CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

September 29, 2021

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Mayor

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Councilman, District 2

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Councilman, District 8

John Courage
Councilman, District 9

Clayton H. Perry
Councilman, District 10

SUBJECT: Audit Report of Audit Finance Accounts Payable

Mayor and Council Members:

We are pleased to send you the final report of the Finance Accounts Payable Audit. This audit began in October 2019 and concluded with an exit meeting with department management in August 2021. Management's verbatim response is included in Appendix C of the report. The Finance Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Finance Department

Accounts Payable

Project No. AU20-012

September 29, 2021

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department, specifically Account Payables. The audit objectives, conclusions, and recommendations follow:

Determine if controls over the City's accounts payable process are adequate and effective.

We determined that the design of the City's accounts payable process is adequate. However, improvements are needed in the areas of monitoring and taking advantage of early payment discounts when allowed by vendors.

We found that $395,000 in potential early payment discounts were not taken for FY2018 and FY2019 combined.

We recommend that the Deputy CFO should:

> Reassess processes to ensure early payment discounts are taken when available. This may include developing procedures so that City department's fiscal support staff are monitoring the discounts available, discounts taken, and discounts missed. Additionally, department performance measures should be established and reported for early payment discount activity.

Finance Department Management agreed with the audit recommendations and has developed a positive action plan to address them. Management's verbatim response is in Appendix C on page 6.

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Background

The Accounts Payable team within the Finance Department is responsible for processing financial payment transactions to trade vendors, customers, employees, third-party payroll, and other miscellaneous departmental accounts (petty cash, change funds, etc.).

In fiscal years 2018 and 2019, AP processed $1,768,728,577 and $1,887,848,710 (excluding payroll payments), respectively.

Table 1: Total Payments Processed Excluding Payroll for FY2018-2019

Fiscal Year	No. of Transactions	Amount ($)
FY2018	174,794	$ 1,768,728,577
FY2019	180,956	1,887,848,710
Totals	**355,750**	**$ 3,656,577,287**

City departments are responsible for ensuring invoices for payment have been approved by the appropriate individuals within the department. Approval methods may vary throughout the procurement process from the initiation of a purchase requisition, issuance of a purchase order or entry of a goods receipt.

Audit Scope and Methodology

The audit scope included check, ACH and wire payments issued between October 2017 and September 2019.

We interviewed management and key staff to obtain an understanding of the accounts payable process. Testing criteria included the Local Government Code Chapter 2251 and City Administrative Directives.

We assessed internal controls relevant to the audit objective. This included a review of high-level areas such as written policies and procedures and authorization practices. We determined that significant internal control components and principles include the following:

- Control Activities
    - Authorizations and approvals
    - Segregation of duties
    - Policies and procedures
- Information and Communication (information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control).
    - Quality of Information (accessibility, correctness, timeliness, protected, retention, sufficiency, validity, verifiability, currency/frequency)
    - Effectiveness of Communication (level of detail, method, frequency, stakeholders, whistleblower hotlines, confidentiality, inbound and outbound from organization, etc.)

We relied on computer-processed data in SAP, the City's accounting system, to validate financial information. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing extracted payment information against supporting documents such as vendor invoices and payment requisition forms. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

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.

Audit Results and Recommendations

A. Missed Early Payment Discounts

We reviewed early payment discounts lost for FY2018 and FY2019 and found that they were $161,666 and $234,012, respectively. On further inspection, we found that between 48% and 53% of all discounts lost pertained to three business areas (Fire & EMS; Building & Equipment Services; and Solid Waste). Combined total discounts lost for these business areas during FY2018 and FY2019 were $86,177 and $112,865, respectively. See Appendix A for a listing of missed discounts by department.

The *Texas Administrative Code* encourages Texas agencies to develop procedures "to promote the efficient use of public funds in local government and in programs requiring cooperation among local, state, and federal agencies". Often, vendors will allow payment discounts if payments are made quickly – usually within 10 – 20 days.

Through review of SAP payment data, we determined that 31% (46,204 of 146,836) of payments in FY2018 and 28% (38,965 of 141,365) of payments in FY2019 had a payment cycle beyond 30 days.

Payments with a payment cycle over 30 days increase the risk of delinquent payments and additional fees and costs to the City.

Recommendation

The Deputy CFO should reassess processes to ensure early payment discounts are taken when available. This may include developing procedures so that City department's fiscal support staff are monitoring the discounts available, discounts taken, and discounts missed. Additionally, department performance measures should be established and reported for early payment discount activity.

Appendix A – Supplemental Information

A1. Total Discounts Lost by Business Area Over $1,000

Business Area Name	2019 Discount Lost	2018 Discount Lost	Total Discount Lost
Fire and EMS	$ 49,848	$ 29,342	$ 79,190
Solid Waste Management	45,195	33,057	78,252
Building & Equipment Services	17,821	23,779	41,600
ITSD	14,313	15,379	29,692
Parks and Recreation	11,902	14,657	26,559
Aviation	18,671	5,561	24,232
TCI-Operations	14,667	4,726	19,393
Code Enforcement Services	11,371	5,670	17,041
Downtown Operations	13,573	2,950	16,523
Police	7,199	8,411	15,610
Convention Facilities	8,031	5,334	13,365
Alamodome	3,088	2,806	5,894
Pre K 4 SA	3,580	2,127	5,707
SA Metro Health District	2,853	1,378	4,231
Human Services	2,186	1,770	3,956
Municipal Courts	1,917	1,600	3,517
Library	2,183	1,063	3,246
Animal Care Services	744	1,426	2,170
All Other Departments	4,870	630	5,500
Totals	$ 234,012	$ 161,666	$ 395,678

Appendix B – Staff Acknowledgement

Gabe Trevino, CISA, Audit Manager
Judith Flores, CPA, Auditor in Charge
Sheryl Wardashki, CPA, Auditor

Appendix C – Management Response

CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 22, 2021

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Finance Accounts Payable Audit

Finance has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	**Description**	**Audit Report Page**	**Accept, Decline**	**Responsible Person's Name/Title**	**Completion Date**
1	**Missed Early Payment Discounts** The Deputy CFO should reassess processes to ensure early payment discounts are taken when available. This may include developing procedures so that City department's fiscal support staff are monitoring the discounts available, discounts taken, and discounts missed. Additionally, department performance measures should be established and reported for early payment discount activity.	**3**	Accept	Melanie Keeton/ Assistant Finance Director	March 2022

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: In FY2020, Finance initiated a project to re-evaluate and implement improvements where needed in the City Wide Procure to Pay process. Our initial focus was on high volume vendors that were not being paid within contract terms and increase on time payment performance. The pandemic temporarily paused the department's efforts while we shifted focus to ensuring COVID payments, most notably for the Emergency Housing Assistance Program, were expedited. Finance restarted the Procure to Pay project in Spring 2021 and began meeting weekly with City departments to identify process improvements and to research, resolve and close out invoices that are sitting idle in the payment queue. The Finance Department has been using two Key Performance Metrics to track on time payment performance and discounts lost by Department. These reports track at a department level the total value of invoices processed, discounts lost, discounts taken and on time percentage. These reports are provided on a quarterly basis to each Department's Fiscal Administrator. We have enhanced the reporting to provide more granular detail at the vendor and invoice level. Beginning in March of 2022, the improved report will be provided monthly instead of quarterly and will be provided to the Director of each Department in addition to the Department Fiscal Administrator. We have also modified our payment process to identify or flag invoices eligible for discounts in our "Readsoft" system so departments can prioritize payments as necessary. These reports will be key in tracking our progress as we continue to implement process improvements and training of City Department as well as vendors.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott
Deputy Chief Financial Officer
Finance Department

09/23/2021
Date

Ben Gorzell
Chief Financial Officer
City Manager's Office

9/24/2021
Date

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