

Highlights

Why We Did This Audit

Our 2013 citywide payment process audit identified some inefficiencies and weaknesses in the city's payment process. The Finance Department made changes to city policies and procedures to address our findings. Because General Services processes a large number of invoices, we selected that department to determine how well the department's payment process protects city resources.

Background

The General Services Department's Accounts Payable Section processed over 11,000 payment vouchers totaling more than \$184 million for goods and services in fiscal year 2017.

Purchase order payments require a three-way match. The three-way match involves the creation and matching of a purchase order, payment voucher, and receiver in the city's financial management system (PeopleSoft). General Services Accounts Payable Section employees enter information from the vendor's invoice into PeopleSoft which generates a payment voucher. General Services division employees create a receiver in PeopleSoft to document the acceptance of goods or services. Once the match is made and staff apply the appropriate approvals, PeopleSoft generates the payment based on the payment terms and due date.

Payments to vendors that do not involve a purchase order do not use a three-way match because a purchase order is not involved.

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PERFORMANCE AUDIT

General Services' Payment Process Should Better Protect Public Resources

What We Found

The General Services Department made payment errors, totaling about \$92,000, 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 although the city is exempt.

The timeliness of General Services' payments to vendors has declined and some payments have been late. Although the department's goal is to pay vendors within 30 days 95 percent of the time, only 59 percent of payments in fiscal year 2017 were paid within 30 days.

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% |

Vendor and General Services actions have delayed payments. Vendors sent invoices to the wrong locations and/or did not include purchase order numbers on their invoices. General Services staff did not approve payment 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 to the department's accounts payable staff soon enough to ensure timely payments.

Discounts were lost because pay terms were incorrect. For example, the city lost almost four years of potential early payment discounts because of incorrect pay terms for the city's office supply contract. The department lost about \$31,000 in early discounts from three vendors with established discounts because payments were not made within the discount period.

Some invoices were paid too early which prevented the city from using those funds for investments. In addition, the department incurred \$40,000 in late fees to two vendors between fiscal year 2015 and 2017.

What We Recommend

We make recommendations intended to better protect city resources; strengthen the payment review and approval process; and improve the timeliness of payments.

Management agreed with all of the recommendations.