City and County of San Francisco
Office of the Controller

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Payment Processing Guidelines	**March 15, 2011**

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Approved for Distribution

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Highlights and Purpose of Guidelines

- This document includes City policy information about payment processing for goods and services. It is also a general guideline or template for payment procedures and incorporates basic internal control steps. An overview internal control guideline is also included.

- Departments can use this guideline when creating the more specific and detailed policies and procedures required for their operations.

- These guidelines are <u>not</u> instructions for FAMIS payment processing. Please see Controller's Office – FAMIS Accounting, EIS, Purchasing, and Grants Training page for further information: http://sfcontroller.org/index.aspx?page=452

Authority

1) These guidelines are issued according to the applicable provisions of the San Francisco City Charter and the Administrative Code.

   - San Francisco Charter Section 3.105 – Controller; City Services Auditor

   - San Francisco Administrative Code Section 10.06 – Encumbrances

   - San Francisco Administrative Code Section 10.07 – Disbursements

   - San Francisco Administrative Code Section 10.08-2 - Penalties

2) Refer to the Controller's Departmental Guidelines No. 001-07 – Prompt Payment Guidelines issued November 7, 2007 located at: http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=2067

Department Responsibility

Departments are responsible for adhering to all City payment policies and procedures and for documenting their department level policies and procedures. Departmental procedures must follow City policies and incorporate internal controls that are appropriate to the department's operations, organizational structure and risks. Policies and procedures should be regularly communicated to all staff who have a role, responsibility or authority in the process.

As explained in previous section, this document is a general guideline for the payment process. Departments are encouraged to use it in developing more detailed procedures for their operations. References are made to various resources about the City's payment policies and to internal control standards to assist departments in that effort.

Reminders

Ordering Goods and Services
This document addresses payment processing, not the City's ordering, contracting, purchasing or bidding process. The City has extensive rules, regulations, and policies in those areas. Readers should contact the Office of Contract Administration and your department's purchasing and contracting staff about those policies and related requirements. See the following for some information:
http://sfgsa.org/index.aspx?page=359

Encumbering Funds
An important and usually last step in any ordering or contracting process is the "encumbrance of funds". This is a formal commitment of funds, recorded against a department's budget in the financial system, FAMIS. An encumbrance is required **before** an order or contract is issued. There are very, very few exceptions. Encumbrance is required under Charter Section 3.105 and Administrative Code Section 10.06
http://www.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:sanfrancisco_ca

Qualified Vendors
Departments must use vendors that are qualified to do business with the City and County of San Francisco. *(Refer to San Francisco Administrative Code:* Chapter 21-Acquisition of Commodities and Services.)
http://www.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:sanfrancisco_ca

Prompt Payment Requirements
Vendors must be paid within 30 days of the date on which the City receives an invoice for work performed and accepted by the City. If a dispute prevents a department from meeting this requirement, that dispute must be documented.

Refer to Prompt Payment Guidelines for invoices from LBEs (Local Business Enterprises certified by the Human Rights Commission), Administrative Code Section 14.B.7 (L)
http://www.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:sanfrancisco_ca

Highlights

- **Payment Processing Overview – Section 1**
    - Assuming that the department has complied with the City's rules and regulations for ordering of goods and services, 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. Also required is a segregation of duties for each part of the payment process and that all transactions and supporting documents are accurately and properly recorded on the documents and records.

    - If a department has alternative prompt payment policies and procedures, they must submit those policies to the Controller's Office Fund Accountant for review.

- **Internal Control General Guidelines – Section 2**
    - City department heads are accountable for the funds and assets entrusted to them. They have to ensure that assets and funds are used effectively and efficiently for stated purposes. To discharge this responsibility, they must establish and maintain an adequate internal control structure and documentation that provides reasonable assurance of fiscal and budgetary accountability.

    - Departments must have a system of internal controls documented to meet the Prompt Payment Guidelines identified in Item 2 of the Authority section above.

- **Electronic Invoicing Policy – Section 3**
    - Many departments receive requests from vendors to process electronic invoices via email, fax, or other format. Refer to this section for specific guidelines.

- **Electronic Payments to Vendors – Section 4**
    - If vendors wish to be paid electronically vs. a manual check, departments can encourage them to sign up with the Bank of America to get electronic payments which are paid out of the City's existing disbursement account. There is no charge to the vendor for this service. Once approved through Bank of America, the Controller's Office flags those vendors in our FAMIS system for electronic payments. Refer to this section for detailed guidelines.

Payment Processing Overview - Section 1

This guideline outlines major steps or control points generally found in a good payment process. It assumes the department has complied with the City's rules, regulations, and policies for ordering the goods or services being paid. Because this is a guideline, departments must document and implement department level policies and procedures which incorporate Citywide policies, reflect good internal controls (such as segregation of duties) and are specific to the operational and organizational risks in their environments. See Section 2, for discussion on Internal Controls.

Segregation of duties requires that different staff have responsibility for different steps in the process. Ordering, receiving, approving invoices and processing payment should not be done by the same staff person. The extent of controls put into any payment process should reflect the associated risks for misappropriation.

Departmental procedures must also be designed to ensure compliance with the City's **Prompt Payment Requirements** which requires that vendors are paid within 30 days of the date on which the City receives an invoice for work performed and accepted by the City.
http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=2067

Refer to Prompt Payment Guidelines for invoices from LBEs (Local Business Enterprises certified by the Human Rights Commission), Administrative Code Section14.B.7 (L).
http://www.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:sanfrancisco_ca

Payment Processing, Invoice Approval

1. When an invoice is received:
    a. Mark with "receive date"
    b. Write initial or name of person receiving the invoice

2. Match invoice to evidence of receipt of goods. Examples include:
    a. Goods – packing slip
    b. Professional services – status or milestone report; product being delivered
    c. Maintenance Service – service call documentation
    d. Construction – refer to contract for documentation required for progress and final payments, this may include documentation related to subcontractors

3. Invoice reviewed and approved for Payment by authorized staff member. Sign and date.
    a. Departmental polices must identify "who can approve for what"
    b. Payment documents must be reviewed and approved by a staff member other than the initiator

4. Invoice reviewed and approved by secondary approver, if required.
    c. Departmental polices must address circumstance when second approver is needed. This may be a certain dollar levels, certain funding sources, etc.

5. Invoice reviewed for completeness and accuracy.
    a. Confirm Invoice is an original.
        ➤ If the original invoice is missing, the duplicate invoice must be signed by the Department Head or approved designee with an explanation of why the original invoice is unavailable and certify that no payment has been made on the original

invoice. The signature card of the approved designee certified by the Department Head must be on file with the Controller's Office.

b. Electronic Invoice? (See Section 5)
c. Purchase order number on Invoice and Receiving documents match
d. Amounts, prices on invoice match ordering and receipt documents
e. Invoice and associated documents are dated and signed by authorized staff. (see steps 1 and 3)
f. Vendor compliance is verified
g. Vendor insurance coverage is current
h. Vendor payment address is accurate, matches ordering documents
i. Contract retention/liens are recorded, if contract related
j. Prior payments are reflected, as needed
k. Proper sales tax rates are used
   ➢ If sales tax is missing or incorrect, additional journal entries are required. Refer to the Sales & Use Tax Guidelines under Policies and Procedures at: http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=2068
l. Discounts available for prompt payment? Expedite processing to realize
m. Cost center for payment is identified

6. Process FAMIS Accounting or FAMIS Purchasing payment document.
   ➢ Person preparing and entering payments into FAMIS Purchasing cannot approve the final payment on-line.

7. Invoice and supporting documents are filed systematically for later audits.

Basic Internal Control Guidelines – Section 2

Overview of Internal Controls

All departments/agencies shall maintain effective internal control systems as an integral part of their management practices. Effective internal control systems should provide management with reasonable, but not absolute, assurance that assets are safeguarded from unauthorized access, use or disposition; transactions are executed in accordance with management's authorizations; financial and statistical records and reports are reliable; applicable laws, regulations and policies are adhered to; and resources are efficiently and effectively managed. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected.

A satisfactory system of internal control shall include, but not be limited to, the following standards:

1) Segregation of duties
2) Access to Assets
3) Authorization, execution, and recording of transactions
4) Documentation of system
5) Integrity of Competent Personnel
6) Supervision
7) Monitoring controls
8) Reasonable Assurance
9) Supportive Attitude
10) Control Objectives

Segregation of Duties

A plan of organization that provides segregation of duties appropriate for proper safeguarding of the City's assets. Key duties such as authorizing, approving or recording transactions, issuing or receiving assets, making payments, and reviewing or auditing shall be assigned to separate individuals to minimize the risk or loss. A satisfactory internal control system depends largely on the elimination of opportunities to perpetrate and then conceal errors or irregularities. This in turn depends on the assignment of work in such a fashion that no one individual controls all phases of an activity or transaction.

Access to Assets

Access to City assets should be limited to authorized personnel who require these assets in the performance of their assigned duties. Access includes both direct physical access and indirect access through the preparation or processing of documents that authorize the use or disposition of resources.

Authorization, Execution, and Recording of Transactions

A system of authorization and record-keeping procedures is needed to provide effective accounting control over assets, liabilities, revenues, and expenditures. Independent evidence shall be maintained to document that authorizations are issued by persons acting within the scope of their authority and that transactions conform with the terms of the authorizations. Documentation shall provide an adequate audit trail. Transactions shall be accurate, timely, properly recorded, and properly classified. Computer system controls should be utilized to safeguard records and preserve data integrity.

A department may have many levels of approval for internal control purposes. It is important to have the signatures documented and a copy submitted to the Controller's Office any time there are changes in approvers.

Approval Signatures on File with Controller's Office

- Signature cards for employees authorized by their departments to approve hard copy purchasing and payment documents must be submitted to the Controller's Office. These will be checked in post audits conducted by the Controller's Office. Contact your department's designated Controller's Fund Accountant for the Signature Authorization Form.

To find your designated Controller's Fund Accountant, go to the Accounting Operations and Grants Contacts link:
http://mission.sfgov.org/DOCUMENT_CENTER_DOCUMENTS/DC3061.pdf

Documentation of System
All departments/agencies should have an established system of policies and procedures to be followed in the performance of duties and functions. Such a system shall include, but not be limited to, documentation of internal controls, accountability for resources and recording of financial transactions, and such documentation shall be communicated and made available to all employees and auditors.

Integrity and Competent Personnel
Key personnel should have high standards of integrity, and be competent through education, training, or experience to accomplish their assigned duties.

Supervision
Qualified and continuous supervision shall be provided to assure that approved procedures are followed and are operating as intended. Lines of personal responsibility and accountability should be clear. Supervision should be competent and continuing so as to ensure the achievement of internal control objectives.

Monitoring Controls
An effective system of internal review by both the department/agency and the Controller's Office should be established and documented. Managers should periodically monitor that internal control procedures are complied with and documented. The results of the periodic monitoring findings should be communicated to staff so that any deviations from policy may be corrected. Communication of results of periodic monitoring should be documented.

Reasonable Assurance
Internal control systems shall provide reasonable, but not absolute, assurance that the internal control objectives will be achieved. This standard recognizes that the cost of internal controls should not exceed the benefits derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives.

Supportive Attitude
Executives, managers, and employees should maintain a supportive attitude towards internal controls.

Control Objectives
Control objectives are to be identified or developed for each organizational activity.

Electronic Invoicing Policy – Section 3

1. Departments who want to accept electronic invoices (via email, fax, or other format) from vendors or contractors must submit a formal request to the Controller's Office Accounting Operations Division that includes:

    - A list of contractors that are authorized to submit electronic payment requests.

    - Department's proposed policies and procedures for receiving, tracking, and processing electronic invoices. This should include an explanation of the internal controls established by the department to ensure adequate tracking of invoices and avoidance of duplicate billing/payment. Departments have the option of keeping a hard copy of the invoice for authorization and record retention, or maintaining the invoices in the automated system as long as information can be accessed on demand.

    - Department formal requests will generally be reviewed by the Controller's Office within 10 working days and must be approved before departments can begin accepting electronic payment requests.

2. Contractors must submit a letter to the department authorizing electronic invoicing prior to submission of electronic invoices. The letter must indicate which form of electronic invoicing the agency will use (email, fax, or internal contracting systems). Once the letter is received and approved by the department, contractors may begin invoicing electronically, provided they are on the list approved by the Controller's Office.

3. Department must maintain a list of all contractors authorized to electronically invoice and send a copy to the Controller's Office fund accountant quarterly as updated.

4. The department may choose to designate a single point of contact for contractors to make inquiries and receive responses regarding the status of invoices and payments.

5. Unique invoice numbers must be assigned to electronic invoices to avoid duplicate invoice numbers.

6. Department staff will indicate on the invoice that it was submitted electronically, initial, date, and forward it to accounting staff for payment.

7. Electronic invoices will be retained for post audit review.

Electronic Payments to Vendors – Section 4

Promote Electronic Payments

For vendors requesting electronic payments, the Controller's Office is able to make Electronic Payments (ACH - Automated Clearing House) to vendors through our existing disbursement account with Bank of America. The payments display remittance information, currently printed on our checks, to our vendors, contractors and suppliers. Departments should encourage vendors to sign up to have payments sent electronically to the vendors' bank account.

1. The Controller's Bank of America program is a free, secure, Internet-based service. It is an electronic order to pay network service called PayMode-X. PayMode-X requires no software purchase, no modification to existing accounts receivable system, and no charge to the vendors' bank accounts. This service does not require a Bank of America account.

    If vendors are requesting electronic payments, send them the following link to sign up: http://www.sfgov.org/ach
    This service provides (ACH) electronic payments to vendors' accounts. It takes about 10 minutes to enroll.

2. Once the vendor is set up in the PayMode-X program, the Controller's Vendor Support Unit will be notified based on information from the Bank of America to flag the vendor for ACH payments in our FAMIS Vendor File. The process normally takes approximately 2-3 weeks from the time the vendor enrolls. When the vendor is flagged, all payments thereafter will be through PayMode-X and will appear in FAMIS as ACHPAY in the Bank No. field with Document Type: AHSFYYNNNNNN for the payment document.

3. For more information on PayMode-X , refer to the Controller's site at: http://www.sfgov.org/ach or call vendor file support at 554-6702.