payable staff has the final review and approval of vouchers prior to final approval and scheduling by the City Controller or an authorized representative.
- C. The department head or designee must sign or electronically approve the payment document by comparing the hard copy invoices to the electronic vouchers. At minimum, the following should be compared:
 1. Vendor listed is the correct vendor,
 2. Purchase Order (PO) number is the correct PO number for the correct purchase/division,
 3. Invoice date provided is the same as data entered,
 4. Invoice number provided is the same as data entered,
 5. Invoice amount provided is the same as data entered,
 6. Pay term is the same as data entered and meets the payment criteria specified in Section VI above,
 7. Taxes and shipping charges are omitted as applicable by contract/state law.

VIII. PROCEDURES:

A. To make a payment for Commodities and/or Services, the following items are required:

1. Purchase Order (PO), Receiving Report verifying that goods or services were received, and Invoice.
 - a. The following are four types of acceptable receiving reports:
 - System-generated receiving report.
 - Packing slips being checked off and signed.
 - Copy of PO document being checked off and signed.
 - Original invoice is certified, signed and dated that all goods were received.
 - b. Only one invoice may be entered per voucher.
 - If a warning box pops up when entering an invoice number, an investigation must be made to identify the cause of the warning.
 - c. Quantity and dollar amount extensions on receiving report and invoices must agree. If they do not agree, then variances must be resolved and addressed with the vendor.
 - d. The name and address of the vendor on the voucher must match the name and address on the invoice and purchase order.
2. Review the check category for AP, IN or RE.
 - a. An AP indicates the department will pick up the check from the Finance Department, Treasury Division. The description line must contain the name and phone number of the person authorized to pick up the check.
 1. The authorized person must be preapproved by the City Controller or designee prior to entering information on the description line.
 2. While the preference is to have all payments disbursed by mail or ACH, this check category should only be used in those limited circumstances where the payment needs to be picked-up to protect and defend the financial integrity of the City.
 - b. An IN indicates there is an insert to be mailed out with the check. The insert must be sent to Accounts Payable with the payment voucher number and vendor code written on the insert. Accounts will put the insert with the check prior to mailing to the vendor.
 - c. An RE will be automatically mailed to the address indicated on the PeopleSoft payment voucher.

B. To make a Direct Payment, the following items are required:

1. The payment must meet the criteria set forth in the direct payment procedures found in Contract Central, which is located on the City's intranet.

2. The invoice for a direct pay voucher MUST be signed and dated by the department head or designee to verify services were received.
3. For any “single pay refund” payments, the payment may only be for a refund. Refunds may be due to overpayments by a client (e.g., overpayment of taxes, traffic tickets, etc.) or refunds of deposits or bonds (an exception would be demolition deposits where interest has to be paid to the client per Missouri law).
4. Review the check category for AP, IN or RE.
 - a. An AP indicates that the department will pick up the check from the Finance Department, Treasury Division. The description line must contain the name and phone number of the person authorized to pick up the check.
 1. The authorized person must be preapproved by the City Controller or designee prior to entering information on the description line.
 2. While the preference is to have all payments disbursed by mail or ACH, this check category should only be used in those limited circumstances where the payment needs to be picked-up to protect and defend the financial integrity of the City.
 - b. An IN indicates there is an insert to be mailed out with the check. The insert must be sent to Accounts Payable with the payment voucher number and vendor code written on the insert. Accounts will put the insert with the check prior to mailing to the vendor.
 - c. An RE will be automatically mailed to the address indicated on the PeopleSoft payment voucher.