

# Memorandum



CITY OF DALLAS

DATE February 12, 2018

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Procedures for Processing Payments**

This memorandum outlines the accounts payable process used by the City of Dallas. The City processes approximately 150,000 vendor invoices each year. The procedures for paying these invoices take into consideration the need to process the invoices within 30 days, while maintaining adequate controls to ensure the payments are properly authorized. Controls have been designed and implemented to assure compliance with laws and City Charter requirements and reduce the risk of theft or fraud.

Authorization for payments to vendors begins when the Council establishes appropriations during the annual budget process. Controls within the financial system ensure amounts encumbered do not exceed appropriations. After the appropriations are established, departments must determine the goods and services required to provide the approved services.

Central to the adequacy of internal controls is the concept of segregation of duties. This is generally accomplished in the financial system through department approved employee roles and a three-way match between the authorization for procurement (the “encumbrance”), the actual receipt (the “receiver document”), and an invoice.

Although certain services may only require a two-way match between the encumbrance and invoice, such as professional services rendered under the terms of a contract, the procedures below outline the procurement of goods and services by departments which requires a three-way match.

The process to procure goods or services begins at the department level. This is where the legal authorization to encumber City funds exists. Departments verify whether the City has an agreement with a vendor to provide the goods or services through a Master Agreement. If an agreement exists, the department proceeds to encumber the necessary funds and reduce the amount available on the Master Agreement. If a Master Agreement does not exist, the department must receive authorization to encumber the funds from Council or by approval of an Administrative Action.

Once the goods are actually received or services are performed, the department must process a Receiver document in the financial system. The purpose of this document is to record the receipt of the actual quantity delivered.

The final step in the three-way match process is to approve the invoices received from the vendors. Certain departments require the vendor to send the invoices directly to the receiving department in order to reconcile documents, ensure payment is made against the correct receiver document, and verify the unit price billed by the vendor. Department personnel date stamp the invoice immediately upon receipt then enter the invoices into the financial system. All other invoices are mailed or routed to the Accounts Payable division of the City Controller's Office for entry into the system by data entry staff.

All invoices entered into the system by departments must be routed to the Accounts Payable division after they are entered into the financial system. Invoices entered into the system are date stamped when received by the Accounts Payable division and compared to the invoice received from the vendor by quality control staff in the Accounts Payable division. If an error is identified during the quality control process, the document will be rejected in the financial system and the responsible department will be notified for correction. Upon correction, the department is to notify the quality control team member it has been corrected.

Once invoices are received in the Accounts Payable division, the regular processing time is 7-14 days. Upon request, the Accounts Payable division will process invoices as "RUSH" payments in which the processing time is 2-3 days. There are several reasons a payment could be delayed before it has been completely entered into the financial system.

Issues may arise with specific types of payments to vendors. Such payments generally follow a different process from the one outlined above. For example, contractors' estimates for work performed on construction projects are not invoices. Instead, they are a statement of work or goods procured by the contractor which must be verified by a City engineer. After the engineer verifies the work was performed in accordance with the contract terms, a request to pay the contractor is entered by the department and sent to the Accounts Payable division for final approval. One issue that is beyond the City's current ability to track is payments to sub-contractors. Since the City does not have a contractual agreement with the sub-contractor, we are unable to ensure timely payments by the contractor.

There are many reasons a payment to a vendor may not disburse. Below is a partial list of reasons for a delay in payment in the financial system.

- The encumbrance number is not included on the invoice
- Vendor's remittance address on invoice does not match the address in the financial system
- Unit price for goods or services on the invoice does not match the unit price on the encumbrance
- Encumbrance was set up by the department with the incorrect vendor number
- Invoice shows shipping/delivery to be paid, but the encumbrance is not set up to pay these items
- Department did not receive the goods by entering a receiver document in the financial system

- Not all pages of the invoice are attached
- Retainage is not set up correctly on the encumbrance
- Encumbrance was closed, does not have sufficient quantity, or does not have enough funds left to pay the invoice
- Invoice is not legible
- Vendor number has been deactivated
- The source of funding is no longer active (for example, a department may cease to exist due to a consolidation with another department and preventing payments to vendors from the deactivated department)

In order to improve the process, the City Controller's Office provides open item reports and training for departments to ensure the prompt payment of invoices. In order to further ensure invoices are entered in an efficient manner, procedures for entering utility and library book payments have been automated. Furthermore, the City Controller's Office has recently completed testing electronic invoicing which allows select vendors to enter invoices directly into the City's financial system. Upon Council approval of the necessary hardware, the City will also begin working on electronic data imaging to fully automate the entry of most invoices. Finally, the City Controller's Office has been working with staff from other departments to eventually improve the tracking of contractors' estimates in a new electronic capital project management system.

Please let me know if you need additional information.



Edward Scott, CPA  
City Controller

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| <p>c: Honorable Mayor and Members of the City Council<br/>T.C. Broadnax, City Manager<br/>Larry Casto, City Attorney<br/>Craig D. Kinton, City Auditor<br/>Billerae Johnson, City Secretary (Interim)<br/>Daniel F. Solis, Administrative Judge<br/>Kimberly Bizer Tolbert, Chief of Staff to the City Manager<br/>Majed A. Al-Ghafry, Assistant City Manager</p> | <p>Jon Fortune, Assistant City Manager<br/>Joey Zapata, Assistant City Manager<br/>Jo M. (Jody) Puckett, Assistant City Manager (Interim)<br/>Elizabeth Reich, Chief Financial Officer<br/>Nadia Chandler Hardy, Chief of Community Services<br/>Raquel Favela, Chief of Economic Development &amp; Neighborhood Services<br/>Theresa O'Donnell, Chief of Resilience<br/>Directors and Assistant Directors</p> |
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