

Memorandum



CITY OF DALLAS
(Report No. A14-001)

DATE: November 1, 2013

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of the City of Dallas' Compliance with the Texas Prompt Payment Act¹

The City of Dallas (City) does not have a formal method to monitor compliance with the Texas Government Code, Chapter 2251 *Payment for Goods and Services* (Prompt Payment Act). As a result, the City cannot easily determine: (1) when vendor payments are not processed in accordance with the Prompt Payment Act; (2) if interest amounts are owed to vendors; and, (3) if valid exceptions to the Prompt Payment Act exist. Specifically, the City does not:

- Have a consistent method to identify and track the actual invoice receipt date
- Require the actual invoice receipt date to be recorded in the AMS Advantage 3 general ledger accounting system (AMS) prior to invoice processing
- Identify invoices in dispute in AMS
- Provide guidance for monitoring compliance with the Prompt Payment Act, including how to use available financial reports, in the annual training conducted by the City Controller's Office (CCO)

Prompt Payment Act

A payment by a governmental entity is overdue on the 31st day after the later of:

1. The date the governmental entity receives the goods under the contract;
2. The date the performance of the service under the contract is completed; or,
3. The date the governmental entity receives an invoice for the goods or services.

Source: Texas Government Code, Chapter 2251 *Payment for Goods and Services*

¹ We conducted an *Audit of the City of Dallas' Compliance with the Texas Prompt Payment Act* under the authority of the City Charter, Chapter IX, Section 3. This audit was part of our Fiscal Year 2013 Audit Plan approved by the City Council. This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine if the City is complying with the Prompt Payment Act. The scope of the audit included the City's AMS for Fiscal Year (FY) 2011 and FY 2012. We interviewed department personnel, reviewed the Prompt Payment Act, and analyzed AMS data using Audit Command Language (ACL). (Note: Vendor payments may cover multiple line items on multiple invoices; as a result, the total number of line items was used for the analysis).

During Fiscal Year (FY) 2011 and FY 2012, the City processed 149,419 vendor payments totaling \$1.63 billion. Of this amount:

- Ninety-eight percent of the total vendor payments, or \$1.61 billion, complied with the Prompt Payment Act's 30 day requirement
- Two percent of the total vendor payments, or \$24.89 million, exceeded the Prompt Payment Act's 30 day requirement

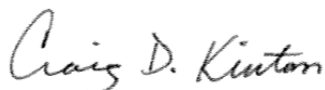
We recommend the City Controller:

- I. Implement a formal method to monitor compliance with the Prompt Payment Act
- II. Implement a consistent method to identify and track the actual invoice receipt date
- III. Require the actual invoice receipt date to be recorded before an invoice can be processed if AMS can be configured to do so
- IV. Identify invoices in dispute if AMS can be configured to do so
- V. Provide guidance for monitoring compliance with the Prompt Payment Act, including how to use available financial reports, in the CCO's annual training

Please see Attachment I for management's response to the report recommendations.

We would like to acknowledge City management's cooperation in providing the information needed to complete this audit. If you have any questions or need additional information, please contact me at 214-670-3222 or Carol A. Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton
City Auditor

Attachment

Honorable Mayor and Members of the City Council
November 1, 2013
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C: A.C. Gonzalez, Interim City Manager
Jeanne Chipperfield, Chief Financial Officer
Edward Scott, City Controller
Tiffany Batiste, Accounts Payable Manager – City Controller’s Office
William Finch, Director – Department of Communication and Information Services

Management's Response

Memorandum



DATE: October 18, 2013

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:
Audit of the City of Dallas' Compliance with the Texas Prompt Payment Act

Our responses to the audit report recommendations are as follows:

Recommendation I

We recommend the City Controller implement a formal method to monitor compliance with the Prompt Payment Act.

Management Response / Corrective Action Plan

Agree Disagree

The City Controller will begin developing a formal method to monitor compliance upon completion of the upgrade of the financial system during fiscal year 2014. Due to exceptions provided in the Prompt Pay Act, implementation is anticipated to require significant effort on the part of the Controller's Office and staff in the Department of Communication and Information Services (CIS).

Implementation Date

October 31, 2015

Responsible Manager

Accounts Payable Manager

Recommendation II

We recommend the City Controller implement a consistent method to identify and track the actual invoice receipt date.

Management Response / Corrective Action Plan

Agree Disagree

The City Controller's Office will include in future training acceptable methods of identifying and tracking the date invoices are received in departments.

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Implementation Date
September 30, 2014

Responsible Manager
Accounts Payable Manager

Recommendation III

We recommend the City Controller require the actual invoice receipt date to be recorded before an invoice can be processed if AMS can be configured to do so.

Management Response / Corrective Action Plan

Agree Disagree

Upon completion of the financial system upgrade in fiscal year 2014, the City Controller's Office will test the feasibility of this recommendation and further consider any implications implementation of this recommendation may have on the timely payment of invoices.

Implementation Date
Feasibility of implementing this recommendation will be determined in fiscal year 2014. If the City Controller determines this change is feasible, any system configurations required will occur before October 31, 2015.

Responsible Manager
Accounts Payable Manager

Recommendation IV

We recommend the City Controller identify invoices in dispute if AMS can be configured to do so.

Management Response / Corrective Action Plan

Agree Disagree

Upon completion of the financial system upgrade in fiscal year 2014, the City Controller's Office will test various methods of tracking invoice disputes.

Implementation Date
Feasibility of this recommendation will be determined in fiscal year 2014. If no system configurations are required, implementation will occur before October 31, 2014. If system configuration is required and the City Controller deems such configurations to be feasible, any system configurations required will occur before October 31, 2015.

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Responsible Manager
Accounts Payable Manager

Recommendation V

We recommend the City Controller provide guidance for monitoring compliance with the Prompt Payment Act, including how to use available financial reports, in the City Controller's Office annual training.

Management Response / Corrective Action Plan

Agree Disagree

Training was provided to departments on accounts payable policies and procedures during September 2013. The training included requirements related to the prompt pay act, including:

- Discussion of State requirements;
- Policy of establishing encumbrances prior to obtaining goods or services;
- Documenting the date of invoice receipt by departments by manually date-stamping the paper copy;
- Reports available identifying invoices entered into the system with no system documents indicating receipt of the goods or services (receivers), and receivers entered into the system with no corresponding invoice.

As additional reports become available and other procedures change, the City Controller's Office will provide further guidance to departments.

Implementation Date

September 30, 2013, with ongoing training provided within 120 days of any changes to the policies and procedures.

Responsible Manager
Accounts Payable manager

Due to constantly changing rules, regulations and enhancements to technology, management may find it more effective or efficient to implement alternative or compensating controls from those outlined in the above recommendations and responses. If this occurs, management agrees to fully document the reason for implementing any alternative or compensating controls to remediate the Auditor's findings.

Sincerely,



Edward R. Scott, CPA
City Controller

C: A. C. Gonzalez, Interim City Manager
Jeanne Chipperfield, Chief Financial Officer
"Dallas: The City That Works: Diverse, Vibrant, and Progressive."