City and County of San Francisco

Office of the Controller – City Services Auditor

CITYWIDE CONTRACT COMPLIANCE AUDIT:

The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts

May 9, 2016

OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR

The City Services Auditor Division (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Charter Appendix F grants CSA broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigate reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

For questions regarding the report, please contact Director of City Audits Tonia Lediju at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

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City and County of San Francisco

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CITYWIDE CONTRACT COMPLIANCE AUDIT: **May 9, 2016**

The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts

Purpose of the Audit

The City Services Auditor Division (CSA) of the Office of the Controller (Controller) audited 20 departments' general compliance with 51 contracts of the City and County of San Francisco (City). The audit assessed whether departments adhere to the City's various purchasing guidelines to accurately and effectively administer vendor payments according to terms and conditions and review contract expenditures related to costs and quantity. The audit also assessed early payment discounts and potential interest income on a citywide basis for payments made in fiscal year 2013-14.

Highlights

Of a sample of $1.8 million in payments tested, the accuracy of $955,787 (53 percent) could not be verified due to unitemized invoices and a lack of invoice support, and $19,380 (1 percent) could not be verified due to outdated or incomplete contract language. Of a sample of $84,395 of city payments to vendors in fiscal years 2011-12 through 2013-14, incorrect payment amounts were found to have caused overpayments of $1,655 (2 percent).

Specifically, the audit found that:

- Based on a sample of 100 payments tested in detail, the majority (61) had at least one problem identified, including that city departments sometimes make unverifiable vendor payments, miss early payment discounts, or pay vendors late or too soon.
- Of the $1.1 billion in payments the City made under contracts in fiscal year 2013-14, only 1 percent had associated early payment discounts available, most of which were under citywide contracts negotiated by the Office of Contract Administration, not departmental contracts, indicating the potential for more contracts offering such discounts.
- The City missed an estimated $44,143 in early payment discounts in fiscal year 2013-14 due to late payments and user input or processing errors that caused the City's accounting system not to apply the discounts for which departments were eligible.
- Departments inconsistently enter and modify contract discount terms in the City's accounting system, resulting in inaccurate data and potentially missed early payment discounts.
- The City could have increased its investment earnings by as much as $475,116 in fiscal year 2013-14 if departments had paid closer to payment due dates. Opportunities may exist with the City's new financial system to help departments both manage the cash flow implications of the timing of certain vendor payments and better take advantage of early payment discounts that may be offered by vendors.
- Departments sometimes fail to adhere to the City's prompt payment guidelines, which require payments within 30 days of invoice receipt.

Recommendations

The report includes 18 recommendations for city departments to improve the administration of their payments to vendors. Specifically, all city departments should:

- Require that vendor invoices include evidence to support all amounts on the invoice and ensure that amounts are adequately supported before approving invoices for payment.
- Review vendor invoices submitted in fiscal years 2011-12 through 2013-14 to determine whether the City is entitled to recover any additional amounts that may be found to have been overpaid.
- Ensure that undisputed invoices are paid according to the City's prompt payment guidelines and ensure that, if payments must be made late, that there is support to document the reason for the late payment.

The Office of Contract Administration should assist departments by identifying additional contracts that could potentially offer early payment discounts.

The Controller's Accounting Operations and Systems Division should ensure that departments are aware of and offer trainings on the City's accounting policies and procedures, specifically the logic of the City's accounting system related to early payment discounts and the effect of manual steps on whether early payment discounts are taken.

The Financial Systems Project, a citywide initiative led by the Controller, should consider whether the City's new financial system can include additional functionalities that would help city departments consider cash management implications when determining how quickly an invoice should be paid.

Copies of the full report may be obtained at:
Office of the Controller ● City Hall, Room 316 ● 1 Dr. Carlton B. Goodlett Place ● San Francisco, CA 94102 ● 415.554.7500
or on the Internet at http://www.sfgov.org/controller

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

May 9, 2016

Dear City Officials:

The Office of the Controller's City Services Auditor Division (CSA) presents its report of the citywide contract compliance audit. The audit objectives were to determine whether vendor invoices and related amounts paid by the City and County of San Francisco (City) complied with contract provisions, vendor invoices complied with contract and purchase order terms and conditions, vendors accurately charged the City for goods and services provided, and whether the City correctly paid invoices in a timely manner. The audit also assessed early payment discounts on a citywide basis for payments made in fiscal year 2013-14.

The audit concluded that, of a sample of $1.8 million in payments tested, the accuracy of $955,787 (53 percent), could not be verified due to unitemized invoices and a lack of invoice support, and $19,380 (1 percent) count not be verified due to outdated or incomplete contract language. Also, of a sample of $84,395 of city payments to vendors in fiscal years 2011-12 through 2013-14, incorrect payment amounts were found to have caused overpayments of $1,655 (2 percent). The audit also found that departments inconsistently enter and modify contract discount terms in the City's accounting system, resulting in inaccurate data and potentially missed early payment discounts, and that departments sometimes fail to adhere to the City's prompt payment guidelines, which require payments within 30 days of invoice receipt.

On a citywide level, the audit found that of the $1.1 billion in payments the City made under contracts in fiscal year 2013-14, only 1 percent had associated early payment discounts available, most of which were under citywide contracts negotiated by the Office of Contract Administration, not departmental contracts, indicating the potential for more contracts offering such discounts. The audit also analyzed missed opportunities to save on early payment discounts in fiscal year 2013-14 on a citywide level and found that an estimated $44,143 in early payment discounts was missed due to late payments and user input or processing errors that caused the City's accounting system not to apply the early payment discount due.

Last, the City may not realize maximum potential interest earnings. CSA determined the potential interest income on a citywide level and found that the City could have increased its investment earnings by as much as $475,116 in fiscal year 2013-14 if departments had paid closer to payment due dates. Opportunities may exist with the City's new financial system to help departments both manage the cash flow implications of the timing of certain vendor payments and better take advantage of early payment discounts that may be offered by vendors.

The report includes 18 recommendations, 11 of which are for departments to improve their contract compliance and payment processing and 7 of which are to the Office of Contract Administration, Office of the Controller's Accounting Operations and Systems Division and

Financial Systems Project to ensure that departments have the guidance and tools needed to minimize missed opportunities to save on early payment discounts and potential interest earnings. The departments' responses to the report are attached as appendices. CSA will work with the departments to follow up on the status of the recommendations made in this report.

CSA appreciates the assistance and cooperation of the departments with which it worked during the audit. For questions about the report, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,



Tonia Lediju
Director of City Audits

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

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GLOSSARY OF TERMS

Administrative Services	Administrative Services, within the General Services Agency
Airport	Airport Commission
AOSD	Office of the Controller's Accounting Operations and Systems Division
BPO	Blanket purchase order
City	City and County of San Francisco
Controller	Office of the Controller
CSA	Office of the Controller's City Services Auditor Division
FAMIS	Financial Accounting and Management Information System (FAMIS), the City's accounting system. FAMIS and its purchasing component, FAMIS Purchasing, facilitate budgetary management and accounting for the City
General Services Agency	General Services Agency of the Office of the City Administrator; the agency is comprised of a broad array of departments, divisions, programs, and offices which provide services to support the effective operations of other city departments
Human Services	Human Services Agency
OCA	Office of Contract Administration within the General Services Agency; the office that executes the duties of the City Purchaser
PO	Purchase order
Police Department	San Francisco Police Department
Public Health	Department of Public Health
Public Library	San Francisco Public Library
Public Works	Department of Public Works, within the General Services Agency
Technology	Department of Technology, within the General Services Agency
Treasurer	Office of the Treasurer and Tax Collector
SFPUC/Public Utilities Commission	San Francisco Public Utilities Commission
SFMTA/Municipal Transportation Agency	San Francisco Municipal Transportation Agency

INTRODUCTION

Audit Authority

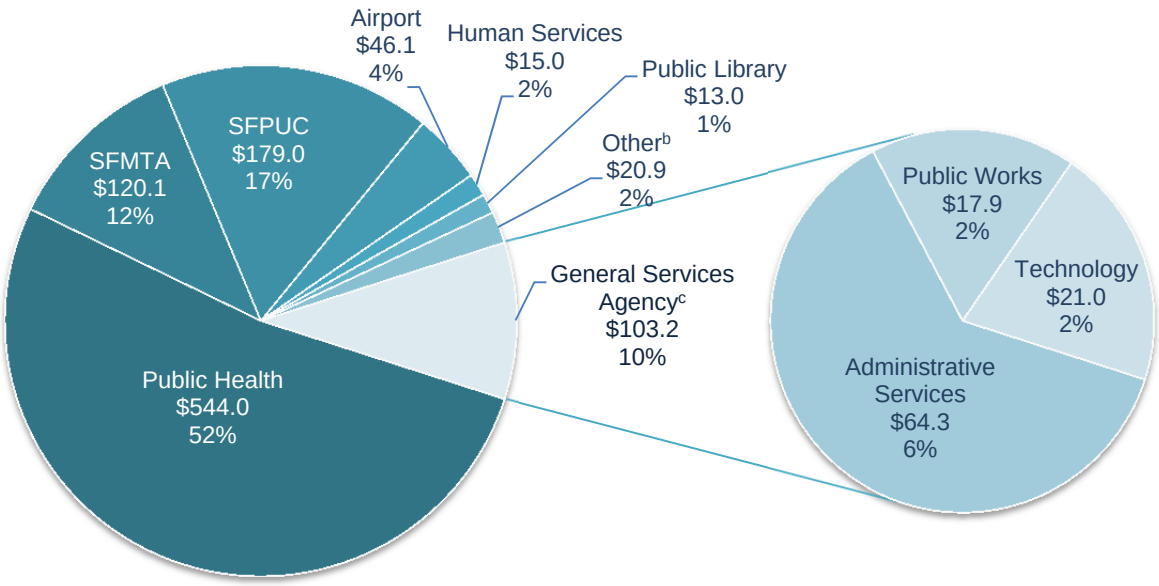
This audit was conducted under the authority of the Charter of the City and County of San Francisco (City), Section 3.105 and Appendix F, which requires that the City Services Auditor (CSA) of the Office of the Controller (Controller) conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.

Background

For fiscal year 2015-16 the City has an operating budget of almost $9 billion and purchases a vast array of goods and services to support its operations. Contracts play an important role in the way the City meets its statutory obligations and provides services to the public. In fiscal year 2013-14 the City spent $1.1 billion for commodities and services purchased through contracts.

The top ten highest-spending departments purchased goods and services that cost $1.0 billion, representing 96 percent of the amount spent by the City on goods and services in fiscal year 2013-14. Exhibit 1 details the amounts spent by these departments in fiscal year 2013-14.

EXHIBIT 1 **Spending on Commodities and Services by Top Ten City Departments Fiscal Year 2013-14[a]**



Notes:
[a] Amounts shown are in millions.
[b] Includes spending amounts of less than 1 percent by the Department of Emergency Management, Department of Human Resources, and Police Department.
[c] The General Services Agency includes the departments of Administrative Services, Technology, and Public Works.

Source: City's accounting system.

The City is implementing a comprehensive enterprise resource planning system.

The Financial Accounting and Management Information System (FAMIS) is the City's accounting system. FAMIS and its purchasing component, FAMIS Purchasing, facilitate the City's budgetary management and accounting.[1] FAMIS Purchasing is used to record accounting entries related to purchases. FAMIS Purchasing is also the City's primary centralized system for tracking certain high-level information that is typically associated with contracts, such as the vendor, contract not-to-exceed encumbrance amounts, and start and end dates.

The City is now preparing to replace FAMIS and implement a comprehensive enterprise resource planning citywide financial system, which will include financial, procurement, supply chain management and reporting, and analytics functionality. One component of the system will be a citywide contract management system.

[1] Previously known as Advanced Purchasing and Inventory Control System (ADPICS).

An encumbrance transaction in FAMIS certifies that funds are available for purchases.

The City uses an encumbrance method of accounting to help ensure that obligations are not incurred or expenditures made in excess of available funds, allotments, or appropriation. According to the City Charter, the Controller must authorize all disbursements of funds in the custody of the Office of the Treasurer and Tax Collector (Treasurer). Certification of available funds for all purchases, contracts, and other obligations is done by posting an encumbrance transaction in FAMIS.

Once a vendor has been selected, departments must encumber funds in FAMIS before issuing a purchase order (PO), contract, or other commitment to a vendor. All contracts are administered by the customer department that uses the product or service. The only exception is term contracts. Term contracts benefit the City because vendors are usually willing to provide price discounts in exchange for a high volume of business.

A blanket purchase order (BPO) is used to obtain approval for future purchases from a specific vendor for a specified time period and dollar limit.[2] BPOs do not encumber funds; PO releases do. One BPO exists for one contract and its amendments. Presented below are the two types of BPOs analyzed by the citywide contract compliance audit program:

The audit team analyzed payments made under citywide term contracts and departmental blanket authorizations.

- Citywide term contracts are multiyear, signed contracts used by one or more departments for large quantities of products or services and are negotiated and managed by the Office of Contract Administration (OCA). These contracts cover a wide variety of goods and services for which the City has a large and reccurring need. Office supplies, fuel, information technology, and janitorial services are illustrative examples of goods and services for which a term contract may be used. A BPO is created in FAMIS for the term contract, and then departments use purchase order releases to order the products or services available under the contract.

- Departmental blanket authorization BPOs are used

[2] A BPO is essentially a convenience contract, negotiated between buyer and vendor, that allows departments to buy specified goods directly from the vendor at pre-negotiated prices and terms.

to get OCA's approval for anticipated purchases of certain goods and services for a specific period and dollar limit. Departmental BPOs are usually established for purchases not covered under other city contracts. A departmental BPO enables a department to order directly from the vendor in accordance with agreed upon terms, and departments can make purchases by issuing a PO release against a departmental blanket agreement.

In both cases, an encumbrance against a BPO must be recorded before a PO can be placed or a contract can be issued. This is done in FAMIS Purchasing by issuing a standard PO release.

Once funds have been encumbered, departments can place an order in accordance with the allowable items and amounts described in the PO. After department staff has validated receipt of goods or services and matched the invoiced details with the specifications on the PO, the department's accounts payable staff processes the payment as a voucher in FAMIS Purchasing, which allows the vendor payment to be automatically generated in FAMIS Accounting.

The Controller's Citywide Contract Compliance Audit Program

Due to the huge scale of procurement in the City, spending poses a significant risk of contract noncompliance. To identify such vulnerabilities, CSA implemented a citywide contract compliance monitoring program to track contract adherence and accuracy.

In fiscal year 2011-12 CSA began a series of annual audits of compliance with selected multiyear contracts based on a citywide contract risk assessment used to identify, measure, and prioritize each contract's potential level of risk to the City. In fiscal years 2011-12 through 2013-14, CSA audited seven departments' management of and general compliance with ten contracts.[3]

[3] CSA's *Citywide Contract Compliance Program: Combined Audits Fiscal Years 2011-12 and 2012-13*, issued January 6, 2015, contains findings and recommendations from the ten contract audits.

CSA audited ten contracts across seven departments in fiscal years 2011-12 through 2013-14.

In these ten audits, CSA identified nine risk factors, spanning many categories, including material value, contract term, and type of goods or services. For each contract in the risk assessment, CSA systematically scored the relative impact of the risk factors and ranked them from highest to lowest risk. Each contract's risk score was considered when selecting audits for CSA's annual audit work plans in these fiscal years.

The ten audits assessed whether individual departments had and adhered to adequate policies and procedures to properly and effectively administer each of the ten contracts and monitor the performance of each vendor. Because the initial audit approach focused on assessing the internal control environment of individual departments, the number of contracts, departments, and vendors that the program could cover was limited.

Although the areas of risk did not necessarily result in identified contracting failures, the overarching finding of the ten audits was that departments either lacked up-to-date contracting policies and procedures or had weaknesses in their contract administration and monitoring processes. CSA concluded that internal controls at the department level need not be assessed by the program until a single, consistent, citywide system of policies and procedures for procurement is developed.

CSA revised its approach for the fiscal year 2014-15 audit program so it could increase audit coverage of city contracts by focusing on the departments' compliance with contract provisions.

CSA elected to evaluate payment compliance with contract terms instead of individual department controls over contract administration.

Rather than limit testing to only a few contracts, CSA selected payments from a population of contracts that spanned all city departments, which allowed for greater audit coverage. Because of the significant increase in the number of departments with payments tested, CSA elected to evaluate payment compliance with contract terms rather than individual department controls over the administration of contracts.

CSA obtained from the Controller's Accounting Operations and Systems Division (AOSD) a list of all BPOs that were open in fiscal year 2013-14. From this list CSA removed construction-related and grant-related

BPOs because compliance with these types of contracts is covered by CSA's Construction Audit Program and Nonprofit Audit Program, respectively. CSA also removed BPOs with not-to-exceed amounts of less than $100,000 and contracts with expiration dates before January 1, 2015.

CSA selected the number of payments per contract depending on the size of each contract's not-to-exceed amount. Specifically, CSA selected:

- One payment made in fiscal year 2013-14 for contracts with not-to-exceed amounts less than $500,000.
- Up to three payments made per fiscal year during fiscal years 2011-12 through 2013-14, if available, for contracts with not-to-exceed amounts of $500,000 or greater.

CSA used both random and purposeful sampling to select 100 payments made against 51 unique BPOs by 20 city departments. The total value of these payments was $1.8 million spent during fiscal years 2011-12 through 2013-14, representing 5 percent of total payments remitted by these departments against these BPOs during the period. The 51 unique BPOs tested included 15 citywide term contracts and 36 departmental BPOs.

Exhibit 2 summarizes, by city entity, the sample selection of BPOs and payments tested.

EXHIBIT 2 **The 100 Payments Tested Covered $1.8 Million Across 51 Contracts and 20 Departments**

City Department	Number of BPOs Tested*	Number of Payments Tested	Amount of Payments Tested	% of Total Amount of Payments Tested
Public Health	12	27	$856,619	47.5%
Public Utilities Commission	7	10	180,363	10.0%
Municipal Transportation Agency	5	10	159,449	8.9%
Airport	4	8	144,985	8.0%
Police Department	3	6	121,640	6.8%
Recreation and Park Department	2	2	83,499	4.6%
Department of Building Inspection	2	4	59,183	3.3%
Human Services Agency	2	2	58,050	3.2%
Administrative Services	4	8	55,786	3.1%
Technology	2	4	16,501	0.9%
Office of Economic and Workforce Development	2	2	15,983	0.9%
Fire Department	1	1	14,921	0.8%
Public Library	3	3	11,302	0.6%
Human Resources	2	2	7,666	0.4%
Children & Families Commission	1	1	6,250	0.4%
Controller	1	1	4,205	0.2%
Treasurer	1	3	3,109	0.2%
Board of Supervisors	1	1	1,600	0.1%
Sheriff's Department	1	1	1,470	0.1%
Public Works	2	4	416	0.0%
Total	**58**	**100**	**$1,802,997**	**100.0%**

*Note: The 51 unique BPOs tested totals 58 BPOs when organized by city department because the 58 total number of BPOs includes citywide term contracts with payments tested under multiple departments.

Source: CSA Analysis

Objectives

The objective of the audit was to determine whether invoices billed by vendors and related amounts paid by the City complied with contract provisions. Specifically, the audit determined whether:

1. Vendor invoices complied with contract and PO terms and conditions.

2. Vendors accurately charged the City for goods and/or services provided.

3. The City correctly paid vendor invoices in a timely manner.

Scope and Methodology

The audit examined payments made under selected multiyear contracts, excluding those related to public works construction contracting and grants, with an effective date before July 1, 2014, and an expiration date after January 1, 2015. For the sample of payments selected, CSA:

- Reviewed and gained an understanding of the contract terms and conditions, including any early payment discount terms.
- Inspected invoices and related supporting documentation to ensure that city entities had sufficient and appropriate information to support the amounts invoiced and paid.
- Recalculated amounts invoiced to ensure accuracy of amounts billed.
- Verified whether items purchased were allowable under the contract and whether rates invoiced complied with contract provisions.
- Determined whether the City promptly paid undisputed vendor invoices and ultimately paid the correct amount.

The audit also examined payments on a citywide level. Specifically, for fiscal year 2013-14, CSA determined the potential and missed early payment discounts and potential interest income the City could have received.

Statement of Auditing Standards

This audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

CHAPTER 1 – Many Vendor Payments Could Not Be Verified and Some That Could Were Not Paid in Accordance With Contract Terms and City Policy

Summary

Of a sample of $1.8 million in payments tested, the accuracy of $955,787 (53 percent) could not be verified due to unitemized invoices and a lack of invoice support, and $19,380 (1 percent) could not be verified due to outdated or incomplete contract language. Also, of a sample of $84,395 of city payments to vendors in fiscal years 2011-12 through 2013-14, incorrect payment amounts were found to have caused overpayments of $1,655 (2 percent).

Some departments did not take advantage of early payment discounts offered by vendors. Of a sample of 25 payments for which an early payment discount was offered, 11 (44 percent) showed the City missed the discount. These 11 payments amounted to $1,270 (35 percent) of the available $3,612 in early payment discounts in the sample. Departments missed the discounts by paying undisputed invoices late and because staff manually changed discount terms or due dates or entered incorrect invoice receipt dates in FAMIS.

Last, departments did not always pay undisputed invoices within the required 30-day prompt payment period. Although failures to receive early payment discounts and pay promptly are not contract compliance issues, they are shortcomings related to departmental payment processing.

Exhibit 3 summarizes the issues identified in the 100 payments tested.

EXHIBIT 3 **Problems Identified in the 100 Sample Payments Related to Compliance, Missed Discounts, and Process Improvement Opportunities**

Finding Category	Description
Contract noncompliance	• Overpayments based on pricing terms • Cannot verify that item/services purchased or rates charged are allowable under the PO and contract because invoices were not itemized • Cannot verify that item/services purchased or rates charged are allowable under the PO and contract because department did not provide sufficient support • Cannot verify that item/services purchased or rates charged are allowable under the PO and contract because contract language is missing or not updated
Missed early payment discounts	• City lost an early payment discount because the department paid an undisputed invoice late • City lost an early payment discount because of user input errors in FAMIS
Payment process improvement opportunities	• Departments did not pay within the 30-day prompt payment period* • Receipt date stamped on invoice does not match invoice receipt date entered in FAMIS*

Note:
* For payments made under contracts with and without early payment discounts

Source: CSA analysis

Finding 1.1

More than half (53 percent or almost $1 million) of tested payments lacked documentation to support payment amounts.

$955,787 (53 percent) of payments were inadequately supported.

Of 100 payments tested, 36 lacked sufficient detail to support the amounts paid. Consequently, the audit could not verify payments totaling $955,787, or 53 percent of the $1,802,997 in payments tested. The U.S. Government Accountability Office defines improper payments as payments that:

> *…include inadvertent errors, such as duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; payments for services not rendered or to ineligible beneficiaries; and payments resulting from outright fraud and abuse.*

Using this definition, the $955,787 of payments can be considered improper because they are "for unsupported or inadequately supported claims." The 36 payments were made by nine departments.

Some of these improper payments occurred because the invoices lacked sufficient detail to support the amounts billed. Specifically, invoices for 36 payments did not include complete documentation, such as timesheet support, to support the amounts billed and invoices for 2 payments were not itemized.

Exhibit 4 summarizes these payments.

EXHIBIT 4 Thirty-six of 100 Sample Payments Lacked Support

City Department	Number of Contracts	Number of Payments Lacking Support	Total Payment Remitted	Unverifiable Amount
Public Health	6	18	799,807	$799,807
Airport	1	3	$70,918	70,918[a]
Human Services Agency	1	1	50,000	50,000
Technology	2	4	16,501	16,501[b]
Public Utilities Commission	2	4	65,298	12,800[c]
Human Resources	1	1	4,932	4,932
Municipal Transportation Agency	1	2	4,891	425
Police Department	2	2	6,049	270
Treasurer	1	1	2,015	134
Total	17	36	$1,020,411	$955,787

Notes:
[a] The total $70,918 of the Airport's unverifiable amount is attributed to one citywide term contract.
[b] $8,389 of the Technology's unverifiable amount is attributed to one citywide term contract.
[c] $7,768 of the Public Utilities Commission's unverifiable amount is attributed to one citywide term contract.

Source: CSA analysis of a sample of 100 payments totaling $1,802,997.

The discounts that should have been applied to a sample of $87,075 of goods purchased could not be determined because catalog list prices could not be substantiated.

Of the $955,787 in payments that lacked support, 9 percent of this amount was paid by three departments – the Airport Commission (Airport), General Services Agency – Technology (Technology), and San Francisco Public Utilities Commission (Public Utilities Commission) – under the same citywide term contract. According to the contract, the vendor is to provide certain goods to the City at a discount rate based on catalog list prices. However, none of the three departments could provide evidence that the City received the discounts required by the contract on the goods purchased.

Without relevant documentation to support the catalog list prices and discounts applied, the audit could not

verify the accuracy and appropriateness of amounts invoiced for some items purchased. The audit's sample included payments totaling $87,075 for 11 invoices whose catalog list prices could not be verified. Discounts required by the contract ranged from 15 to 98 percent off the catalog pricing.

Of the $955,787 found to be unverifiable, $175,529 (18 percent) was attributable to seven invoices paid by one department under two cost reimbursement contracts. The contracts require that vendors submit invoices monthly for reimbursement of actual costs incurred in the preceding month. However, according to the department, it does not require vendors to submit additional information, such as units of service provided, to support the amounts invoiced for its cost reimbursement contracts.

For example, one vendor invoiced the City for—and the City paid—$21,196 for various expenses including employee salaries but did not provide timesheets. Without this information, the audit could not verify that the amount the City paid to the vendor was allowable.

Of the 100 payments tested, 2 (2 percent) included invoices with prices and rates that were not itemized. As a result, the audit could not verify the allowability of payments totaling $50,400 related to these invoices.

Exhibit 5 summarizes these two payments.

EXHIBIT 5 Two of 100 Sample Payments Had Unverifiable Amounts Due to Unitemized Invoices

Department	Number of Payments	Amount Tested	Unverifiable Amount
Human Services Agency	1	$50,000	$50,000
Municipal Transportation Agency	1	4,356	400
Total	2	$54,356	$50,400

Source: CSA analysis of a sample of 100 payments totaling $1,802,997.

For the City to be able to determine whether items and amounts charged by vendors are in accordance with the contract's terms, invoices should show the quantity of items purchased or number of hours incurred, as well as the respective price(s) or rate(s) applied to each. However, in one example a vendor billed the department a lump-sum amount and omitted the quantity purchased and the number of labor hours incurred. This vendor did not itemize the $50,000 invoice it used to support its actual costs despite the fact that it was allowed a 5 percent mark-up on materials costs invoiced to the City.

To support the materials costs invoiced to the City, the department obtained the vendor's invoice documentation. However, the supporting documentation did not separate the actual materials costs from labor costs. Because this documentation was not itemized, CSA could not verify the costs incurred by the vendor for materials and labor and, therefore, could not determine whether the department's $50,000 payment was allowable.

Unitemized charges reduce the City's ability to determine whether invoiced items comply with contract terms.

Without a sufficient level of detail, the City cannot be sure that the items and amounts on invoices it is asked to pay comply with contract terms. According to the City's payment processing guidelines, the process for receiving, reviewing, and approving payments must follow good internal controls. This involves certifying that all transactions are valid, legal, and properly authorized.

At a minimum, to ensure that the amounts billed are correct and comply with contract terms, invoices should align with the purchase categories in the contract and should show the number of hours incurred and/or quantity purchased, the applicable rates and/or prices, and any associated discounts applied. Failure to require vendors to itemize their invoices increases the risk that inappropriate charges may be billed and paid.

Recommendations

1. The Airport Commission, Department of Human Resources, Department of Public Health, Department of Technology, Human Services Agency, Office of the Treasurer and Tax Collector, Police Department, San Francisco Municipal Transportation Agency, and San Francisco Public Utilities Commission should require that vendor

invoices include evidence to support all amounts on the invoice and ensure that amounts are adequately supported before approving invoices for payment.

2. The Human Services Agency and San Francisco Municipal Transportation Agency should ensure that all vendor invoices are itemized to include all invoiced line items and respective quantities purchased and rates charged.

Finding 1.2

Outdated or incomplete contract language made it unclear whether $19,380 in tested payments were appropriate.

$19,380 in payments could not be confirmed as allowable due to unclear, outdated, or missing contract terms.

Of a sample of 100 payments totaling $1,802,997, six payments totaling $19,380 (1 percent) could not be confirmed as allowable due to outdated or missing contract terms. Such issues, which were noted in four contracts tested, may impede the transparency of the billing process, contract compliance, and the City's ability to ensure that it is charged the appropriate prices for its purchases. Departments whose payments could not be confirmed as allowable include the:

- Department of Building Inspection
- Administrative Services
- Technology
- Police Department

Exhibit 6 summarizes these payments.

EXHIBIT 6 Six of 100 Sample Payments Had Unverifiable Amounts Due to Outdated or Missing Contract Terms

Department	Number of Payments	Amount Tested	Unverifiable Amount
Administrative Services	3	$9,198	$9,198
Technology	1	8,112	8,112
Police Department	1	38,314	2,047
Department of Building Inspection	1	588	22
Total	6	$56,212	$19,380

Source: CSA analysis of a sample of 100 payments totaling $1,802,997.

In some instances, contract terms did not reflect the understanding between the City and the vendor as to what charges were allowable.

Some city contracts include a list of items/services and rates that are allowed to be purchased under the contract. However, lists do not always encompass all of the current items/services and rates under the contract. For example, a printing services vendor on a term contract invoiced a department $23 for a printing overrun on a $588 print order. Although the department and the Office of Contract Administration state that it is an industry standard for printers to recover some overrun costs, the contract did not contain language regarding allowable overrun charges. As a result, the contract terms do not reflect the understanding between the City and the vendor. According to OCA, terms surrounding overrun costs will be included in the new contract.

When it is impractical to detail all potential costs in a contract, departments should do additional monitoring to reduce the risk of overpayment.

Although contracts should provide departments with a reference for determining what items, services, and rates are allowable, it is sometimes impossible for a contract price list to include all allowable items, services, and rates. For example, one contract required the vendor to perform various printing, publishing, and mail services for the City. The audit could not verify that the rate charged for $9,198 in printing services under this contract was allowable because the contract's price list did not include every allowable printing option.

When it is impractical for a contract to include every allowable item that may be purchased and the associated rate that must be charged, departments should establish policies and procedures that mitigate the risks of improper vendor payments. An example of such a procedure is a formal supervisory review process. An additional monitoring procedure such as this would decrease the risk that a department pays a vendor at an incorrect rate or for unallowable goods or services.

Recommendations

3. The Administrative Services, Department of Technology, Office of Contract Administration, and San Francisco Police Department should ensure that contracts clearly describe the goods and services the vendor is allowed to provide under the contract and reflects current pricing structures.

4. The Department of Technology should, when it is not feasible to list in a contract all items that can be purchased, establish policies and procedures, such

as a formal supervisory review, that help mitigate the risk of improper purchases and incorrect vendor payments.

Finding 1.3

Five departments overpaid vendors $1,655 (2 percent) based on a sample of six payments totaling $84,395.

Due to inadequate monitoring, departments sometimes paid more than their contracts required.

Of the payments that were verifiable, vendors sometimes invoiced rates that deviated from those in the contract, causing five departments—the Office of Economic and Workforce Development, Police Department, Public Library, Recreation and Park Department, and Municipal Transportation Agency—to inadvertently overpay some vendors. Of a sample of $84,395 in 100 payments tested in fiscal years 2011-12 through 2013-14, $1,655 (2 percent) was overpaid in 6 payments by five departments.

Exhibit 7 summarizes the overpayments the audit identified.

EXHIBIT 7 **Six of 100 Sample Payments Were Overpayments**

Department	Number of Overpayments	Total Value of Sample of Payments Tested	Amount Overpaid
Public Library*	2	$10,441	$1,055
Recreation and Park Department	1	17,861	265
Municipal Transportation Agency	1	5,500	250
Police Department	1	43,073	49
Office of Economic and Workforce Development	1	7,520	36
Total	6	$84,395	$1,655

Note: *The two Public Library payments were paid against separate contracts.

Source: CSA analysis of a sample of 100 payments totaling $1,802,997.

Some billed rates and unit prices did not comply with the contract.

Some vendors invoiced the City using rates inconsistent with contract requirements, which resulted in overpayments. For example, a vendor failed to provide the 10 percent discount on the invoice as required by the contract, resulting in an overpayment of $947. In another instance, a department paid a vendor at a rate that had not been formally agreed upon, resulting in an overpayment of $265. Vendors cannot apply rate

increases until a contract amendment goes into effect, which occurs after it is signed by both the vendor and the City.

According to the City's payment processing guidelines, issued by the Controller, the process for receiving, reviewing, and approving payments must follow good internal controls. This involves certifying that all transactions are valid, legal, and properly authorized. The overpayments found in the sample may indicate that other erroneous amounts were paid because departments did not properly review invoices to ensure that amounts billed are in accordance with contract terms.

CSA notified the five departments of the overpayments, and the Police Department, Public Library, and Municipal Transportation Agency later obtained a credit memo or vendor refund for all amounts found to be owed to the City.

Recommendations

5. The Office of Economic and Workforce Development, San Francisco Police Department, San Francisco Public Library, Recreation and Park Department, and San Francisco Municipal Transportation Agency should review invoices submitted in fiscal years 2011-12 through 2013-14 to determine whether they are entitled to recover any additional amounts found to be overpaid.

6. The Office of Economic and Workforce Development, San Francisco Police Department, San Francisco Public Library, and San Francisco Municipal Transportation Agency should review vendor invoices to ensure that invoiced amounts comply with contract terms before approving invoices for payment.

7. The Office of Economic and Workforce Development should consider the cost and benefit of recovering the $36 overpayment from the vendor.

8. The Recreation and Park Department should comply with the current contract's pricing terms or modify the terms of its contract with a signed

amendment. Only after an amendment has been signed should POs be modified and invoices paid.

Finding 1.4 — The City missed $1,270 in early payment discounts because it processed payments late and made data input errors.

Slow payment processing caused the City to miss some early payment discounts.

The City missed early payment discounts[4] for 11 (44 percent) of 25 payments on contracts that included early payment incentive terms. The missed discounts represented $1,270 (35 percent) of the available $3,612 of discounts. Chapter 2 discusses additional instances beyond the sample of 100 payments where the City did not receive allowable discounts.

Some payments were made late. For example, for two payments, the City could have received an additional $138 in discounts had the payments been made within the period required. The two payments that did not take advantage of the discounts were remitted four and six days after the specified discount periods ended. These late payments were made by the Municipal Transportation Agency and Public Utilities Commission, respectively.[5]

Failure to pay vendors within the agreed-upon discount periods increases the risk that the City will lose out on future early payment discounts offered by vendors. Further, paying invoices late may adversely affect the cash flow of suppliers and can expose the City to additional costs, such as late payment fees.

Exhibit 8 summarizes missed discounts due to late payments found in the sample.

[4] A customer may pay less than the invoiced amount by paying within a specified discount period, which is defined in terms of the period from the date on which the invoice is received to the last date on which a discount may be taken. For example, a common early payment discount is "1/10 net 30," which means the customer will receive a 1 percent discount on the invoiced amount if the invoice is paid within 10 days instead of 30 days.

[5] The late payments referred to are the same as those identified in Finding 1.5. The associated recommendation is Recommendation 10.

EXHIBIT 8 Two of 25 Sample Payments Missed Early Payment Discounts Because They Were Late

Department	Number of Payments	Payment Amount	Potential Discount	Missed Discount
Public Utilities Commission	1	$6,661	$133	$133
Municipal Transportation Agency	1	535	5	5
Total	2	$7,196	$138	$138

Source: CSA analysis of 25 payments with available early payment discounts of $3,612.

Discount terms were manually altered or incorrectly copied into FAMIS, which prevented the system from applying the early payment discount to which the City was entitled.

According to AOSD, the City's accounting system automatically calculates the payment due date based on the discount terms and the invoice receipt date that has been entered in the system by department staff. However, this did not occur for 9 (36 percent) of 25 sample payments, despite the fact that they were made within the allotted discount period. The reason for this was that staff had entered in FAMIS an incorrect invoice receipt date or had manually changed in FAMIS voucher details such as the discount terms or due date. This resulted in missed discounts of $1,131. Exhibit 9 summarizes these payments.

EXHIBIT 9 Nine of 25 Sample Payments Missed Early Payment Discounts Due to Data Input Errors

Department	Number of Payments	Payment Amount	Potential Discount	Missed Discount
Recreation and Park Department	1	$65,638	$656	$656
Administrative Services	1	16,791	336	336
Public Utilities Commission	4	3,514	123	102
Airport	1	1,184	24	24
Municipal Transportation Agency	1	239	12	12
Public Health	1	110	1	1
Total	9	$87,476	$1,152	$1,131

Source: CSA analysis of 25 payments with available early payment discounts of $3,612.

Of the nine payments listed in Exhibit 9, six were instances where three departments modified the voucher discount terms. Of those six, four were caused by one department that failed to receive the correct early payment discounts because it incorrectly copied early payment discount terms from earlier POs. These instances resulted in $102 in missed discounts.

According to one vendor contract, a $1,916 invoice

qualified for a 5 percent early payment discount. However, because the incorrect early payment discount terms were copied from a previous PO, only a 0.5 percent early payment discount was applied. As a result, the department failed to realize $86 of the early payment discount for which it qualified on the invoice. Because the older PO had early payment discount terms that differed from those in the contract, the department should not have relied on the PO for early payment discount information.

In another example, a department was entitled to take an early payment discount of 5 percent. However, the department incorrectly modified the discount terms from 5 percent to 3 percent, causing FAMIS not to apply the full discount. As a result, the department missed an early payment discount of $12 on an invoice of $246.

Recommendation

9. The Airport Commission, Department of Public Health, Administrative Services, Recreation and Park Department, San Francisco Municipal Transportation Agency, and San Francisco Public Utilities Commission should ensure that voucher details are correctly entered in the City's accounting system to take advantage of available early payment discounts, specifically the early payment discount terms, payment due date, and invoice receipt date.

Finding 1.5 **Contrary to city policy, departments pay some undisputed vendor invoices late.**

Departments do not always comply with city guidelines on prompt payments.

Although the vast majority of the payments tested were remitted on time, 6 of the 100 payments tested were not remitted within the City's prompt payment guideline of 30 calendar days from the invoice receipt date.

Exhibit 10 summarizes the late payments identified.

EXHIBIT 10 Six of 29 Sample Payments Were Late

Department	Payments Tested	Payments Not Made Within 30 Days	% of Payments Made Late
Administrative Services	8	3	38%
Municipal Transportation Agency*	10	1	10%
Public Utilities Commission*	10	1	10%
Sheriff's Department	1	1	100%
Total	29	6	21%

*Note: The late payments by the Municipal Transportation Agency and Public Utilities Commission are the same late payments identified in Finding 1.4 that resulted in missed early payment discounts.

Source: CSA analysis of a sample of 100 payments totaling $1,802,997.

Although departments can make a single payment to cover multiple invoices, this should not result in paying any of invoices later than 30 days.

Departments attributed some late payments to combining invoices for efficiency or conflicts in employee schedules delaying payment approval. However, invoices should not be combined when doing so would result in paying earlier invoices more than 30 days after receipt. Further, departments should ensure that their accounts payable personnel have appropriate backup to ensure that absences do not prevent continued operations.

According to AOSD, when combining invoices, the invoices should be received within two days of each other to ensure that they are paid in a timely manner. Contrary to this guidance, two sample payments combined invoices that were received a month apart. For example, a payment by one department was for two invoices it received on December 11, 2012, and January 14, 2013. In this case, the invoices should have been paid separately because combining them caused the earlier invoice to be paid late.

One invoice was paid 51 days after receipt.

Also, a department remitted a payment for an undisputed invoice 51 days after the invoice receipt date. Department personnel attributed the late payment to conflicts in employee schedules that delayed payment approval. Although there was no associated early payment discount offered, paying an undisputed invoice more than 30 days after invoice receipt does not comply with the City's prompt payment guidelines.

Incorrect invoice receipt dates in FAMIS were found for 17 percent of tested payments.

Of 100 payments tested, 17 had invoices with incorrect invoice receipt dates entered in FAMIS.[6] According to the City's payment processing guidelines, each invoice must be marked with a receipt date when it is received. Also, according to the City's prompt payment guidelines, the receipt date recorded is to be the latest of the following three dates:

- The date the vendor's payment request (invoice) was received by the City.
- The payment date specified in the contract or PO (not to preclude the vendor's early performance).
- The date materials or services are delivered to the City.

The City's FAMIS Purchasing user training guide for direct vouchers states that departments are required to enter invoice receipt dates in FAMIS. However, for 26 percent of the sample payments, the receipt date in FAMIS differs from the receipt date stamped on the invoice. Exhibit 11 summarizes these payments.

EXHIBIT 11 **Seventeen of 66 Sample Payments Had Incorrect Invoice Receipt Dates in the City's Accounting System**

Department	Total Payments Tested	Payments With Incorrect Receipt Date	Percent of Payments Tested With Incorrect Receipt Date
Airport	2	2	100%
Technology	4	3	75%
Human Resources	2	1	50%
Human Services Agency	2	1	50%
Office of Economic and Workforce Development	2	1	50%
Police Department	6	3	50%
Sheriff's Department	3	1	33%
Administrative Services	8	2	25%
Municipal Transportation Agency	10	2	20%
Public Health	27	1	4%
Total	66	17	-
		Average	**26%**

Source: CSA analysis of a sample of 100 payments totaling $1,802,997.

[6] Department staff enters in FAMIS the invoice receipt date, which is the date an invoice is received by the designated office of the department or agency.

Of the 17 tested payments whose stamped invoice receipt date did not match the invoice receipt date in FAMIS, 6 (35 percent), made by three departments, were eligible for early payment discounts. These 6 payments totaled $10,346. However, because department staff entered incorrect invoice receipt dates in FAMIS, two of the three departments missed early payment discounts amounting to $41.

Incorrect invoice receipt dates in FAMIS increase the likelihood that the system will not apply some early payment discounts due, even when payments are made during the discount period, and that missed discounts due to these errors may go unidentified. For example, a department did not receive a 2 percent ($24) discount on a payment because it entered an invoice receipt date in FAMIS that was nine days before the receipt date indicated on the invoice. This error caused FAMIS to determine that the department failed to pay within the 30 days required by the vendor's early payment terms, so the discount was not applied.

Departments are encouraged to record invoices and vouchers in FAMIS as early as possible and must accurately document the date each invoice is received.

Of the 100 payments tested, 2, each paid by a different department, were for invoices that were not stamped with a receipt date. One payment had no associated early payment discount while the other was eligible for a 5 percent discount. Due to the missing receipt dates on the invoices, the audit could not determine whether the receipt dates in FAMIS are correct.

According to city guidelines, departments are encouraged to record invoices and vouchers in FAMIS as early in the process as possible and must accurately document the date that each invoice is first received. Also, the City's payment processing guidelines state that:

> *Transactions shall be accurate, timely, properly recorded, and properly classified. Computer system controls should be utilized to safeguard records and preserve data integrity.*

Failure to record accurate invoice receipt dates and other invoice information reduces a department's assurance that vendors are paid on time. Adherence to these guidelines is especially important for invoices that have early payment discounts associated with them.

Recommendations

10. The Administrative Services, San Francisco Municipal Transportation Agency, San Francisco Public Utilities Commission, and Sheriff's Department should ensure that payments are remitted within 30 days of receipt and that, if payments must be remitted late, documentation is maintained to justify the late payment.

11. The Airport Commission, Department of Human Resources, Department of Public Health, Administrative Services, Department of Technology, Human Services Agency, Office of Economic and Workforce Development, San Francisco Municipal Transportation Agency, San Francisco Police Department, and Sheriff's Department should ensure that the invoice receipt date entered in the City's accounting system is based on the date the department received the invoice, which should also match the receipt date stamped on the invoice.

CHAPTER 2 – The City Can Increase Potential Savings From Early Payment Discounts and Interest Income

Summary

Based on analysis of a sample of 100 payments associated with 51 contracts, the findings of which are discussed in Chapter 1, some payments were not remitted in the period required to receive the available early payment discounts and some were made without using the correct receipt, payment, or due date on the invoices.

Of the $1.1 billion in payments the City made under contracts[7] in fiscal year 2013-14, only $14 million (1 percent) had associated early payment discounts offered by the vendor.[8] The $14 million in payments had $236,584 in early payment discounts available, of which the City only received $192,441 (81 percent). The remaining $44,143 (19 percent) of potential discounts was missed due to user input or processing errors by department staff and due to late payments.

Of the $44,143 in missed early payment discounts, $35,115 (80 percent) was not realized due to user input and processing errors in FAMIS. The remaining $9,027 (20 percent) was missed because the City did not pay by the due date for the discount. Further, contract discount terms in FAMIS are inconsistently entered and modified, resulting in inaccurate data and potentially missed opportunities for early payment discounts.

Last, the City may not realize maximum potential interest earnings. The City could have increased its investment earnings by as much as $475,116 in fiscal year 2013-14 if departments had paid closer to payment due dates. Opportunities may exist with the City's new financial system to help departments both manage the cash flow implications of the timing of certain vendor payments and better take advantage of early payment discounts that may be offered by vendors.

[7] Excluding construction-related contracts, grant agreements, and open market purchases.

[8] For the purpose of determining the early payment discounts due and taken in the selected period, CSA used the early payment discount terms cited on the voucher document in the City's accounting system.

Finding 2.1

Early payment discount terms were offered for only 1 percent of the value of payments made in fiscal year 2013-14. Additional contracts that could potentially offer early payment discounts should be identified.

Of contract[9] payments the City made in fiscal year 2013-14, $14 million were associated with contracts that include early payment discount provisions. These payments provided the City with $236,584 in potential cost savings. However, the $14.0 million represents only 1 percent of the $1.1 billion the City paid under all its contracts that year. By not including early payment incentive terms in more contracts, the City misses an opportunity to substantially increase its cost savings. If all contract payments the City made in fiscal year 2013-14 had been eligible for early payment discounts, the City could have saved an estimated $21.8 million.[10]

93 percent of payments with negotiated early payment discount terms are under term contracts.

Early payment discounts, when negotiated, allow city departments the opportunity to realize additional savings and reduce their costs in exchange for early payments to vendors. Vendors that offer early payment discounts do so to improve their cash flow.

Many citywide term contracts awarded by OCA contain negotiated early payment discounts. Of the 74 city contracts under which $14.0 million in payments with early payment discounts were made in fiscal year 2013-14, 53 (72 percent) were citywide term contracts. Payments made under these contracts amounted to $13 million, or 93 percent of the payments for which early payment discounts were offered. The remaining 7 percent of payments, totaling $1 million, were made under 21 departmental contracts.

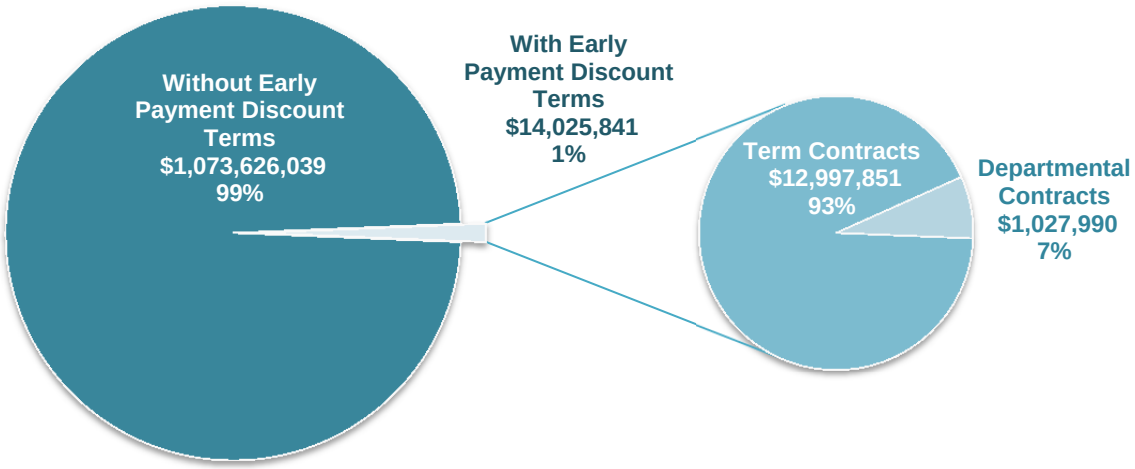
Unlike departmental contracts, which are typically only used by the contracted department to order directly from the vendor in accordance with agreed-upon contract terms, citywide term contracts are used by one or more departments for large quantities of products or services, typically for goods and services for which the City has a large and recurring need.

[9] Excluding construction-related contracts, grant agreements, and open market purchases.

[10] CSA calculated the potential saving using AOSD's preferred discount percentage, which is 2 percent of the invoiced amount when payments are made within the specified discount period.

Exhibit 12 summarizes these payments.

EXHIBIT 12 **Only 1 Percent of the Value of the City's Term and Departmental Contract Payments Were Associated With Contracts Offering Early Payment Discount Terms in Fiscal Year 2013-14**



Source: City's accounting system

The City should encourage its vendors to offer early payment discounts.

Departments that manage departmental contracts should encourage their vendors to offer early payment discounts. For example, the Office of the Comptroller of the Commonwealth of Massachusetts (Massachusetts) produces a quarterly memorandum to document the status of early payment discounts received and to help departments continue pursuing growth in discounts earned by paying early. The memorandum is issued publicly and includes:

- A list of departments that have and have not taken advantage of the program.
- The discount amounts taken and lost.
- A list of vendors that offer discounts.

Massachusetts reports that, in fiscal years 2009-10 through 2013-14, it increased the amount of discounts taken by 52 percent and by doing so saved more than $9.5 million in fiscal year 2013-14.

Massachusetts has written policy encouraging departments to request early payment discounts and to monitor such terms to ensure that they receive earned

discounts. Further, departments are encouraged to ask vendors under existing contracts to offer discounts if they do not already do so.

More term contracts than departmental contracts have negotiated early payment discounts.

According to OCA, which manages citywide term contracts, an early payment discount offered by a vendor is a factor when evaluating bids or proposals for any given contract, but it does not guarantee that such a bid or proposal will score higher than one that does not, as price is only one factor among several when evaluating bids and proposals.

The City had only 190 term contracts under which payments were made in fiscal year 2013-14, compared to 2,050 departmental contracts. Of the 190 term contracts, only 53 (28 percent) had negotiated early payment discounts at the payment level.[11]

Although OCA's annual memorandum of new and ongoing procedures related to preparing purchasing documents encourages departments to ask for a prompt payment discount from vendors for departmental contracts, only 21 (1 percent) of 2,050 departmental contracts under which payments were made in fiscal year 2013-14 had early payment discounts available at the payment level. Receiving early payment discounts on payments made under contracts is a sensible way for the City to save money and provide timely cash flow to its vendors.

Recommendation

12. The Office of Contract Administration should provide written guidance to departments on how to identify contracts that could potentially offer early payment discounts.

[11] CSA relied on the early payment discount terms indicated at the payment level because discount terms at the contract level are not in the City's accounting system.

Finding 2.2

The City did not receive 19 percent of potential early payment discounts offered by vendors, resulting in $44,143 of missed savings.

The City missed more than $44,000 in early payment discounts in fiscal year 2013-14.

Although the City received early payment discounts of $192,441 (81 percent of the $236,584 in early payment discounts available in fiscal year 2013-14), the remaining $44,143 (19 percent) was missed due to user input or processing errors by department staff or due to late payments.

User input or processing errors caused 80 percent of the missed early payment discounts.

Of the $44,143 in missed early payment discounts, $35,115 (80 percent) was for payments that were remitted within the specified discount period, but some user input or processing error caused FAMIS not to take the discount. FAMIS automatically calculates the payment due date based on the discount terms and the invoice receipt date[12] that department staff has entered in the system. For payments without discount terms, the due date will be 30 calendar days after the invoice receipt date.

According to AOSD, if department staff changes the invoice due date in FAMIS to a date that falls before the date of payment approval, FAMIS will not deduct the discount from the payment remitted. This occurs because the system calculates discounts only when payments are made in the discount period and on a date that falls on or after the date the invoice is approved for payment, which is logically correct.

Exhibit 13 summarizes the discounts the City missed because a user input or processing error caused FAMIS not to take the discount.

[12] The invoice receipt date is the date that the invoice was received by the City, the date the corrected invoice was received by the City for disputed invoices, and the earliest receipt date for multiple invoices paid with one payment.

EXHIBIT 13 Departments Missed More Than $35,000 in Discounts Due to Data Input or Processing Errors in Fiscal Year 2013-14

Department	Number of Payments	Payment Amount	Potential Discount Amount	Missed Discount Amount
Airport	922	$3,681,100	$65,422	($8,209)
Fire Department	295	1,463,427	29,506	(6,264)
Recreation and Park Department	676	1,266,389	12,627	(5,489)
Administrative Services	420	1,087,117	15,676	(5,350)
Public Works	649	602,609	17,883	(2,881)
Department of Public Health	550	933,016	15,454	(2,544)
Public Utilities Commission[a]	1,697	2,256,624	30,559	(2,322)
Technology	142	224,270	4,699	(869)
Municipal Transportation Agency	698	1,349,354	25,935	(679)
War Memorial	45	38,215	966	(166)
Public Library	81	55,979	862	(139)
Juvenile Probation	88	3,181	64	(57)
Port	419	243,798	4,110	(59)
Arts Commission	19	3,807	52	(25)
Police Department	97	30,886	375	(22)
District Attorney	11	8,666	94	(18)
Human Services Agency	26	32,408	332	(18)
Other[b]	140	86,630	1,087	(3)
Total	**6,975**	**$13,367,476**	**$225,703**	**($35,115)**

Notes:
[a] Includes the Hetch Hetchy, Wastewater, and Water Enterprises.
[b] Other includes Department of Emergency Management, Department of Environment, Rent Arbitration Board, and Sheriff's Department, each with missed discounts of $2 or less.

Source: City's accounting system and CSA analysis

AOSD immediately investigated the instances of missed early payment discounts for 36 percent of CSA's sample.

AOSD immediately investigated the nine instances where the City paid within the discount window but did not receive the early payment discount that was specified in the associated contract (see Finding 1.4). AOSD confirmed that one cause was input or processing errors—such as entering incorrect payment discount terms or changing the payment due date—by the department that resulted in FAMIS not calculating the early payment discount.

According to AOSD, some of these input errors, such as changes to the payment due date, were deliberate and were intended to ensure that payments made by check would arrive in time to receive early payment discounts.[13]

[13] In November 2010 AOSD began printing checks weekly instead of every business day.

However, because FAMIS uses the payment due date to calculate whether a discount should be applied, these altered dates sometimes cause FAMIS to omit earned discounts.

Departments changed payment due dates for 19 percent of payments, causing the City to miss early payment discounts.

For 19 percent (1,444 of 7,534) of payments made, department staff changed the payment due date to a date that preceded the approval of the payment in FAMIS. According to the system's logic, as explained by AOSD, in these cases FAMIS will not find the payment eligible for an early payment discount regardless of whether it occurred within the discount period. These instances accounted for $26,834 of missed discounts for payments made within the discount period.

Changing due dates in the City's accounting system sometimes results in a missed early payment discount.

In an example from 2014, department staff modified a payment due date in FAMIS for a check payment. The discount terms were 2 percent if paid within 30 days of receipt of the invoice. Staff entered April 29th as the invoice receipt date, so FAMIS automatically calculated the due date to be May 29th. The payment was approved on April 30th. However, the department changed the invoice due date to be the same as the invoice receipt date and, because the new date preceded the approval date, FAMIS did not apply the discount.

It is possible that some departmental employees are not properly trained or do not understand how FAMIS calculates discounts and how certain manual changes to data in the system's fields determine whether or not the discount is taken.

AOSD has developed accounting policy task forces.

In November 2014 AOSD created task forces to help develop citywide accounting policies and procedures. AOSD released the 2015 edition of the City's 489-page Accounting Policies and Procedures online in October of that year. New procedural information was included, such as explaining that departments must not change the payment due date to a date before the payment is approved in FAMIS.

AOSD communicates with FAMIS users through e-mail notification regarding important dates, changes to procedures, and new or updated guidance, such as the release of the citywide accounting policy and procedures. However, despite AOSD's communication

efforts, a review of payments made after the new policies and procedures were implemented showed that some employees continue to change payment due dates to dates that preceded the approval of the payment in FAMIS. In October and November 2015 this occurred for 16 percent (211 of 1,299) of payments, resulting in $4,051 in missed discounts.

Late payments caused 20 percent of missed early payment discounts.

Late payments tested ranged from 1 to 234 days after the associated discount period. Although it is possible that some departments may require additional time to review a disputed invoice, the City's Accounting Policies and Procedures require that any dispute preventing a department from meeting the prompt payment requirement must be documented. If departments had made all these payments within the early payment discount period, the City would have realized $9,027 more in discounts.

Exhibit 14 summarizes the missed discounts because departments paid invoices late.

EXHIBIT 14 Departments Missed More Than $9,000 in Discounts Due to Late Payments in Fiscal Year 2013-14

Department	Number of Payments Remitted	Payment Amount	Potential Discount Amount	Missed Discount Amount[a]	Number of Days Late	Average Number of Days Late
Public Utilities Commission[b]	73	$89,418	$1,749	$(1,749)	1-88	15
Public Works	108	133,878	2,716	(1,610)	1-123	23
Airport	96	138,350	1,885	(1,555)	1-41	17
Municipal Transportation Agency	20	49,556	991	(985)	1-163	33
Public Health	29	76,553	1,202	(902)	1-138	22
Administrative Services	32	77,450	862	(862)	1-105	22
Technology	14	21,321	574	(483)	1-45	16
Recreation and Park Department	91	36,458	422	(402)	1-234	37
Fire Department	4	7,411	148	(148)	3-62	33
Department of Environment	7	14,134	141	(141)	6-28	16
Police Department	38	6,568	86	(86)	2-40	19
War Memorial	10	4,514	54	(54)	6-9	7
Public Library	5	1,688	34	(34)	10	10
Juvenile Probation	30	548	11	(11)	3-21	10
Rent Arbitration Board	1	495	5	(5)	89	89
Total[c]	**558**	**$658,342**	**$10,880**	**$(9,027)**	**N/A**	**25**

Notes:
[a] Missed discounts may be less than potential discounts because some vendors offered discounts despite late payment.
[b] Includes the Hetch Hetchy, Wastewater, and Water enterprises.
[c] Totals exclude a $23 payment by the Port that was 24 days late, resulting in a missed discount of $0.46.

Source: City's accounting system and CSA analysis

AOSD continues to enhance its continuous monitoring and "post audits" but should include a test to identify missed opportunities for early payment discounts.

AOSD performs continuous monitoring and "post audits," which are designed to:

- Assess each department's accounting and internal control practices and compliance with city laws, rules, and policies.
- Identify areas that are working well.
- Identify areas of weaknesses that can be improved.

The areas for review and testing[14] include cash handling, revenue, purchasing and payables, payroll, and inventory, among others. AOSD also produces a report for the department head and relevant departmental personnel summarizing the key findings of the post audit and continuous monitoring results for the year in review and comparing the department's results to those of previous years and to results at other city departments.

[14] AOSD uses a risk-based approach to select a sample of various types of financial transactions for testing.

According to AOSD, its continuous monitoring program does not include a test to specifically identify missed opportunities for early payment discounts on a citywide basis because it identifies missed discount opportunities during the post audits process when individual payment documents by departments are selected for review. Missed discount opportunities that are identified in the post audits program are communicated to departments along with other key findings.

However, AOSD's continuous monitoring program does include a test to verify compliance with the City's prompt payment guideline on a citywide basis. This test is in part similar to the test that would be performed to determine whether or not payments were made within an available discount period. Further, because the data is available in FAMIS, it is feasible for AOSD to perform this test for all payments made on a citywide basis to help departments identify missed opportunities to realize early payment discounts.

Recommendations

The Office of the Controller's Accounting Operations and Systems Division should:

13. Ensure that departments are aware of and offer trainings on the City's accounting policies and procedures, specifically the logic of the City's accounting system related to early payment discounts and the effect of manual steps on whether early payment discounts are taken.

14. Coordinate with departments to determine whether or not they should pursue collection of missed discounts for payments that were remitted within the specified discount period but, due to a user input or processing error, the City's accounting system did not apply the discount.

15. As part of its continuous monitoring and post audits program, include procedures to identify missed opportunities for early payment discounts on a citywide basis to help departments take advantage of the maximum available early payment discounts.

Finding 2.3

Contract discount terms in the City's accounting system are inconsistently entered and modified, resulting in inaccurate data and potentially missed opportunities for early payment discounts.

The audit relied on payment data in FAMIS to determine lost early payment discounts.

For payments made under contracts that offer early payment discounts, discount terms are cited in FAMIS on the voucher, purchase order (PO), and blanket purchase order (BPO) documents. According to AOSD, early payment discount terms should be carried over from the BPO to the PO and to the voucher. However, department staff is allowed to modify this field at both the PO and voucher levels. As a result, the calculated lost potential early payment discounts[15] due to the City could be over- or understated because they were based on the premise that the voucher had the correct discount terms and did not take into account vouchers without associated early payment discount terms (although their associated POs and BPOs did).

Hundreds of instances of inconsistent payment discount terms exist.

The audit had to rely on data from FAMIS alone because of two limitations:

- CSA did not have copies of all contracts under which payments were made in fiscal year 2013-14.
- The Executive Information System reporting tool lacks a field that would identify the discount terms in the contract.[16]

Without the contract, the next most reliable source for correct payment discount terms is the *BPO Discount Terms* field in FAMIS. However, this field is unavailable in the Executive Information System. Consequently, the audit could not verify whether the voucher and PO discount terms agree to the BPO discount terms, or to the contracts, for any payment made in fiscal year 2013-14.

A comparison of early payment discount terms on 111,785 vouchers and POs for all payments made in fiscal year 2013-14 found some instances of inconsistent early payment discount terms. Specifically:

[15] For the purpose of determining the early payment discounts due and taken in the selected period, CSA used the early payment discount terms cited on the voucher document in the City's accounting system.

[16] The Executive Information System is an interface of FAMIS that allows data extraction and reporting.

- In 669 instances (1 percent), there were early payment discount terms included on the voucher, but not on the PO.
  In 533 instances (1 percent), only the PO showed early payment discount terms.

Discount terms in the contract, BPO, PO, and voucher sometimes differ.

Although the audit could not fully verify correct early payment discount terms at the BPO and contract levels for all payments made in the fiscal year, the audit was able to verify this using a sample. Of 100 payments tested, 13 (13 percent) had voucher discount terms that differed from those in the PO, BPO, or contract. Specifically:

- In 8 instances (8 percent), the discount percentage per the voucher did not match the early discount percentages according to the contract, BPO, or PO.
- In 5 instances (5 percent), discount terms were in the contract, BPO, or PO, but not on the voucher.
- In 1 instance (1 percent), the BPO did not indicate any early payment discount but the contract did.

Differences in early payment discount terms among documents can occur if staff copies incorrect discount terms from expired PO documents and enters the terms on the BPO document, the content of which is carried over to the PO and voucher. Without accurate and consistent early payment discount terms on all payment documents from the contract to the voucher level, department staff is more likely to either miss an early payment discount or take a discount amount that differs from the negotiated early payment discount percentage or discount period.

Similar to the functionality of FAMIS, the Commonwealth of Massachusetts' management accounting and reporting system automatically calculates discounted payment amounts based on the associated early payment discount terms entered in the system. However, Massachusetts's system has additional functionality that allows departments to monitor their bill-paying practices and review discount history and, therefore, to identify missed discount opportunities.

Recommendations

The Office of the Controller's Accounting Operations and Systems Division should:

16. Work with the Financial Systems Project of the Office of the Controller to determine whether or not it is feasible for the City's new financial system to include additional functionalities that may minimize missed opportunities for early payment discounts.

17. As part of its continuous monitoring and post audits program, include a review of discount terms on a citywide basis and ensure that they are accurate on all documents in the City's accounting system to minimize missed discounts that result from inaccurate data.

Finding 2.4

The City could have increased its investment earnings by as much as $475,116 in fiscal year 2013-14 if departments had paid closer to payment due dates.

Unlike the City, federal agencies are required to pay vendors no sooner than seven days before the payment due date.

City guidelines require that departments pay vendors within 30 days of invoice receipt but they do not include guidance on paying vendors sooner than necessary. Although early payments are intended to improve the cash flow of entities doing business with the City, payments ineligible for early payment discounts that are made several days or weeks before payment due dates can cause the City to forego interest income.

Federal prompt payment standards[17] require that agencies pay vendors as close to the payment due date as possible, unless earlier payment is necessary, but no sooner than seven days before the payment due date. This contrasts with the City's prompt payment guideline, which allows departments to pay bills from 1 day to 30 days after receipt, or as much as 23 days sooner than the federal policy allows.

Using this seven-day difference in policies, had city departments paid all vendors between 23 days before the payment due date and by the payment due date of 30 days after the invoice receipt date, the City could

[17] Code of Federal Regulations, Title 5, §1315.4.

have increased its interest earnings by an estimated $335,303 to $475,118 in fiscal year 2013-14.[18]

Exhibit 15 summarizes the potential interest had departments paid invoices closer to payment due dates.

EXHIBIT 15 **Departments Missed up to $475,118 in Potential Interest Earnings by Paying Invoices Early in Fiscal Year 2013-14**

Department	Number of Payments	Potential Interest if Paid 23 Days After Invoice Receipt Date	Potential Interest if Paid 30 Days After Invoice Receipt Date
Public Health	46,866	$200,780	$276,172
Public Utilities Commission[a]	12,248	35,273	54,536
Municipal Transportation Agency	7,014	37,940	54,105
Administrative Services	3,866	15,986	23,344
Airport	3,116	8,367	13,763
Technology	1,460	7,346	10,137
Human Services Agency	2,039	4,404	6,314
Police Department	1,853	3,720	5,030
Public Library	7,704	3,044	4,816
Public Works	2,728	2,012	3,660
Department of Emergency Management	622	2,118	2,887
Port Commission	954	1,736	2,308
Controller	476	1,432	2,042
Adult Probation Department	369	1,335	1,791
Recreation and Park Department	568	988	1,371
Sheriff's Department	632	944	1,359
Board of Supervisors	161	876	1,228
Department of Environment	238	643	1,093
Treasurer and Tax Collector	498	750	1,045
Department of Human Resources	310	628	1,035
All Other Departments[b]	5,647	4,981	7,082
Total	**99,369**	**$335,303**	**$475,118**

Notes:
[a] Includes Hetch Hetchy, Wastewater, and Water enterprises.
[b] Includes 27 departments whose potential interest amounts were each $1,000 or less.

Source: City's accounting system and CSA analysis

[18] The interest earnings calculation is based on an earnings allowance rate of 0.73% in fiscal year 2013-14, which was provided by the Office of the Treasurer and Tax Collector.

The City could have received more than $6,000 in interest income had one department made a $10.4 million payment closer to the payment due date.

Although short-term interest income on relatively small amounts may be negligible, interest can add up over time to significant totals. In almost all cases the City gains nothing by paying earlier than it needs to because city payments made without associated early payment discounts amounted to $1.1 billion, or 99 percent, of all payments made against contracts in fiscal year 2013-14. Moreover, the City can lose significant amounts of interest income by paying large amounts too soon.

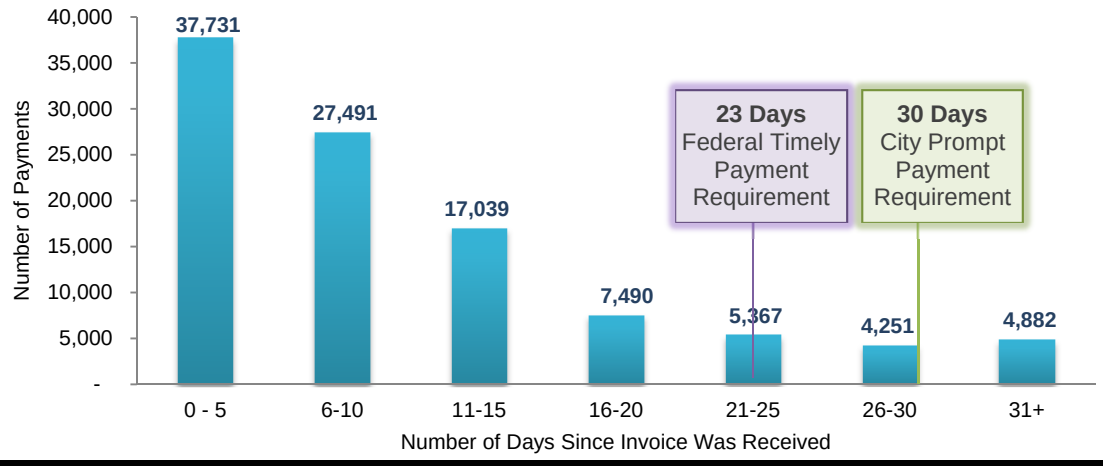
For example, one department paid $10.4 million to a vendor one day after the corresponding invoice was received. In this case of overly prompt payment, the City could have received an estimated $6,041 more in interest income had the department paid 29 days later.

In general, the City pays on time.

The City's vendor payments in fiscal year 2013-14 were made an average of 15 days before the payment due date. Of 104,251 total payments, 99,369 (95 percent) were made by the payment due date and 4,882 (5 percent) were made later than the payment due date. Of the 99,369 payments made on time, 92,895 (93 percent) were made sooner than seven days before the payment due date.

Exhibit 16 illustrates the timing of payments made by departments in fiscal year 2013-14 in relation to payment due dates.

EXHIBIT 16 **Departments Made Most Vendor Payments Within Ten Days in Fiscal Year 2013-14**



Source: City's accounting system and CSA analysis

Exhibit 16 demonstrates the City's commitment to its prompt payment initiative, which is particularly important to a local business enterprise,[19] whose cash flow needs may prevent the City from paying closer to the payment due date.

Federal agencies are required to consider cash flow needs when deciding whether or not to pay early.

Federal guidance states that agencies may accelerate payments if the agency head or designee has determined, on a case-by-case basis, that earlier payment is necessary, and if payments are single invoices of less than $2,500, payments to small businesses, or payments related to emergencies, disasters, or military deployments.[20]

However, federal guidance requires that this authority be used cautiously, weighing the benefits of making a payment early against the good stewardship inherent in effective cash management practices.[21] Under the federal timely payment standards, agencies should only take an offered discount if it is economically justified and if the agency has accepted the good or service.[22] To determine whether or not a discount is economically beneficial to the federal agency, it can use a prompt payment discount calculator.[23]

Although the City has guidance that requires departments to pay vendors within 30 days of invoice receipt, because it has no guidance on paying vendors sooner than necessary, it may not realize maximum potential interest earnings, particularly for large payments. Further, opportunities may exist with the City's new financial system to help departments both manage the cash flow implications of the timing of certain vendor payments and better take advantage of early payment discounts that may be offered by vendors. Specifically, if the City's new financial system includes a field to identify whether or not a vendor is a local business enterprise, it may also be able to incorporate functionality that would allow local business enterprise vendors to be paid immediately after the voucher has been approved in the system.

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[19] A vendor certified by the City as meeting geographical and revenue requirements for preferential scoring in contract awards according to Administrative Code Chapter 14B.

[20] Code of Federal Regulations, Title 5, §1315.5.

[21] Code of Federal Regulations, Title 5, §1315.4.

[22] Code of Federal Regulations, Title 5, §1315.7.

[23] The calculator is on the website of the U.S. Department of the Treasury, Bureau of the Fiscal Service.

For payments of $100,000 or greater,[24] and using the same seven-day difference, had city departments paid vendors between 23 days before the payment due date and by the payment due date of 30 days after the invoice receipt date, the City could have increased its interest earnings for payments by an estimated $211,144 to $295,015 in fiscal year 2013-14.

Recommendation

18. The Office of the Controller's Financial Systems Project should consider whether it is feasible for the City's new financial system to include additional functionalities that would help city departments consider cash management implications when determining how quickly an invoice should be paid.

[24] CSA determined potential interest income for all payments excluding payments made to LBE vendors assuming they would be less than $100,000 because FAMIS does not clearly identify payments remitted to LBE vendors.

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APPENDIX A: DEPARTMENT RESPONSES

AIRPORT COMMISSION:

SFO

San Francisco International Airport

March 28, 2016

Ms. Tonia Lediju
Director of City Audits
City Services Auditor Division
Office of the Controller
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 477
San Francisco, CA 94102

Subject: Performance Audit – Citywide Contract Compliance (Revised Response)

Dear Ms. Lediju:

Airport has revised the Audit Recommendation and Response form regarding the performance audit of Citywide Contract Compliance after clarification of audit recommendations by the CSA team.

If you have any questions, please feel free to call me at (650) 821-2850.

Very truly yours,

Wallace Tang, CPA, CGMA
Airport Controller

cc: John L. Martin, Airport Director
Leo Fermin, Airport Chief Business & Finance Officer
Hazelle Fernandez, Airport
Carlos Martinez, Airport
Gning, Mamadou, CSA
Amanda Sobrepena, CSA
Joseph Towner, CSA

Attachment

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO
EDWIN M. LEE *MAYOR* | LARRY MAZZOLA *PRESIDENT* | LINDA S. CRAYTON *VICE PRESIDENT* | ELEANOR JOHNS | RICHARD J. GUGGENHIME | PETER A. STERN | JOHN L. MARTIN *AIRPORT DIRECTOR*
Post Office Box 8097 San Francisco, California 94128 Tel 650.821.5000 Fax 650.821.5005 www.flysfo.com

BOARD OF SUPERVISORS:

BOARD of SUPERVISORS

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 544-5227

March 25, 2016

Ms. Tonia Lediju
Director of City Audits
Office of the Controller
City Hall Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Response to the FY 2014-15 Citywide Contract Compliance Audit Report

Dear Ms. Lediju,

We have received and reviewed the FY 2014-15 Citywide Contract Compliance Audit Report. We are pleased that the Department did not have any findings in this report. We appreciate the time and effort your staff put forth in conducting this audit.

Sincerely,

Angela Calvillo
Clerk of the Board

CHILDREN & FAMILIES COMMISSION:



Suzanne Giraudo, Commission Chair
Laurel Kloomok, Executive Director

COMMISSIONERS:
Linda Asato
Sylvia Deporto
E'leva Gibson
Mary Hansell
Zea Malawa
Lynn Merz
Maria Su

March 14, 2016

Ms. Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: First 5 San Francisco Children and Families Commission's Acknowledgement of the Citywide Contract Compliance Audit Report

Dear Ms. Lediju:

Thank you for providing us an opportunity to review and respond to the Citywide Contract Compliance Audit Report. First 5 accepts this audit report, as prepared by the Office of the Controller's City Services Auditor Division.

We appreciate the time and effort expended by the staff of the City Services Auditor Division in preparation of this report.

Sincerely,

Laurel Kloomok

Laurel Kloomok
Executive Director

1390 Market Street, Suite 318, San Francisco, CA 94102 Tel: 415-554-8966 Fax: 415-565-0494 www.first5sf.org

DEPARTMENT OF BUILDING INSPECTION:

City and County of San Francisco
Department of Building Inspection

Edwin M. Lee, Mayor
Tom C. Hui, S.E., C.B.O., Director

March 25, 2016

Ms. Tonia Lediju
Director of City Audits
Office of the Controller
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: Citywide Contract Compliance Audit: The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts

Dear Ms. Lediju:

The Department of Building Inspection has received and reviewed the Citywide Contract Compliance Audit Report. We are pleased that the DBI has no findings.

If you have any questions, please contact Taras Madison, Deputy Director of Administrative Services at (415) 558-6239.

Sincerely,

Tom C. Hui, S.E., C.B.O.
Director

cc: Taras Madison, DBI

OFFICE OF THE DIRECTOR
1660 Mission Street – San Francisco CA 94103
Office (415) 558-6131 – FAX (415) 558-6225
Email: Tom.Hui@sfgov.org

DEPARTMENT OF HUMAN RESOURCES:

City and County of San Francisco
Edwin M. Lee
Mayor

Department of Human Resources
Micki Callahan
Human Resources Director

March 18, 2016

Ms. Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Response to the Citywide Contract Compliance Audit

Dear Ms. Lediju:

The Department of Human Resources (DHR) has received the draft of the City Services Auditor's Citywide Contract Compliance Audit. We appreciate the time and effort that your staff spent on this audit.

Attached, please find DHR's response to the audit recommendations. If you have any questions regarding the department's response, please contact Brent Lewis, the department's Director of Finance and IT at 415-557-4944.

Sincerely,

Micki Callahan
Human Resources Director

Attachment

cc: Brent Lewis
Nicole Doran

One South Van Ness Avenue, 4th Floor, San Francisco, CA 94103 • (415) 557-4800 • www.sfgov.org/dhr

DEPARTMENT OF PUBLIC HEALTH:

City and County of San Francisco

San Francisco Department of Public Health
Barbara A. Garcia, MPA
Director of Health

Date: March 21, 2016

To: Tonia Lediju, Controller's Office, Director of City Audits

From: Anne Okubo, Deputy Financial Officer

RE: Citywide Contract Compliance Audit

Attached is the DPH response for the Citywide Contract Compliance Audit.

If you have any questions, please contact Anne Okubo at 554-2825.

The mission of the San Francisco Department of Public Health is to protect and promote the health of all San Franciscans.
We shall ~ Assess and research the health of the community ~ Develop and enforce health policy ~ Prevent disease and injury ~
~ Educate the public and train health care providers ~ Provide quality, comprehensive, culturally-proficient health services ~ Ensure equal access to all ~
barbara.garcia@sfdph.org – office 415-554-2526 fax 415 554-2710
101 Grove Street, Room 308, San Francisco, CA 94102

FIRE DEPARTMENT:

JOANNE HAYES-WHITE
CHIEF OF DEPARTMENT

EDWIN M. LEE
MAYOR

SAN FRANCISCO FIRE DEPARTMENT
CITY AND COUNTY OF SAN FRANCISCO

March 24, 2016

Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: City Services Auditor's Citywide Contract Compliance Audit

Dear Ms. Lediju:

Thank you for the opportunity to review the above referenced audit report. The professionalism of your staff has been very much appreciated through the audit process.

The Fire Department has reviewed the report. The Department will continue to review and update accounting policies to be in agreement with the audit's proposed recommendations for all City Departments.

Sincerely,

Mark Corso
Chief Financial Officer

GENERAL SERVICES AGENCY – ADMINISTRATIVE SERVICES AND OFFICE OF CONTRACT ADMINISTRATION:

OFFICE OF THE
CITY ADMINISTRATOR

Edwin M. Lee, Mayor
Naomi M. Kelly, City Administrator

March 18, 2016

Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Citywide Contract Compliance Audit Report

Dear Ms. Lediju,

Thank you for the opportunity to review and respond to your draft report, "Citywide Contract Compliance Audit: The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts." Attached, please find GSA-Administrative Services' responses to the audit recommendations.

We appreciate the time and effort your office spent on this audit. Please contact me if you need additional information.

Sincerely,

Naomi Kelly,
City Administrator

Cc: Jaci Fong, City Purchaser and Director of the Office of Contract Administration

1 Dr. Carlton B. Goodlett Place, City Hall, Room 362, San Francisco, CA 94102
Telephone (415) 554-4852; Fax (415) 554-4849

GENERAL SERVICES AGENCY – DEPARTMENT OF PUBLIC WORKS:

Edwin M. Lee
Mayor

Mohammed Nuru
Director

San Francisco Public Works
1 Dr. Carlton B. Goodlett Pl.
Room 348
San Francisco, CA 94102
tel 415-554-6920

sfpublicworks.org
facebook.com/sfpublicworks
twitter.com/sfpublicworks
twitter.com/mrcleansf

March 28, 2016

Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: 2016 Citywide Contract Compliance Audit

Dear Ms. Lediju:

Thank you for sharing the draft report of March 2016 regarding the results of the Citywide Contract Compliance Audit. This letter is to confirm that we have reviewed the results of this assessment. Public Works has no findings related to this report.

Sincerely,

Julia Dawson
Deputy Director, Finance and Administration

GENERAL SERVICES AGENCY – DEPARTMENT OF TECHNOLOGY:



City & County of San Francisco
Department of Technology
Powered by Innovation

One South Van Ness Avenue, 2nd Floor
San Francisco, CA 94103-0948
Office: 415-581-4001 • Fax: 415-581-4002

March 15, 2016

Tonia Lediju, Director of City Audits
Office of the Controller, City Services Auditor Division
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Citywide Contract Compliance Audit: The Contract Compliance of Many Vendor Payments Cannot be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts.

Dear Ms. Lediju,

Thank you for providing the Department of Technology with an opportunity to review and respond to your compliance audit, "*Citywide Contract Compliance of Many Vendor Payments Cannot be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts,*" as prepared by the Controller's Office, City Services Auditors.

We concur with your recommendation of requiring vendor invoices to include evidence supporting all amounts listed on the invoice and ensuring that receipt date of the invoice is properly entered in the City accounting system. We also concur with your recommendation of ensuring that contracts language include description of good and services and its current pricing structures. We revised our procurement policy and procedures to include formal supervisory review when it was not feasible to include all items to be purchased on the contract language. This procedure has now been implemented. We appreciate the time spent by your staff to review the Contract Compliance Audit Program.

If you have any additional questions or need additional information, please do not hesitate to contact me at (415) 581-4082.

Sincerely,

Miguel Gamino Jr.
City CIO/ Executive Director, Department of Technology

HUMAN SERVICES AGENCY:

City and County of San Francisco

Edwin M. Lee, Mayor

Human Services Agency
Department of Human Services
Department of Aging and Adult Services

Trent Rhorer, Executive Director

April 18, 2016

Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B Goodlett Place
San Francisco, CA 94102

Dear Ms. Lediju,

HSA concurs with the three recommendations directed to the Human Services Agency in the Citywide Contract Compliance Audit Report.

We agree that the three recommendations regarding adequate support of invoices, itemization, and accurate dating are sound fiscal policies.

We will inform and train HSA contracts, purchasing, and fiscal staff and ensure the recommendations are fully implemented as policy by May 15, 2016.

Thank you.

Sincerely,

Trent Rhorer
Executive Director
Human Services Agency

P.O. Box 7988, San Francisco, CA 94120-7988 ▪ (415) 557-5000 ▪ www.sfhsa.org/

OFFICE OF ECONOMIC AND WORKFORCE DEVELOPMENT:

SAN FRANCISCO
Office of Economic and Workforce Development

City and County of San Francisco :: Edwin M. Lee, Mayor
Economic and Workforce Development :: Todd Rufo, Director

April 8, 2016

Tonia Lediju, Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Corrective Actions for Citywide Contract Compliance

Dear Tonia,

Thank you for the opportunity to respond to the recommendations of the Citywide Contract Compliance Report. We concur with your staff's recommendations and have detailed our Corrective Action Plan in the enclosed Review Recommendation and Response Form.

Please extend my appreciation to your staff for their professional assistance in strengthening our internal controls.

Sincerely,

Todd Rufo
Director, Office of Economic and Workforce Development

cc: Merrick Pascual, Economic and Workforce Development, Chief Financial Officer
Fred Liedl, Economic and Workforce Development, Budget and Finance Manager
Nicole Kelley, Controller, Audit Manager
Joseph Towner, Controller, Auditor

1 Dr. Carlton B. Goodlett Place, Room 448 San Francisco, CA 94102 | www.oewd.org
p: 415.554.6969 f. 415.554.6018

OFFICE OF THE CONTROLLER – ACOUNTING OPERATIONS & SYSTEMS DIVISION AND FINANCIAL SYSTEMS PROJECT:

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

April 29, 2016

Tonia Lediju
Controller's Office, City Services Auditor
City Hall
Room 316
San Francisco, CA 94102

Re: Citywide Contract Compliance Audit – Controller's Office Response

Dear Ms. Lediju,

The Controller's Office will continue to work with City Departments, including the Office of Contract Administration, to implement the City's new Purchasing and Financial System to address this audit's findings, as well as ensure streamlined, effective internal controls.

At this point in the two-year, citywide implementation, we are working with City Departments to design system safeguards and workflows, so the findings you note are timely to inform that process.

Please contact Todd Rydstrom, 415.554.7500, if you have questions regarding this matter.

Sincerely,

Ben Rosenfield
Controller
City and County of San Francisco

415-554-7500 City Hall • 1 Dr. Carlton B. Goodlett Place • Room 316 • San Francisco CA 94102-4694 FAX 415-554-7466

OFFICE OF THE TREASURER & TAX COLLECTOR:

Office of the Treasurer & Tax Collector
City and County of San Francisco

José Cisneros, Treasurer

DATE: March 17, 2016

TO: Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

SUBJECT: Citywide Contract Compliance Audit Report– Recommendation 1

Please find enclosed the response from the Office of the Treasurer and Tax Collector to the Citywide Contract Compliance Audit Report.

Yours sincerely,

Kimmie Wu

Budget Manager
Office of the Treasurer and Tax Collector
City and County of San Francisco

City Hall - Room 140
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4638

City Hall - Room 140 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102-4638
Dial 311 (within San Francisco only) or 415-701-2311

RECREATION AND PARK DEPARTMENT:

Edwin M. Lee, Mayor
Philip A. Ginsburg, General Manager

DATE: April 8, 2016

TO: Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

FROM: Katie Petrucione KEP
Director of Administration and Finance

SUBJECT: Response to Recommendations – Citywide Contract Compliance Audit

Thank you for the draft Citywide Contract Compliance Audit Report sent via e-mail on March 8, 2016.

The Recreation and Park Department (RPD) staff strives to comply with the City-wide policies and observe good internal controls such as segregation of duties in processing payments to vendors.

The responses to the Recommendations are as follows:

Recommendation 1 *– Review invoices submitted in fiscal years 2011-12 through 2013-14 to determine whether they are entitled to recover any additional amounts found to be overpaid.*
Response/Action Plan
The department concurs with this recommendation. RPD will develop a plan to sample invoices submitted by Turf and Industrial Equipment Company for fiscal years 2011-12 through 2013-14. The Department's Accounts Payable Unit currently has three staff, two of whom are scheduled to retire in the next three months. The Department will implement the sampling plan to determine if there are additional amounts that the Department overpaid once it has filled all vacancies in Accounts Payable and training in FAMIS has been completed.

Recommendation 2 *– Comply with the current contract's pricing terms or modify the terms of its contract with a signed amendment. Only after an amendment has been signed should purchase orders be modified and invoices be paid.*
Response/Action Plan
The department concurs with this recommendation. RPD will continue to comply with the current contract's pricing terms or modify the terms of its contract with a signed amendment; purchase orders are modified and payment for invoices are processed when the amendment has been approved.

Recommendation 3 *– Ensure that voucher details are correctly entered into the City's accounting system to take advantage of early payment discounts available, specifically the early payment discount terms, payment due date, and invoice receipt date.*
Response/Action Plan
The department partially concurs with this recommendation. The accounting staff correctly entered into the City's accounting system the date that will expedite processing to take advantage of the available early payment discount. The system did not accept the date and issued the full amount instead of the net amount after the discount. The department does not have the ability to validate the check amount prior to issuance of the check payment, in order to correct entries in the accounting system. However, the accounting staff will

RECREATION AND PARK DEPARTMENT (CONTINUED):

review and abide with the instructions issued by AOSD for posting payments with discount terms to the best of their ability.

Please feel free to contact me at (415) 831-2703 or Maria Sutton at (415) 831-2754, if you need additional information regarding RPD's response.

CC: Nicole Kelley, Audit Manager
Maria Sutton, Finance and Accounting Operations Manager, RPD

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY:

SFMTA
Municipal
Transportation
Agency

Edwin M. Lee, *Mayor*

Tom Nolan, *Chairman*
Cheryl Brinkman, *Vice-Chairman*
Gwyneth Borden, *Director*
Malcolm Heinicke, *Director*
Joél Ramos, *Director*
Cristina Rubke, *Director*

Edward D. Reiskin, *Director of Transportation*

March 17, 2016

Tonia Lediju
Director of City Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: SFMTA Response to Citywide Contract Compliance Audit

Dear Ms. Lediju:

Thank you for your staff's work on the Citywide Contract Compliance Audit covering fiscal years 2011-2012 through 2013-2014.

We are very pleased to see the limited number of items that you identified in the audit given the large number of transaction processed by our agency. SFMTA continues to be committed to improving in vendor payments processing and have already taken steps to address the issues raised in the report.

Attached is the completed Recommendation and Response Form. If you have any questions, please contact Tess Navarro at tess.navarro@sfmta.com or (415) 701-4660.

Sincerely,

Edward D. Reiskin
Director of Transportation

Cc Nicole Kelley, Audit Manager

1 South Van Ness Avenue 7th Floor, San Francisco, CA 94103 415.701.4500 www.sfmta.com

SAN FRANCISCO POLICE DEPARTMENT:

EDWIN M. LEE
MAYOR

CITY AND COUNTY OF SAN FRANCISCO
POLICE DEPARTMENT
HEADQUARTERS
1245 3RD Street
San Francisco, California 94158

GREGORY P. SUHR
CHIEF OF POLICE

April 15, 2016

Ms. Tonia Lediju
Director of City Audits
Office of the Controller
City Services Auditor Division
1 Dr. Carlton B. Goodlett Place, Room 476
San Francisco, CA 94102

Re: Response to the Citywide Contract Compliance Audit on Vendor Payments

Dear Ms. Lediju,

The San Francisco Police Department (SFPD) has received and reviewed the Controller's Office's Citywide Contract Compliance Audit on vendor payments. We appreciate the hard work and commitment of your division to safeguarding taxpayer dollars.

Please find SFPD's response to your audit recommendations. Should you have any questions regarding our responses, please feel free to contact me at catherine.mcguire@sfgov.org. Thank you again for your audit.

Sincerely,

M. Catherine McGuire
Chief Financial Officer

SAN FRANCISCO PUBLIC LIBRARY:

San Francisco Public Library
100 Larkin Street (Civic Center)
San Francisco, CA 94102

March 18, 2016

Ms. Tonia Lediju
Director of City Audits
Office of the Controller
City Services Auditor Division
1 Carlton B. Goodlett Place, Room 476
San Francisco, CA 94102

RE: Response to the Citywide Contract Compliance Audit on Vendor Payments

Dear Ms. Lediju:

The San Francisco Public Library (SFPL) has received the City Services Auditor's Citywide Contract Compliance Audit on vendor payments. We appreciate the time and effort your staff spent on the audit.

Attached please find SFPL's response to your audit recommendations. Should you have any questions regarding our responses, please feel free to contact Maureen Singleton, SFPL Chief Financial Officer, at 415.557.4248 or Maureen.Singleton@sfpl.org. Thank you again for your audit.

Sincerely,

Luis Herrera
City Librarian

cc: Laura Lent, SFPL Chief of Technical Services
Shelley Sorenson, SFPL Acquisitions Manager
Edward Wang, Accounts Payable Principal Account Clerk
Emily Chesley, Accounts Payable Senior Accountant
Jaruvan Li, Accounts Payable Account Clerk

SAN FRANCISCO PUBLIC UTILITIES COMMISSION:

San Francisco Water Power Sewer
Services of the San Francisco Public Utilities Commission

Assurance and Internal Controls Bureau
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102
T 415.554.3155
F 415.554.3161
TTY 415.554.3488

April 22, 2016

Tonia Lediju, Director of City Audits
Office of the Controller, City Services Auditor Division
City Hall, Room 476
One Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Management's Response to Citywide Contract Compliance Audit: The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Savings Such as Early Payment Discounts

Dear Ms. Lediju,

Thank you for the opportunity for the SFPUC to review and provide responses to your assessment of general contract compliance in accordance to contract terms and various purchasing guidelines of the City and County of San Francisco. We have reviewed the three recommendations attributed to the SFPUC and partially concurred with two and fully concurred with one.

The SFPUC will continue to follow the City's Prompt Payment guidelines, comply with contract terms and conditions, and ensure vendor invoices and voucher payments are accurate and adequately documented. We thank you and your staff for the extensive time taken on this review.

If you have any questions or need additional information, please do not hesitate to contact me at (415) 554-1600.

Sincerely,

Harlan L. Kelly, Jr.
General Manager

Edwin M. Lee
Mayor
Francesca Vietor
President
Anson Moran
Vice President
Ann Moller Caen
Commissioner
Vince Courtney
Commissioner
Ike Kwon
Commissioner
Harlan L. Kelly, Jr.
General Manager

cc: Michael Carlin, Deputy General Manager
Eric Sandler, AGM Business Services & Chief Financial Officer
Nancy L. Hom, Director, Assurance and Internal Controls

SHERIFF'S DEPARTMENT:

OFFICE OF THE SHERIFF
CITY AND COUNTY OF SAN FRANCISCO

1 DR. CARLTON B. GOODLETT PLACE
ROOM 456, CITY HALL
SAN FRANCISCO, CALIFORNIA 94102

VICKI L. HENNESSY
SHERIFF

March 23, 2016

Tonia Lediju
Director of City Audits
City Hall Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94105

Ms. Lediju,

Thank you for the opportunity to review and respond to the Citywide Contract Compliance Audit. The audit noted the following, *"The Contract Compliance of Many Vendor Payments Cannot Be Verified and the City Should More Often Take Advantage of Cost Saving Such as Early Payment Discounts"*, as prepared by the Controller's Office, City Service Auditor. We have reviewed the two recommendations, and we partially concur with the first finding and concur with the second finding.

The document review for the audit was an invoice for ballistic vests. It should be noted, that the process of a ballistic vest issuance requires that a deputy sheriff be outfitted at the vendor and the invoice forwarded to the Personnel Unit for recording of fitting and approval for payment. This process takes time to coordinate; by the time the invoice reaches finance for payment, the process is over the net term of 30 days. It is difficult to further streamline a process which in and of itself, requires time for fitting and custom tailoring of safety equipment. We will, however, ensure that payments are remitted within 30 days of receipt and, when not remitted within 30 days, will justify the reason for late payment.

If you have any questions or need additional information, please contact Chief Deputy Kathy Gorwood at 415-554-7223.

Sincerely,

VICKI L. HENNESSY
Sheriff

Attachment

Phone: 415 554-7225 Fax: 415 554-7050
Website: sfsheriff.com Email: sheriff@sfgov.org

For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

RECOMMENDATIONS AND RESPONSES

Recommendation	Responsible Agency	Response
1. Require that vendor invoices include evidence to support all amounts on the invoice and ensure that amounts are adequately supported before approving invoices for payment.	Airport Commission	☑ Concur ☐ Do Not Concur ☐ Partially Concur The Airport is not aware of the Tra-Ser database, hence, the verification process of comparing the prices from the city contract to the invoices has not been done. OCA should reach out to all City departments utilizing the citywide contracts and provide user access and training to appropriate Airport staff who needs to view and compare prices to Tra-Ser's 3rd column pricing. The Airport is willing to add this process in verifying the prices on the invoices as long as proper training is provided to Airport users. Currently, Accounting has one dedicated staff for checking compliance with citywide contracts and will get access to Tra-Ser to certify that all terms/discounts/prices are as negotiated.

Recommendation	Responsible Agency	Response
	Department of Human Resources	☐ Concur ☐ Do Not Concur ☑ Partially Concur The Department of Human Resources (DHR) generally concurs with the recommendation that departments should require vendor invoices to include evidence to support all amounts on the invoice and ensure that amounts are adequately supported before approving invoices for payment. However, for this contract, DHR is unable to require that the audited vendor invoice include evidence to support all amounts charged on the invoice as the invoice is covered by an OCA Citywide Term Contract, in which, OCA manages the blanket purchase order. Therefore, OCA, not DHR, should request that the vendor require evidence to support all amounts in the vendor invoices during the negotiation. Currently, the requirement to provide the evidence to support all amounts in the invoice is not specified in the OCA contract.
	Department of Public Health	☐ Concur ☐ Do Not Concur ☑ Partially Concur Implemented for cost reimbursed contracts: July 2015
	Department of Technology	☑ Concur ☐ Do Not Concur ☐ Partially Concur DT concurs. It is DT's policy to match invoices with packing slips for commodity and equipment purchases and to match to time sheets for professional services before paying invoices.
	Human Services Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur HSA will set as policy and train staff. Recommendation will be in effect by May 15, 2016.
	Office of the Treasurer and Tax Collector	☑ Concur ☐ Do Not Concur ☐ Partially Concur The Office of the Treasurer and Tax Collector (TTX) will obtain from vendors all the supporting documentation for every invoice before approving for issuance of payment. TTX will continue to closely follow our accounts payable policy for invoicing and payment.

Recommendation	Responsible Agency	Response
	San Francisco Police Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur SFPD is in the process of updating procedures and practices to reflect compliance with this recommendation.
	San Francisco Municipal Transportation Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur Two invoices: BPSF00003910 for $535 and BPSF00003910 for $4,356 wherein the materials component of the billing either was not itemized or did not have supporting document from the vendor. Implemented. Staff reminded to require that vendor invoices include evidence to support all amounts on the invoice; and to work with approving managers to ensure that amounts are adequately supported before approving invoices for payment.
	San Francisco Public Utilities Commission	☐ Concur ☐ Do Not Concur ☑ Partially Concur PUC staffs are required to ensure that the invoice amounts are adequately supported. All of SFPUC Voucher payments pass through the 3 way matching, supported with required documentation, otherwise; it is rejected and sent back to the division for completion of the requirements before resubmitting to Accounting.
2. Ensure that all vendor invoices are itemized to include all invoiced line items and respective quantities purchased and rates charged.	Human Services Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur HSA will set as policy and train staff. Recommendation will be in effect by May 15, 2016.

Recommendation	Responsible Agency	Response
	San Francisco Municipal Transportation Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur Same invoices identified on #1 above. Implemented. Staff reminded to ensure vendor invoices are itemized to include all invoiced line items and respective quantities purchased and rates charged. Staff to coordinate with purchase order set-up and payment approving managers.
3. Ensure that contracts clearly describe the goods and services the vendor is allowed to provide under the contract and reflects current pricing structures.	Administrative Services	☑ Concur ☐ Do Not Concur ☐ Partially Concur GSA-Administrative Services concurs. On an ongoing basis, we strive to be as descriptive as possible including the pricing structure.
	Department of Technology	☑ Concur ☐ Do Not Concur ☐ Partially Concur DT concurs and is instituting a policy to ensure that for contracts that guarantee discounts from list price, vendor quotes and subsequent invoices must reflect list price and contracted discounts.
	Office of Contract Administration	☑ Concur ☐ Do Not Concur ☐ Partially Concur OCA concurs. On an ongoing basis, we strive to be as descriptive as possible including the pricing structure.
	San Francisco Police Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur As contracts are amended or re-bid, the CFO and Contracts analyst are working to ensure costs are clearly laid out and appropriate.

Recommendation	Responsible Agency	Response
4. When it is not feasible to include in a contract all items that can be purchased, establish policies and procedures, such as a formal supervisory review, that help mitigate the risk of improper purchases and incorrect vendor payments.	Department of Technology	☑ Concur ☐ Do Not Concur ☐ Partially Concur DT concurs. DT is updating its policy to clarify that approval of invoices for items not specifically identified in a contract must be subject to supervisory or manager review. DT's updated policy should be available by 4/1/16.
5. Review invoices submitted in fiscal years 2011-12 through 2013-14 to determine whether they are entitled to recover any additional amounts found to be overpaid.	Office of Economic and Workforce Development	☑ Concur ☐ Do Not Concur ☐ Partially Concur OEWD concurs that a review of all of the invoices for the EPS contract should be reviewed for accuracy of rates billed. Discrepancies between the vendor's billing rates and amounts billed will be addressed and resolved with the vendor.
	San Francisco Police Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur SFPD will conduct additional sampling of two invoices each from the fiscal years suggested.
	San Francisco Public Library	☑ Concur ☐ Do Not Concur ☐ Partially Concur SFPL does not have the staffing capacity to review all the invoices for FY 12, FY 13 and FY 14. However, SFPL will conduct some spot audit review of the prior fiscal year invoices of the audited contracts as staffing allows.

Recommendation	Responsible Agency	Response
	Recreation and Park Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur RPD will develop a plan to sample invoices submitted by Turf and Industrial Equipment Company for fiscal years 2011-12 through 2013-14. The Department's Accounts Payable Unit currently has three staff, two of whom are scheduled to retire in the next three months. The Department will implement the sampling plan to determine if there are additional amounts that the Department overpaid once it has filled all vacancies in Accounts Payable and training in FAMIS has been completed.
	San Francisco Municipal Transportation Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur Completed. The $250 overpayment was recouped on 7/29/2015.
6. Review vendor invoices to ensure that invoiced amounts comply with contract terms before approving invoices for payment.	Office of Economic and Workforce Development	☑ Concur ☐ Do Not Concur ☐ Partially Concur OEWD will update policies to require review to include comparison of rates billed with rates agreed to in the Calculation of Charges appendix of the contract.
	San Francisco Police Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur SFPD is in the process of updating procedures and practices to reflect compliance with this recommendation.

Recommendation	Responsible Agency	Response
	San Francisco Public Library	☑ Concur ☐ Do Not Concur ☐ Partially Concur In Spring 2016 SFPL Finance will remind program staff to 2 or 3-way match invoices in its annual Finance Office Letter on purchasing and point them back to SFPL purchasing procedure training materials. SFPL Finance will seek SFPL Management Team support in actualization of the existing departmental and city procedures on invoice processing. In addition, SFPL Finance will determine other procedures to spot audit invoices for compliance on an ongoing basis after SFPL is able to fill its Accounting Operations Manager position, which the department hopes to do in Summer or Fall 2016.
	San Francisco Municipal Transportation Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur Same invoices identified in #1 above. Implemented. Staff reminded to ensure that invoiced amounts comply with contract terms.
7. Consider the cost and benefit of recovering the $36 overpayment from the vendor.	Office of Economic and Workforce Development	☑ Concur ☐ Do Not Concur ☐ Partially Concur OEWD concurs that the invoice should have been compared with the current rate schedule of the vendor. However, OEWD believes that the Calculation of Charges appendix did indicate that the billing rates change each year and therefore believes that the City was not overcharged and will not pursue a refund from the vendor. In addition, using staff time to pursue collection would not be cost effective.

Recommendation	Responsible Agency	Response
8. Comply with the current contract's pricing terms or modify the terms of its contract with a signed amendment. Only after an amendment has been signed should purchase orders be modified and invoices be paid.	Recreation and Park Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur RPD will continue to comply with the current contract's pricing terms or modify the terms of its contract with a signed amendment; purchase orders are modified and payment for invoices are processed when the amendment has been approved.
9. Ensure that voucher details are correctly entered in the City's accounting system to take advantage of available early payment discounts, specifically the early payment discount terms, payment due date, and invoice receipt date.	Airport Commission	☑ Concur ☐ Do Not Concur ☐ Partially Concur Accounting is now printing the invoice voucher document to double check the accuracy of the invoice receipt date inputted in FAMIS and has established a process of stamping discounts on invoices to prioritize processing of these invoices to avail of the discounts.
	Department of Public Health	☑ Concur ☐ Do Not Concur ☐ Partially Concur Implemented: January 2016
	Administrative Services	☑ Concur ☐ Do Not Concur ☐ Partially Concur GSA-Administrative Services agrees that voucher details should be entered correctly in FAMIS-ADPICS.

Recommendation	Responsible Agency	Response
	Recreation and Park Department	☐ Concur ☐ Do Not Concur ☑ Partially Concur The accounting staff correctly entered into the City's accounting system the date that will expedite processing to take advantage of the available early payment discount. The system did not accept the date and issued the full amount instead of the net amount after the discount. The department does not have the ability to validate the check amount prior to issuance of the check payment, in order to correct entries in the accounting system. However, the accounting staff will review and abide with the instructions issued by AOSD for posting payments with discount terms to the best of their ability.
	San Francisco Municipal Transportation Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur One invoice where staff had a typo error, entered 8/13/2013 due date instead of 9/13/2013, hence invoice was not paid within 30 days (BPSF00003910 $535) Implemented. Staff reminded to enter voucher details correctly into the City's accounting system.
	San Francisco Public Utilities Commission	☑ Concur ☐ Do Not Concur ☐ Partially Concur Division staff has been advised to prioritized submission of invoices with discount terms, with emphasis on Voucher payment requirements. Staff has been reminded to ensure that voucher details are correctly entered into the City's accounting system. However, Accounting receives payment requests at later dates due to proximity of division's location to PUC accounting, and claiming short staffing.

Recommendation	Responsible Agency	Response
10. Ensure that payments are remitted within 30 days of receipt and that, if payments must be remitted late, documentation is maintained to justify the late payment.	Administrative Services	☑ Concur ☐ Do Not Concur ☐ Partially Concur GSA-Administrative Services agrees that uncontested invoices should be paid within 30 days.
	San Francisco Municipal Transportation Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur Same invoice identified on #9 above. Implemented. Staff reminded to enter voucher details correctly into the City's accounting system.
	San Francisco Public Utilities Commission	☐ Concur ☐ Do Not Concur ☑ Partially Concur PUC is strictly adhering with the City's Prompt Payment Policy, and if payment requests are submitted late, the division is required to submit justification as to why payment is late before Accounting processes the payments. There are unavoidable circumstances wherein payments are delayed due to late submission of requirements of the documentation process.
	Sheriff's Department	☐ Concur ☐ Do Not Concur ☑ Partially Concur The document review for the audit was an invoice for ballistic vests. It should be noted, that the process of a ballistic vest issuance requires that a deputy sheriff be outfitted at the vendor and the invoice forwarded to the Personnel Unit for recording of fitting and approval for payment. This process takes time to coordinate; by the time the invoice reaches finance for payment, the process is over the net term of 30 days. It is difficult to further streamline a process which in and of itself, requires time for fitting and custom tailoring of safety equipment. We will, however, ensure that payments are remitted within 30 days of receipt and, when not remitted within 30 days, will justify the reason for late payment.

Recommendation	Responsible Agency	Response
11. Ensure that the invoice receipt date entered in the City's accounting system is based on the date the department received the invoice, which should also match the receipt date stamped on the invoice	Airport Commission	☑ Concur ☐ Do Not Concur ☐ Partially Concur This was an isolated case in which the invoice was misdirected to Accounting directly and not to the correct Airport unit (Paving/Grounds), therefore Accounting receive-stamped it and then it was routed back to Paving/Grounds for signature and they also receive-stamped it.
	Department of Human Resources	☑ Concur ☐ Do Not Concur ☐ Partially Concur The Department of Human Resources concurs with the recommendation. DHR emailed staff, as a reminder, to date-stamp all received invoices as required by the City's Prompt Payment Guidelines and DHR's Policy and Procedures under Accounts Payable.
	Department of Public Health	☑ Concur ☐ Do Not Concur ☐ Partially Concur Implemented: March 2016
	Administrative Services	☑ Concur ☐ Do Not Concur ☐ Partially Concur GSA-Administrative Services agrees that the invoice receipt date should be entered correctly in FAMIS-ADPICS, reflecting the date that the invoice was received and stamped.
	Department of Technology	☐ Concur ☐ Do Not Concur ☑ Partially Concur DT concurs. DT is updating its policy to clarify that the receipt date entered into the system is based on the date the department receives and date-stamps the invoice, except in the case of disputed invoices, in which case, the receipt date entered into the system will reflect the date the dispute was resolved, with related explanation provided in the document notepad

Recommendation	Responsible Agency	Response
	Human Services Agency	☑ Concur ☐ Do Not Concur ☐ Partially Concur HSA will set as policy and train staff. Recommendation will be in effect by May 15, 2016.
	Office of Economic and Workforce Development	☑ Concur ☐ Do Not Concur ☐ Partially Concur OEWD concurs with the finding. Accounting staff have been reminded to use the receipt date stamped on the invoice for data entry into the financial system.
	San Francisco Police Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur This practice has now been implemented – as of March 2016.
	San Francisco Municipal Transportation Agency	☐ Concur ☐ Do Not Concur ☑ Partially Concur At times, vendors generate invoices even before the goods and services are received. 30-days prompt payment is calculated from invoice receipt date to payment date. Invoice receipt date can be the date the goods are received (per Materials Receiving Report) or date services are complete and satisfactory, or resolution date if there are issues on the invoice.
	Sheriff's Department	☑ Concur ☐ Do Not Concur ☐ Partially Concur Implemented: March 2016
12. Provide written guidance to departments on how to identify contracts that could potentially offer early payment discounts.	Office of Contract Administration	☑ Concur ☐ Do Not Concur ☐ Partially Concur OCA concurs. Early payment discounts are a bid evaluation factor and as such, are offered at the option of the vendors/contractors. When discounts are available, OCA includes the information in the contract announcement and associated blanket. We will also include a reminder to departments to look for and take advantage of prompt payment discounts in our annual memo to departments.

Recommendation	Responsible Agency	Response
13. Ensure that departments are aware of and offer trainings on the City's accounting policies and procedures, specifically the logic of the City's accounting system related to early payment discounts and the effect of manual steps on whether early payment discounts are taken.	Office of the Controller's Accounting Operations and Systems Division	☑ Concur ☐ Do Not Concur ☐ Partially Concur Concur. Effect of manual due date change on system discount calculation has been incorporated in the ongoing systems training since October 2015. AOSD sent a memo to City financial system users clarifying the issue on April 28, 2016.
14. Coordinate with departments to determine whether or not they should pursue collection of missed discounts for payments that were remitted within the specified discount period but, due to a user input or processing error, the City's accounting system did not apply the discount.	Office of the Controller's Accounting Operations and Systems Division	☑ Concur ☐ Do Not Concur ☐ Partially Concur Concur. Fund accountants will work with City departments to determine the feasibility and the timing of collecting missed discounts by the end of calendar year 2016. Additionally, our continuous monitoring and post audit program includes an assessment of the purchasing and payables cycle. As part of this program, fund accountants work with City Departments having issues with invoice payments including missed discounts. AOSD has also requested that an automated feature be incorporated in the new Financial Systems Project (F$P) to flag payment discounts on a citywide basis.
15. As part of its continuous monitoring and post audits program, include procedures to identify missed opportunities for early payment discounts on a citywide basis to help departments take advantage of the maximum available early payment discounts.	Office of the Controller's Accounting Operations and Systems Division	☑ Concur ☐ Do Not Concur ☐ Partially Concur Concur. AOSD has already included the identification of missed discounts in the Calendar Year 2015 Post Audit process. Additionally, AOSD is working with the Financial Systems Project (F$P) staff on systematic monitoring and controls using the new system, which is scheduled to go-live July 2017. This includes AOSD's participation in the current design phase, including the subject matter expert (SME) accounts payable group. AOSD requested that an automated feature be incorporated in the new Financial Systems Project to flag payment discounts on a citywide basis.

Recommendation	Responsible Agency	Response
16. Work with the Financial Systems Project of the Office of the Controller to determine whether or not it is feasible for the City's new financial system to include additional functionalities that may minimize missed opportunities for early payment discounts.	Office of the Controller's Accounting Operations and Systems Division	☑ Concur ☐ Do Not Concur ☐ Partially Concur Concur. AOSD will discuss with F$P, the functional capabilities of the new system to mitigate the risk of potentially missed discounts, during the design and configuration process which is presently underway. AOSD is working with F$P staff to address systematic monitoring and controls, and they will continue to work with F$P on the configuration of the new system.
17. As part of its continuous monitoring and post audits program, include a review of discount terms on a citywide basis and ensure that they are accurate on all documents in the City's accounting system to minimize missed discounts that result from inaccurate data.	Office of the Controller's Accounting Operations and Systems Division	☐ Concur ☐ Do Not Concur ☑ Partially Concur Partially concur. Effective implementation of this recommendation will require shared responsibility amongst all City Departments, the Controller's Office AOSD and F$P Divisions, and the Office of Contract Administration. At present, AOSD is City's accounting system to minimize missed working with F$P staff to assess and design the new system's functionalities to ensure inclusion of discount terms as well as the reporting of discounts taken and missed to promote effective controls and continuous monitoring. That said the timely and accurate processing of all contract provisions, including discount terms, is decentralized and a shared responsibility of all City Departments for the contracts they manage as well as the Office of Contract Administration. Also, as noted in our response to Recommendation #1, AOSD sent a memo to City Departments which included step-by-step instructions on the proper processing of invoices to minimize missed discounts resulting from inaccurate data in the FAMIS purchasing system. In addition, AOSD will continue to work with F$P in configuring additional functionalities to take advantage of prompt payment discounts.

Recommendation	Responsible Agency	Response
18. Consider whether it is feasible for the City's new financial system to include additional functionalities that would help city departments consider cash management implications when determining how quickly an invoice should be paid.	Office of the Controller's Financial Systems Project	☑ Concur ☐ Do Not Concur ☐ Partially Concur Concur. The F$P Division added requirements to track prime and sub-contractor allocations as well as provide payment notifications. The specifics of the related workflow and notifications are being determined during the March-May 2016 Design Phase of the project implementation.