

Audit of Interface Invoice Payments

Improving Contract Management and Payment Processes

Date: June 18, 2019
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

The Auditor General's 2018 Audit Work Plan included an audit of interface billing vendors. To save invoice processing costs, the City processes a significant number of invoices (over 30% of total City payments) through the interface bill payment process. This process allows vendors to submit multiple invoices through a consolidated electronic file.

The objective of this audit was to evaluate the controls over the vendor interface billing and payment processes. The audit identified opportunities to leverage data to improve strategic procurement, contract management and payment processes.

This report highlights continuous improvement opportunities in three areas:

- 1. Monitoring goods listed in the contract against actual usage** – We recommend, where possible, tracking and analyzing usage prior to proceeding with new procurements so that the City receives the most competitive prices and that the integrity of the procurement process is maintained.
- 2. Setting up interface billing processes and contracts properly** –The City is missing out on some discounts and volume rebates due to inadequate set-up of various records. The City lost over \$300,000 in early payment discounts and volume rebates on selected vendors during January 2015 to June 2018. The City has an opportunity to improve controls so that it properly captures these discounts.
- 3. Improving contract management practices** – Contract management processes for interface billing payments are not efficient. The City can improve its contract management, strategic procurement and payment processes by developing data needs upfront, during the procurement process, and electronically capturing usage information

across divisions to better analyze usage against the contracted items and verify payments.

The recommendations included in this report relates to control design and are applicable to all types of payment methods, interface and non-interface payments including the new Purchase-to-Pay(P2P) process the City is currently implementing.

Implementing the 20 recommendations in this report will support the City in its continuous improvement of controls over the purchase and payment for goods and services, and improve the processing of interface bills. When the City moves to a new system, such as the new Purchase-to-Pay (P2P) solution, the recommendations should be included in the control design.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Chief Purchasing Officer to work with the Controller to:
 - a. standardize and refine product purchases across divisions
 - b. capture data to track usage and compare against the goods and services specified in the contract
 - c. expand data analytics to centrally monitor and analyze expenditures as part of the contract management and payment process
 - d. develop a reporting process to identify large deviations in goods purchased, from the goods specified in contracts, documenting the reasons for the deviation, and estimating the financial impact.
2. City Council request the Controller to develop a process to verify the accuracy of early payment discounts for both interface and non-interface payment vendors. The 'discount lost' report should be updated to identify and include discounts lost on interface payments.
3. City Council request the Controller to automate recording, monitoring and collection of volume rebates. Outstanding amounts of volume rebates should be followed-up on, including those identified during the audit.
4. City Council request the Chief Purchasing Officer to compare the current list of volume rebate vendors with City contracts to identify any vendors offering discounts but which may have been omitted from the existing manually maintained list.
5. City Council request the Chief Purchasing Officer to review and update the procedures related to contract set-up in SAP so the detailed line items are entered in the system in accordance with the contract.

6. City Council request the Chief Purchasing Officer to develop criteria and procedures for limiting the use of 'miscellaneous category' in contracts. Any excess expenditures under the miscellaneous category over a specified limit should be reported as exceptions to respective Division Heads.

7. City Council request the Controller to evaluate whether controls can be automated to identify invalid/expired contracts used in interface payment files before they are processed in SAP. If developing such a control is cost-prohibitive, alternate procedures should be developed in coordination with divisions to ensure interface payment files are correctly prepared.

8. City Council Request the City Manager to advise Division Heads to ensure compliance with purchasing policies and procedures. Contract spend reports provided by Purchasing and Materials Management Division should be reviewed in a timely manner and contract target values be amended, where required, before additional funds are committed.

9. City Council request the Chief Information Officer to develop policies and procedures to review SAP access for divisions so that they can periodically review whether staff access to systems is appropriate, and make any necessary changes in a timely manner.

10. City Council request the Controller to evaluate the feasibility of establishing a Centralized Contract Management Unit/Centre of Excellence to look after City-wide contracts, where possible. The Unit should be responsible for:

a. performing continuous controls monitoring on contracts, including analyzing divisional purchases, consolidating overall trends, and monitoring contract compliance

b. developing criteria for providing exception reports to divisions on contract compliance, for example, purchase of goods not listed in the contract, and following up with divisions on any potential changes required to contracts

c. developing processes and guidelines for divisions to improve automation and consistency in ordering, receiving and paying for goods and services.

11. City Council request the General Manager, Fleet Services, to take the lead in:

a. developing a periodic review process with the Vendor on competitive pricing of parts that are being supplied to the City. A criteria should be developed to have adequate parts covered under each review. Results of price adjustments should be documented after each review

b. developing a process to approve new parts prices in the system

c. coordinating the auto parts price management processes with other City divisions for their review and implementation.

12. City Council request the General Manager, Fleet Services, to develop processes:

a. to reconcile auto parts purchases, returns and prices between the City's inventory system and the vendor's billing system on an ongoing basis

b. to resolve reconciliation issues in a timely manner and only those invoices should be paid that reconciles with the City records.

13. City Council request the General Manager, Fleet Services, to review price and quantity variances identified during this audit. Any overpayments and/or outstanding credits identified should be recovered from the vendor. Reasons why these variances occurred should be documented and appropriate controls implemented.

14. City Council request the Director, Real Estate Services, to develop a process for updating properties owned or leased by the City including changes to the ownership in a central database. The database should be used to reconcile addresses with the hydro invoice payment system on a periodic basis, and any hydro services identified as not related to the City should be terminated.

15. City Council request the Director, Environment & Energy Division, to perform a one-time validation of those accounts that do not have a specific service address, with respective divisions and establish a baseline for future validation.

16. City Council request the General Manager, Facilities Management Division to develop:

a. a complete list of all City-owned transformers

b. a process for validating city's records of transformers with hydro service provider for eligible credits.

Further, the transformer list should become part of the Facilities maintenance program.

17. City Council request the General Manager, Facilities Management Division, to develop a process to monitor demand for City-owned transformers in order to ensure appropriate credits are received when credit thresholds are achieved.

18. City Council request the Director, Environment & Energy Division, to review other utility payments for address reconciliations and to implement similar controls as recommended for hydro service payments.

19. City Council request the Director, Accounting Services, to improve the duplicate payment check criteria and recover the outstanding duplicate and /or incorrect payments identified during the audit.

20. City Council request the City Manager to forward this report to Division Heads and Chief Executive Officers of major City agencies and corporations, and request them to review and consider implementing the recommendations that are relevant to their

respective operations, in particular, recommendations relating to purchasing, payment and contract management related areas.

FINANCIAL IMPACT

Implementing the recommendations will help the City to improve its controls over the purchase and payment for goods and services, and improve efficiency, so that the intended benefits of the automated interface billing process may be achieved. The recommendations will result in potential cost savings, the quantification of savings will be performed during the follow-up of implementation of recommendations.

DECISION HISTORY

The Auditor General's 2018 Audit Work Plan included an audit of the City's vendor interface billing and payment process.

The Work Plan is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-107813.pdf>

COMMENTS

A high-level summary of the key audit findings are provided in the one-page Audit at a Glance.

The attached audit report provides the Audit Committee and members of Council with the detailed audit results and recommendations with management's response. Management has agreed to all 20 recommendations.

CONTACT

Syed Ali, Audit Director, IT & Strategy, Auditor General's Office

Tel: 416 392-8438, Fax 416 392-3754, E-mail: Syed.Ali@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Audit of Interface Invoice Payments – Improving Contract Management and Payment Processes