



# BALTIMORE CITY DEPARTMENT OF FINANCE

Biennial Performance  
Audit for Fiscal Years  
Ended June 30, 2020 and  
2019  
City Auditor, Josh Pasch  
December 30, 2021



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## Office of the Comptroller

### Josh Pasch, City Auditor

100 N. Holliday St., Room 321  
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Honorable Bill Henry, Comptroller  
and Other Members  
of the Board of Estimates  
City of Baltimore

## Executive Summary

We conducted a *Biennial Performance Audit of the Department of Finance for the Fiscal Years ended June 30, 2020 and June 30, 2019*. The objectives of our performance audit were to: (1) evaluate whether the City of Baltimore (City) has effective policies, procedures, and processes to pay vendors not later than the date specified in the contract, or, if no date is specified, 30 calendar days from the receipt date of a proper invoice; and (2) follow-up on findings and recommendations that were included as part of the previous performance audit report of the Department of Finance (DOF), dated November 7, 2019. The scope of our audit is Fiscal Years (FYs) 2020 and 2019 and the invoice payment process for operational procurements. Procurements processed through credit cards and Expenditure Authorizations (EA) were excluded from our audit. However, certain other matters, procedures, and transactions outside that period were included to understand and verify the information during the audit period.

Our audit showed that DOF's Bureau of Accounting and Payroll Services (BAPS) does not have formal (written, approved, and dated) policies and procedures for the account payables process. However, it does have a general flow chart of the invoice payment process for operational procurements.

We also noted that BAPS' current practice of tracking timeliness of invoice payments does not align with the Administrative Manual 303-3, *Payment of City's Obligations* (AM 303-3) requirement and performance reporting in the Bureau of the Budget and Management Research (BBMR) annual budget book, resulting in a potential overstatement of the budget book's metric "% of invoices paid within 30 days of City receipt."

Additionally, although DOF is monitoring the timeliness of invoice payments, there are significant outstanding invoices as of November 12, 2021. Specifically, there are 5,253 outstanding invoices excluding EA in the Core Integrator (CI), which is a workflow management and document repository system. Of 5,253 outstanding invoices,

- 3,611 required DOF to determine whether payment should be processed or assigned to the respective agencies for resolution. Of 3,611 invoices, 2,986 invoices, or 83 percent, were outstanding for eight or more days, which leaves less time to complete the payment process (see Table II on page 7). In addition to 3,611 invoices, there were 245 invoices awaiting other DOF actions.
- 1,397 invoices were assigned to agencies for further review. Of 1,397 invoices, 1,039 invoices, or 74 percent, were outstanding for 31 or more days after the receipt of proper invoices; and 498 invoices, or 36 percent, were outstanding for 31 or more days after the invoices were assigned to agencies for investigations.

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The major causes for the delay of paying vendor invoices in 30 days are (see Tables III and IV, on pages 7 and 8):

- Change orders are needed because of insufficient funds, a vendor contract expired before certain invoices are paid, or a contract closed. For example, the reason for insufficient funds may be that there are multiple users for a Purchase Order (PO). Therefore, an agency does not know another agency's needs; the first agency might use all available authority on a PO, leaving the subsequent agencies to request change orders.
- Unauthorized Justification Purchases resulted in: (1) liquidations processed for a release before the final invoices were received; (2) vendor performed services without valid POs; (3) vendor invoiced for the goods, but the POs were set up with their sub-contractors; etc.
- Issues for invoices are related to: (1) transfer to a new release; (2) incorrect department reference; (3) incorrect rate; (4) incorrect amount; (5) incorrect PO release; and (6) incorrect delivery of supplies / inventory; etc.

The first two bullets are caused by the control weaknesses in the City's procurement process, such as checking available budgetary authority, checking contract available balance, monitoring contract terms and contract expiration dates.

According to DOF, effective May 2021, it began monthly meetings with agencies to discuss the status of aging invoices in BAPS' and agencies' queues. However, we were not able to evaluate the efficiency and effectiveness of these meetings because, after several requests, these meeting minutes were not provided to auditors.

There are four prior recommendations and action plans that need to be followed up during this Biennial Performance Audit. Of the four recommendations, two were implemented, one was partially implemented, and one was not implemented. (See Section II on page 14).

To improve the accountability of timely invoice payment processing for operational procurements of vendor invoices, we recommend the Director of DOF implement the recommendations made in this report. Management responses are included in Appendix I (see page 18).

We wish to acknowledge Baltimore City Health Department (BCHD), Baltimore City Information Technology (BCIT), Baltimore City Recreation and Parks (BCRP), Department of General Services (DGS), DOF, and Department of Public Works (DPW) cooperation extended to us during our audit.

Respectfully,



Josh Pasch, CPA  
City Auditor  
Baltimore, Maryland  
December 30, 2021

## **Background Information**

### **I. Department of Finance**

The DOF BAPS provides accounts payable services. The BAPS pays an average of 10,400 vendor invoices each month and provides support to agencies and vendors in all matters relating to payments. The City is expected to pay invoices not later than 30 days from the receipt<sup>1</sup> date of a proper invoice<sup>2</sup>. According to BAPS, the 30-day period for bill payment starts when the invoice is scanned into CI (see the process below).

### **Invoice Submission and Review Processes**

The City handles procurements in a centralized purchasing system called CitiBuy (CB). City agencies have the responsibility to designate one or more requisitioners to procure goods and / or service. Vendor contracts are executed through PO in CB and EA in CI. The vendor provides the goods or services and emails the invoice to BAPS Account Payable. The DOF instructs vendors of the required information that must be included in an invoice. When invoices are received by BAPS, BAPS employees verify they are proper invoices.

- If invoices do not meet the City's required criteria, BAPS employees reject invoices and send them back to vendors.
- If invoices are proper invoices, they are uploaded into BAPS' Optical Character Recognition system (OCR) that scans the invoice and transfers the information into text format and a PDF is generated. The Ancora system is used to verify that the invoice meets the established criteria set by BAPS.

### **Payment Approval Process**

Proper invoices are sent to CI and the approval process is as follows.

- The BAPS employees enter the invoice information necessary for the receiving process from CI into CB. Although the invoices are recorded in CB, CI is used as an archival repository tool for images to validate and support the actual invoice exists.
- An agency completes the receipt in CB by confirming it received the correct

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<sup>1</sup> "According to Article 5, §37-1 of the Baltimore City Code, "Receipt date" means the date that a proper invoice and receiving notice or, in the case of a construction contract, a proper construction estimate is received and recorded by the Bureau of Payroll and Disbursements." **Source:** AM 303-3

<sup>2</sup> "According to Article 5, §37-1 of the Baltimore City Code, "Proper invoice" means an invoice which contains the contractor's federal Employer's Identification Number or Social Security Number and the contract or purchase order number or other description of the contract and which contains or is accompanied by such substantiating information and documentation as required by the Director." **Source:** AM 303-3

quantity and product at the correct cost.

- The BAPS employees match the receipt, PO, and invoice.
  - When the receipt from the agency and the invoice do not match due to the vendor sending a quantity less than what was on the invoice, then one of three solutions occurs: (1) vendor must send the remaining quantity of goods; (2) vendor will issue a credit memo for goods not sent; or (3) the vendor will issue a new invoice for the goods originally sent. When the receipt from the agency and the invoice do not match due to the vendor sending a quantity more than what was on the invoice, and if the agency keeps the goods, the agency must request a change order and the vendor must issue a new invoice.
  - Once it is approved in CB, the invoice is manually marked completed in CI. When the invoice is marked as completed in both CB and CI, it is approved for payment. An overnight batch is processed daily in CB and uploaded to City Dynamics Great Plains (CD) for payment.

### **Payment Process**

The payment is processed in CD the next day by noon. The dedicated BAPS check processor: (1) processes the checks; (2) transmits Electronic Fund Transfer (EFT) payments to the bank; and (3) posts them for payment. The check batches and check register are sent to Treasury daily for the checks to be either mailed to the vendor or be picked up in-person by the vendor, or City agency staff.

### **Monitoring Process**

The DOF monitors the status of aging invoices in the queue, duplicate invoices, and invoices ready to pay in a monthly meeting with all agencies together to discuss the Prompt Payment Dashboard (PPD). The PPD gathers invoice information from CI and CB. The DOF and agencies use the PPD to determine the current status (for example, 30-60-90 days, or longer) of invoices and discuss any problems with vendors, agencies and Bureau of Procurement (BOP). For example, a problem with vendors could be submission of a duplicate invoice for one already paid or submission of multiple invoices with incorrect or closed POs.

According to DOF, one reason the invoices do not get paid timely is because the vendors do not submit proper invoices. The other reasons include closed POs or EAs, vendors do not submit invoices although goods / services have been received, and duplicate receipts. When vendors submit invoices to BAPS for payment that may be duplicates, BAPS reviews the invoices and discusses duplicate invoice submissions with the vendor. If the invoice is not a duplicate, it will remain in the system for future payment. If it is a duplicate, it will be deleted from the system and not paid.

**Performance Measures**

The relevant performance measure for the accounts payable process included in the BBMR's budget book is "% of invoices paid within 30 days of city receipt." Table I below shows the performance measures for the last three FY.

**Table I**

**% of Invoices Paid within 30 days of City Receipt**

<b>FY</b>	<b>Budget (Percent)</b>	<b>Actual (Percent)</b>
2018	100	48
2019	100	52
2020	70	55

## **Objectives, Scope, and Methodology**

We conducted our performance audit in accordance with *Generally Accepted Government Auditing Standards*, except for peer review requirements. 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.

The objectives of our audit were to:

- Evaluate whether the City has effective policies, procedures, and processes to pay vendors not later than the date specified in the contract, or, if no date is specified, 30 calendar days from the receipt date of a proper invoice; and
- Follow-up on prior findings and recommendations included in the previous Biennial Performance Audit Report, dated November 7, 2019.

The scope of our audit is FYs 2020 and 2019; however, certain other matters, procedures, and transactions outside that period were included to understand and verify the information during the audit period. Our audit focused on the invoice payment process for operational procurements that are processed in CB and CI, excluding EA. Procurements processed through credit cards were excluded from our review due to the low risk of not paying vendors in 30 days after the receipt of proper invoices. To accomplish our objectives, we:

- Judgmentally selected the following five major agencies based on highest percentage of outstanding invoices as of September 26, 2021, or recommendations by BAPS, BCHD, BCIT, BCRP, DGS and DPW;
- Interviewed key individuals from DOF and the five major agencies to: (1) obtain an understanding of the processes, procedures, and systems relevant to the audit objectives; and (2) evaluate the relevant internal controls, processes, and operational data;
- Reviewed applicable policies and procedures and relevant sections of the City Charter, City Code, and City Administrative Manual; and
- Analyzed DOF and the five major agencies' outstanding invoices as of November 12, 2021.

**Data Analysis Results of Outstanding Invoices as of November 12, 2021**

**Table II**

**Number of Outstanding Invoices Awaiting BAPS to Assign Agencies**

Days Since Proper Invoices Are Received	No. of Invoices	Percentage
0 – 7 days	625	17
8 – 14 days	1,268	35
15 – 21 days	894	25
22– 30 days	808	22
Above 30 days	16	<1
<b>Total</b>	<b>3,611</b>	<b>100</b>

**Note:** The DOA sent a detailed list to BAPS; however, as of December 31, 2021, after several requests, no response was provided to DOA.

**Table III**

**Summary of Causes for Delayed Payments for Five Major Agencies' Samples**

	BCHD	BCIT	BCRP	DGS	DPW	Total Count	Percentage
Change orders were needed	1	2	4	3	0	10	20
Incorrect invoices	7	2	0	2	5	16	32
Unauthorized Justification Purchases were required	2	2	0	0	0	4	8
Waiting for BAPS or BOP actions	0	0	5	0	4	9	18
Others	0	4	1	5	1	11	22
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>50</b>	<b>100</b>

Table IV

**Overall Causes of Delayed Payments Identified by Five Major Agencies**

<b>Agencies</b>	<b>Explanations</b>	<b>Number</b>	<b>Percentage</b>
<b>BCHD</b>  Invoice Population = 95 invoices	<ul style="list-style-type: none"> <li>Unauthorized Justification Purchases were needed for multiple reasons.</li> </ul>	18	19
	<ul style="list-style-type: none"> <li>Receipts were not timely prepared for BAPS to reconcile purchase orders and invoices with receipts.</li> </ul>	10	11
	<ul style="list-style-type: none"> <li>Change orders were needed to pay invoices because items on PO did not match invoice or did not have enough money on PO.</li> </ul>	6	7
	<ul style="list-style-type: none"> <li>Rental requests for payment in advance of due date.</li> </ul>	8	8
	<ul style="list-style-type: none"> <li>Incorrect invoices due to multiple reasons: (1) transfer to a new release; (2) incorrect department; (3) incorrect rate; (4) incorrect amount; (5) incorrect PO release; and (6) incorrect delivery of supplies / inventory.</li> </ul>	45	47
	<ul style="list-style-type: none"> <li>Others - The PO originally used to place this order was canceled in error, budget account is inactive, notified BAPS to delete invoices, and the invoice was delayed in submission to Agency Contact, etc.</li> </ul>	8	8
<b>BCIT</b>  Invoice population = 34 invoices	<ul style="list-style-type: none"> <li>Vendor / BAPS errors required correction before fully processing.</li> </ul>	7	21
	<ul style="list-style-type: none"> <li>The completion of unjustified purchase forms was needed due to PO liquidations.</li> </ul>	7	21
	<ul style="list-style-type: none"> <li>Change orders were needed to fully complete processing.</li> </ul>	6	17
	<ul style="list-style-type: none"> <li>Others – The BCIT did not answer causes of the delayed payments. The BCIT stated:                             <ul style="list-style-type: none"> <li>Invoices have been fully processed by BCIT and have either been paid or approved for payment by BAPS.</li> <li>Invoices were being processed through BCIT's approval path.</li> </ul> </li> </ul>	10	29
		4	12

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Agencies	Explanations	Number	Percentage
BCRP	<ul style="list-style-type: none"> <li>No explanations for outstanding invoices outside the 10 sampled items were provided to DOA.</li> </ul>	N/A	N/A
Invoice population = 116 invoices			
DGS	<ul style="list-style-type: none"> <li><b>Change orders were needed:</b> The DGS has identified change order requirements that are causing potential delays in processing as a contributing factor for the following POs: P539839 (multiple releases) and P531523:35. 47 of the 190 items (25 percent) are related to P539839, which is the PO with the vendor for unarmed security. At the beginning of the fiscal year, DGS staff work to identify a quote for services for the year. The quote is informed with just one or two line items, such as normal security hours and supervisor hours. If there are operational changes (e.g., more security personnel requested for unexpected / emergency events, personnel performing overtime, holiday hours, etc.), those may be items that were not on the original quote or release; therefore, the release would not have enough funding or line items to support the total billing. Change order production requires added time, and most change orders need to go to the Board of Estimates based on the value of the increase to the contract. The DGS is not the sole user Of P539839. The needs assessment on burn rate and change orders are not generally done across multiple / all agency users (e.g., DGS does not know DPW's needs; therefore, DGS might use all available authority on a PO; the requirement then falls to DPW to request a change order).</li> </ul>	50	26
Invoice population = 190 invoices			
	<ul style="list-style-type: none"> <li><b>Incorrect Invoices:</b> The DGS has identified incorrect invoicing or release assignments as a contributing factor for the following POs: P534694:105, P546445:30, P546446:35. There are select instances where vendors may submit invoicing with incorrect amounts, line items, or other technical issues; in these instances, DGS would confirm that DGS should not process these invoices. A good example of this is Document Number "DGS2020.2021", which is valued at \$408,495.49 and listed under P534694:105. This invoice accounts for 29 percent of the total value of the invoicing; and DGS has discussed with the vendor to note that this is a summary that should not qualify for invoicing. The DGS has reached out to ask the vendor to request voiding this invoice, and in turn the vendor has submitted a request to accounts payable to void from the system. This action still needs to be performed.</li> </ul>	20	11

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Agencies	Explanations	Number	Percentage
	The five POs / releases mentioned above are not exhaustive of the population but account for about 43 percent of the total volume and 78 percent of the total value of items 30 days or older from the report.		
<b>DPW</b> Invoice population = 182 invoices	<ul style="list-style-type: none"> <li data-bbox="386 417 1036 720">• The DPW identified that 51 percent of pending issues are the responsibility of the vendor, BOP, or BAPS. DPW Fiscal has noticed that change orders and contract renewals have taken longer than usual to approve. The DPW has also noticed that invoices are sometime past due once they appear in the system for approval. These critical actions result in invoices being left unpaid past the 30-day target. DPW Fiscal meets and interacts with BOP and BAPS frequently to address these issues.</li> <li data-bbox="386 741 1036 1866">• The other 49 percent is due to internal challenges. To ensure high-level customer service, internally and externally, DPW Fiscal has established several measures to process payments efficiently.               <ul style="list-style-type: none"> <li data-bbox="435 877 1036 1266">○ Since 2019, the most central measure the agency has taken is a weekly workflow report. Each Monday, procurement team members get a list of their assignments and are to provide updates by Friday. Team members are to note where the purchase is in the process and if issue with BOP, BAPS, the vendor, a DPW division, or DPW Fiscal. The workflow report has been highly instrumental in identifying problem areas with past due invoices. The agency generally finds through this report that a majority of the challenges occur within our divisions, BOP, and BAPS.</li> <li data-bbox="435 1287 1036 1866">○ Since October 2021, the DPW Procurement Deployment Plan provides that DPW Fiscal procurement team members are to be on-site at a location in their portfolio to assist with the resolution of invoices that are over 30 days old once per week. DPW Fiscal hosts weekly meetings with Bureau Chiefs concerning budget and procurement issues. There is also a separate weekly procurement and contract meeting for department managers. Fiscal uses each of these initiatives to encourage staff at its field locations to request missing documentation and remit signed packing slips for goods and services received so they can be entered into the system to continue to the payment process. Each of these initiatives has led to a reduction in past due invoices. The agency will continue to evaluate its practices to ensure timely payment.</li> </ul> </li> </ul>	93	51
		89	49

## SECTION I: Current Findings and Recommendations

### **Finding I: The City's accounts payable process needs improvement for accuracy, continuity, efficiency, and effectiveness.**

As described in the Background section, the accounts payable process includes multiple systems, which do not communicate with each other, and requires manual processes to verify invoices for payments. There was a high volume of invoices which were not paid timely in accordance with the AM 303-3. Additionally, BAPS does not have formal (written, approved, dated) policies and procedures to guide accounts payable staff, although it has a high-level flow chart guiding users of the overall process.

#### **I. Policies and procedures need to be formally documented to comply with the AM 303-3 and for continuity.**

The BAPS' current practice of tracking timeliness of invoice payments is not in alignment with the AM 303-3 requirement and performance reporting in the BMR annual budget book. The reason is BAPS does not capture the date of receipt independent of the date when invoices are entered into CI. As a result, the methodology BAPS uses to track and calculate the budget book's metric "% of invoices paid within 30 days of City receipt" potentially overstates the actual invoices paid within 30 days. Specifically, according to the:

- AM 303-3, the measurement of the timeliness of payments starts from the receipt date of a proper invoice.
- BAPS' practice, the measurement of the timeliness of payments starts when proper invoices are entered into CI. If BAPS immediately verifies that invoices received are proper invoices and enters them into CI, this should not be an issue. However, if there is a delay in the review and entering invoices into CI, the current practice of measuring timeliness can result in overstating compliance. For example, a proper invoice with no issues was received on December 3, 2021. The invoice was paid on January 9, 2022.
  - According to the AM 303-3, the receipt date of this proper invoice was December 3, 2021, resulting in a late payment.
  - If BAPS did not verify if it was a proper invoice and did not enter it into CI until December 10, 2022, it was counted as paid timely.

#### **II. DOF, agencies, and Bureau of Procurement need to collaboratively develop solutions to resolve the factors to improve timely payments to vendors.**

Effective May 2021, DOF began monthly meetings with agencies to discuss the status of aging invoices in the BAPS and agencies' queues (see Monitoring process on page 4). However, the Department of Audits (DOA) is not able to evaluate the efficiency and

effectiveness of these meetings because, after multiple attempts, these meeting minutes were not provided to auditors. Although DOF is monitoring the timeliness of invoice payments, there were significant outstanding invoices as of November 12, 2021. Specifically, there are 5,253 outstanding invoices, excluding EA in the CI. Of 5,253 outstanding invoices,

- 3,611 were associated with DOF which were labeled “Awaiting Accounts Payable” meaning they were waiting for DOF to conduct a three-way match to determine whether payment should be processed or assigned to the respective agencies for resolution. Of 3,611 invoices, 2,986 invoices, or 83 percent, were outstanding for eight or more days (see Table II on page 7), which could negatively impact the invoice payment process if invoices need to be assigned to agencies for further investigations. In addition to the 3,611 invoices, there were 245 invoices awaiting other DOF actions.
- 1,397 invoices were assigned to agencies for further review. Of 1,397 invoices, 1,039 invoices, or 74 percent, were outstanding for 31 or more days after the receipt of proper invoices; and 498 invoices, or 36 percent, were outstanding for 31 or more days after the invoices were assigned to agencies for investigations.

The DOA selected five major agencies including (BCHD, BCIT, BCRP, DGS, and DPW). The DOA selected 10 samples from each of the five major agencies and requested them to provide specific reasons (see Table III on page 7), and overall reasons for the agencies’ population (see Table IV on page 8). As stated in Tables II and III, the following three factors significantly contributed to the delay of paying vendor invoices in 30 days, resulting in diminished vendor loyalty.

- Change orders are needed because of insufficient funds, a vendor contract expired before certain invoices are paid, or a contract closed. For example, the reason for insufficient funds may be that there are multiple users for a PO; however, the needs assessment on burn rate and change orders are not generally processed across multiple / all agency users. As a result, an agency does not know another agency’s needs; therefore, the first agency might use all available authority on a PO; then the requirement falls to the subsequent agencies to request change orders.
- Unauthorized Justification Purchases resulted in: (1) liquidations processed for a release before the final invoices were received; (2) vendor performed services without valid PO; (3) vendor invoiced for the goods, but the POs were set up with their sub-contractors; etc.
- Issues for invoices are related to: (1) transfer to a new release; (2) incorrect department reference; (3) incorrect rate; (4) incorrect amount; (5) incorrect PO release; and (6) incorrect delivery of supplies / inventory; etc.

The first two bullets are caused by the control weaknesses in the City's procurement process, such as checking available budgetary authority, checking contract available balance, monitoring contract terms and contract expiration dates.

According to AM 303-3,

- "It is the policy of the City that payment pursuant to any authorized written procurement or construction contract shall be made by the City to the contractor not later than the date specified in the contract or, if no date is specified, then not later than 30 days from the receipt date of a proper invoice."
- "No invoice may be approved unless it is a proper invoice... Agencies or offices responsible for the payment of City obligations shall take all necessary steps to alert vendors or contractors that an invoice is not proper and explain why. A determination that an invoice is not proper and therefore, payment cannot be made, shall be in writing, a copy of which shall be kept in the file of record for the contract."
- "The Mayor's Office and the Department of Finance shall determine procedures to review the timeliness of payments of obligations as well as compliance with existing laws, policies, and procedures."

**Recommendations:** We recommend the Director of Finance require BAPS to:

- Automate and streamline the accounts payable process in Workday;
- Implement formal (written, approved, and dated) policies and procedures for the accounts payable process to align with the AM 303-3 and the annual budget book metric; or, update the AM 303-3 and the budget book metric to align with the BAPS' current practice;
- Continue working with agencies to analyze / identify common causes of payment delays that can be addressed proactively by implementing or improving preventive controls;
- Work with the agencies and Bureau of Procurement (BOP) to identify solutions to minimize change order and Unauthorized Justification Purchase requirements that impact invoice payment process; and
- Analyze and summarize invoice issues caused by vendors to assess the effectiveness of the current ways of communicating and guidance for invoicing<sup>3</sup> and opportunities for improvement.

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<sup>3</sup> Through *Informal General Terms and Conditions 20 and 21* as well as *CB Vendor Support* ([How to Avoid the Most Common Invoice Errors - Powered By GovDataHosting.Com \(baltimoreCB.org\)](#)), BOP includes the items that the City expects vendors to include in invoices and how to avoid the most common invoice errors. **Source:** BOP

**SECTION II: Implementation Status of Prior Audit Findings and Recommendations**

Table V

**Summary of Implementation Status of Audit Findings and Recommendations from the Performance Audit Report for Fiscal Years Ending 2016 and 2015 for Service 708 –Operating Budget Management<sup>4</sup>**

No.	Finding	Prior Recommendation	Management’s Self-reported Implementation Status	Auditor’s Assessment
1.	<p>The Bureau of the Budget and Management Research was unable to support its FY 2015 and FY 2016 targets of \$3 million each year for “Dollars Saved from Recommendations. Also, the actual amounts for FY 2015, reported in the FY 2017 and FY 2018 Budget Books, differed, and were overstated and misleading. Actual amounts are reported in the Budget Books two years after the related target years. The actual amount for FY 2015 was reported as \$6 million in the FY 2017 Budget Book but was reported as \$8 million in the FY 2018 Budget Book.</p>	<p>The DOF should ensure that actual amounts reported for performance measure targets represent actual amounts that are properly supported, and not be based on estimates.</p> <p>We recommend that DOF assess the value of a performance metric where the target is an estimate and the actual amounts reported is also an estimate. Performance metrics should be designed with a method to calculate the actual amount. For example, the recommended dollars saved from a tool that digitizes leave slips should include a pre-determined method to calculate those savings, such as calculating the change in printer paper costs, toner costs, etc. Another component could be calculating the reduction in overtime worked on the last day of the payroll cycle by timekeepers and reviewers.</p> <p>Having a pre-determined method for calculating the actual amounts promotes consistency and makes supporting document simpler.</p>	<p>A review was conducted and the Budget Book was updated according to recommendation.</p>	<p><b>Implemented</b></p>

<sup>4</sup> The selected performance measure is amount of dollars saved from recommendations.

Table VI

**Summary of Implementation Status of Audit Finding and Recommendation from the Performance Audit Report for Fiscal Years Ending 2018 through 2017 for Service 700 – Surplus Property Disposal<sup>5</sup>**

No.	Findings	Prior Recommendation	Management’s Self-reported Implementation Status	Auditor’s Assessment
1.	The DOF's Surplus Property Disposal (SPD) did not maintain documentation to support the surplus property sales reported in the City's Budget Books for the performance measure "Revenue Generated Annually" and in the general ledger (GL). These variances are due to a lack of reconciliation of a property disposal log to the G/L. Also, the property disposal log does not include sufficient information to perform reconciliation.	<ul style="list-style-type: none"> <li>• Re-enforce the importance of retaining supporting documentation to relevant staff. This may include training or changes to Core Integrator.</li> <li>• Require a supervisor to review the completeness of documentation to support transactions recorded in the GL.</li> <li>• Implement a periodic reconciliation of the property disposal log to GL.</li> </ul>	The finding and recommendations are being incorporated in the configuration of the Workday procurement workstream.	<b>Not Implemented.</b> Planned for Workday

<sup>5</sup> The selected performance measure is amount of revenue generated annually.

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No.	Findings	Prior Recommendation	Management’s Self-reported Implementation Status	Auditor’s Assessment
2.	<p>The DOF did not periodically evaluate the reasonableness of the target that was set for Service 700 – SPD performance measure – “Revenue Generated Annually.” The difference between target and actual varies significantly. For example, the FY 2018 actual is 113 percent more than the target. As a result, there is a risk that performance measure targets may be artificially low to increase the probability of achieving them, thereby reducing the usefulness of the performance measure.</p>	<ul style="list-style-type: none"> <li>Periodically re-evaluate the reasonableness of target set for the Service 700 performance measure – “Revenue Generated Annually”.</li> </ul>	<p>The Surplus Property Disposal unit transitioned to a vendor with an online auction platform. During the period of transition, while the contracting process was ongoing Surplus Property disposal revenue went down and then regained exceeding the target. During Covid a critical position had an extended vacancy and also impacted listings. We anticipate more accurate target values moving forward.</p>	<p><b>Partially Implemented</b></p>

Table VII

**Summary of Implementation Status of Audit Findings and Recommendations from the Performance Audit Report for Fiscal Years Ending 2018 and 2017 for Service 699 –Procurement<sup>6</sup>**

No.	Findings	Prior Recommendation	Management’s Self-reported Implementation Status	Auditor’s Assessment
1.	<p>According to BOP, it performed a review of the active vendor listing in identify duplicate accounts. However, the reported number of active vendors registered in CB includes duplicate vendor names for FYs 2018 and 2017. As a result, the number of vendors registered in CB and reported in the Budget Book was overstated. However, the overstatement did not affect achievement of the performance measure target. A reason for having the duplicate vendors could be due to a lack of edit checks in the CB system. Specifically, while the CB system does not allow a new vendor to be added with the same Employer Identification Number (EIN)<sup>7</sup> as an existing vendor, there are no edit checks that restrict format of the data to a consistent and standardized format; for example, 12-3456789 vs. 123456789.</p>	<ul style="list-style-type: none"> <li>Apply the software update to the CB system as soon as the patch becomes available to verify that EIN numbers are consistently entered in a standardized format.</li> <li>Implement a formal (written, signed, and dated) policy and procedures that include the following, but not limited to: The frequency in which the review will be performed (i.e. annually, semi-annually, or quarterly); Who is responsible for the review; Review procedures; and Documentation of the results.</li> </ul>	<p>The review and reconciliation of any duplicate City Buy vendors was completed November 2021. Additionally, new procedures to address vendor accounts in the Workday Implementation is in process.</p>	<p><b>Implemented</b></p>

<sup>6</sup> The selected performance measure is the number of vendors registered in CB.

<sup>7</sup> The EIN is a unique nine-digit number assigned by the Internal Revenue Service (IRS) to business entities operating in the United States for the purposes of identification. **Source:** IRS

## APPENDIX I

### Management's Response

**Date:** December 27, 2021

**To:** Josh Pasch, City Auditor

**Subject:** Management Response to Audit Report - Biennial Performance Audit Report on Department of Finance for the Fiscal Years Ended June 30, 2020 and 2019

Our responses to the audit report finding and recommendations are as follows:

#### **Recommendation # 1**

We recommend the Director of Finance require BAPS to:

- Automate and streamline the accounts payable process in Workday;
- Implement formal (written, approved, and dated) policies and procedures for the accounts payable process to align with the AM 303-3 and the annual budget book metric; or, update the AM 303-3 and the budget book metric to align with the BAPS' current practice;
- Continue working with agencies to analyze / identify common causes of payment delays that can be addressed proactively by implementing or improving preventive controls;
- Work with the agencies and Bureau of Procurement (BOP) to identify solutions to minimize change order and Unauthorized Justification Purchase requirements that impact invoice payment process; and
- Analyze and summarize invoice issues caused by vendors to assess the effectiveness of the current ways of communicating and guidance for invoicing and opportunities for improvement.

#### **Management Response/Corrective Action Plan**

**Agree**  **Disagree**

- The Department of Finance will automate and streamline the accounts payable process with the implementation of Workday slated for July 1, 2022. This City comprehensive, transparent, real time system will be transformational seamlessly setting up suppliers, managing invoices, processing approvals, automating payments, and prioritizing work.

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- As part of Workday implementation, all policies and procedures, including the accounts payable area, are being reviewed and revised as necessary to align with full implementation processes and procedures. The current policy narrowly defines invoice requirements and minimum processes for timely payment.
- Bureau of Accounting and Payroll Services (BAPS) continues to work with agencies to analyze and identify common causes of payment delays in the following ways:
  - Daily interaction among city agencies utilizing notes within the Accounts Payable system that is visible to each agency.
  - BAPS has a designated person to handle each large vendor type. That designated person becomes the vendor subject matter expert to facilitate correspondence between the city agency procuring the goods or services and the vendor.
  - BAPS continues to respond as timely as possible to vendor and agency inquiries regarding Accounts Payable matters.
- Bureau of Accounting and Payroll Services (BAPS) will continue to work with agencies and the Bureau of Procurement (BOP) to identify solutions to minimize change orders and unauthorized justification purchases (UJP) that impact invoice payment processes. Contract attachments are loaded within the City financial systems for visibility around UJPs. This will be better handled upon implementation of Workday starting July 1, 2022.
- Bureau of Accounting and Payroll Services (BAPS) will be able to better analyze and summarize vendor caused invoice issues to assess invoice effectiveness once Workday goes live with various automated tools. Currently better communication efforts are underway through highly attended Agency Prompt Payment Workshop presentations in which FAQs are addressed and distributed afterwards. In addition, BAPS created a vendor Prompt Payment Workshop presentation to be scheduled and will encourage agency attendance and participation. The City is also reviewing a certified third party add on Workday product to reduce or eliminate paper printing, handling, storage and distribution, achieve automated extremely high data OCR recognition rates, reduce AP processing time substantially, increase visibility, reduce temporary contractual labor, improve internal controls, and eliminate double entry. This add on product will be part of implementation or shortly thereafter before December 2022. Finally, with the implementation of Workday we will have the ability to capture invoice date which will determine the 30- day processing timeline.

**Implementation Date:** July 1, 2022

**Responsible Personnel**

Karen L. Tolley, CPA, Bureau Chief of Accounting and Payroll Services (BAPS)