

INTERNAL AUDIT REPORT

2022-06

Prompt Vendor Payment Discounts

Finance Department

August 23, 2022

MUNICIPALITY OF ANCHORAGE
Office of Internal Audit
632 W 6th Avenue, Suite 710
P.O. Box 196650
Anchorage, Alaska 99519-6650
www.muni.org/departments/internal_audit



OFFICE OF INTERNAL AUDIT
Michael Chadwick, CIA, CICA
Director
Phone: (907) 343-4438
E-Mail: michael.chadwick@anchorageak.gov



MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

August 23, 2022

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2022-06, Prompt Vendor Payment Discounts, Finance Department**. A summary of the report is presented below.

In accordance with the 2022 Audit Plan, we have completed an audit of Prompt Vendor Payment Discounts. The objective of this audit was to determine why prompt vendor payment discounts were not successfully realized by the Municipality of Anchorage. Our audit included a review of seventy-five judgmentally selected vendor invoices from January 1 to December 31, 2021, from six agencies: Anchorage Health Department, Maintenance Operations – Streets, Maintenance and Operations – Facilities, Public Works, Emergency Operations Center, and the Anchorage Police Department. Specifically, we reviewed the transactions to determine the reason(s) the payments did not fall within the period of the available prompt vendor payment discounts.

Our audit revealed that additional steps can be taken to help ensure that the Municipality of Anchorage takes advantage of prompt vendor payment discounts. Specifically, our review of selected invoices from 2021 revealed instances where vendor invoices were not processed timely to claim the available prompt vendor payment discounts. Moreover, lost prompt vendor payment discounts were over reported in SAP for some of the invoices that we reviewed. Finally, P&P 24-19 needs to be updated.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

August 23, 2022

Internal Audit Report 2022-06
Prompt Vendor Payment Discounts
Finance Department

Introduction. Prompt vendor payment discounts are incentives offered by vendors to encourage faster payment of their invoices. Discounts for prompt payments may be incorporated into the base terms of a vendor's contract or offered on individual invoices. The discount is available if the payment is made within the specified prompt payment period.

The amount of the prompt vendor payment discount can vary from business to business, though these discounts are most often offered on vendor services as opposed to raw materials or manufactured products. Some vendors offer generous discounts, while others offer none. The time period in which the discount is available also varies as well.

Accounts payable at the Municipality of Anchorage (Municipality) is decentralized. An ordering department coordinates the request of needed goods and/or services from vendors through the Municipality's Purchasing Department. Once the vendor provides the goods and/or services, the accounts payable personnel in each department are responsible for receiving, inputting, and approving vendor invoices in the SAP system for payment. Central Accounts Payable staff create payments to vendors based on the information entered by each department.

Per Policy and Procedure (P&P) 24-19, *Processing Accounts Payable Documents in PeopleSoft*, "It is the policy of the Municipality that bills from vendors should be paid within thirty (30) calendar days of receipt of the invoice by Accounts Payable or the ordering agency."¹ Anchorage Municipal Code (AMC) section 6.60.080, *Audit of vouchers*, requires that "Available discounts are properly adhered to and taken." The prompt vendor payment discount, if available, is automatically calculated in SAP at the time of payment and is typically shown in a format such as "15 Days 10%, 30 Days

¹Policy and Procedure 24-19 is currently being updated. Please see Finding 3.

net.” In this example, the discount offered is 10 percent if paid within 15 days of receipt, otherwise the full amount is due within 30 days.

All prompt vendor payment discounts available to the Municipality are tracked within the SAP system. Discounts successfully taken as well as those lost due to payment outside of the discount period are detailed and totaled into separate accounts. According to SAP, in 2021 the Municipality failed to realize a total of \$409,825 in available prompt vendor payment discounts. According to Central Accounts Payable staff, in 2021 the Municipality realized \$662,172 in available prompt vendor payment discounts.

Objective and Scope. The objective of this audit was to determine why prompt vendor payment discounts were not successfully realized by the Municipality. Our audit included a review of seventy-five judgmentally selected vendor invoices from January 1 to December 31, 2021, from six agencies: Anchorage Health Department, Maintenance Operations – Streets, Maintenance and Operations – Facilities, Public Works, Emergency Operations Center, and the Anchorage Police Department. Specifically, we reviewed the transactions to determine the reason(s) the payments did not fall within the period of the available prompt vendor payment discounts.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was requested by the Administration.

Overall Evaluation. Additional steps can be taken to help ensure that the Municipality takes advantage of prompt vendor payment discounts. Specifically, our review of selected invoices from 2021 revealed instances where vendor invoices were not processed timely to claim the available prompt vendor payment discounts. Moreover, lost prompt vendor payment discounts were over reported in SAP for some of the invoices that we reviewed. Finally, P&P 24-19 needs to be updated.

FINDINGS AND RECOMMENDATIONS

1. Invoices Not Processed Timely to Claim Prompt Vendor Payment Discounts.

- a. **Finding.** Our review of selected invoices from 2021 revealed instances where vendor invoices were not processed timely to claim the available prompt vendor payment discounts. Specifically, our review of selected invoices and payments from six agencies identified sixty-four invoices in 2021 which were not processed in a timely manner resulting in \$349,980 of lost prompt payment discounts. Of these invoices, thirty-nine were not received by the approving authority in a timely manner, while twenty-five were received in time but not paid within the discount period to receive the prompt vendor payment discount. The below table shows the lost discounts in 2021 for the top ten agencies.

Lost Discounts in 2021 Top Ten Agencies

<u>Department</u>	<u>Number of Invoices</u>	<u>Prompt Payments Lost</u>
Anchorage Health Department	28	\$232,624
Maintenance and Operations – Streets	82	63,544
Public Works	118	43,108
Emergency Operations Center	38	24,593
Anchorage Police Department	29	17,867
Maintenance and Operations – Facilities	196	3,559
Parks and Recreation	19	1,423
Anchorage Fire Department	1	1,327
Public Transportation	9	757
Traffic Engineering	<u>4</u>	<u>438</u>
Totals:	<u>524</u>	<u>\$389,240</u>

Stated causes for late receipt of vendor invoices varied. Stated causes included:

- Invoice receipt delays from the vendor.
- Invoices sent to common email inboxes creating delays (not frequently checked).
- Invoices ending up in “junk mail” or “spam folders”.
- Invoices emailed to another department’s inbox.
- Invoices requiring return to and correction by the vendor.

Stated causes for late payment processing also varied. Stated causes included:

- Inconsistencies on what date is recorded in SAP as the received date.
- Delays in waiting for final payment approval from a different individual, department, or external organization (i.e., a Limited Road Service Area Board).
- Delays in processing change orders to increase funding for purchase orders.
- Delays due to waiting for resolution of contract or performance dispute.
- Delays on waiting for resolution of SAP “shopping cart” difficulties due to funding from multiple funding sources or departments.
- Delays due to end of year processing with posting dates backdated into the previous fiscal year.
- Intentional delay of approval until work was inspected.
- A feeling of not wanting to take advantage of the vendor.

Anchorage Municipal Code section 6.60.080 states that all vouchers (invoices) for payment “. . . shall be audited and approved by department heads or their designees. . . for the purpose of certifying that . . . Available discounts are properly adhered to and taken.” Additionally, P&P 24-19 defines priority payments as those payments to vendors needed “. . . to achieve vendor discounts,” and that priority vouchers are to be processed “. . . within 2 work days after receipt of an approved Voucher.”

Finally, there is an SAP query that can be easily run that provides information on lost discounts for a desired date range. This query can be easily filtered by department.

However, this query is not included in the Accounts Payable Guide (AP Guide), nor is it included in the SAP on-line training.

- b. **Recommendation.** The Controller should email a periodic report to directors and account payable personnel showing the lost prompt vendor payment discounts by department and offer training on how to help the Municipality take advantage of prompt vendor payment discounts.
- c. **Management Comments.** Management stated, "Management concurs. Accounts Payable will email a quarterly report of lost discounts by department to directors and AP personnel in the month following the end of the quarter. The first of such emails for the first quarter of 2022 will be emailed in June. The quarterly emails will include an offer of training on business processes and guidance on how to address the audit report's stated causes of late invoice receipt and late payment processing in addition to addressing new questions that may arise from attendees. The training will include how the Fixed Payment Terms functionality in SAP may be used to take discounts when payments are made outside of discount terms due to no fault of the MOA."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendations.

2. **Lost Prompt Vendor Payment Discounts Over Reported for Some Invoices.**

- a. **Finding.** Lost prompt vendor payment discounts were over reported in SAP for some of the invoices that we reviewed. These over reported lost discounts totaled \$12,982 for five invoices. Although the purchase orders (POs) had a prompt vendor payment discount, some activities within the POs were "fixed quote activities" where the prompt vendor payment discount did not apply. However, the improper discount was not removed from these invoices. There are two ways to remove a discount. First, the discount can be removed from those activities within the PO that are a fixed price.

Second, the discount total can be manually adjusted to reflect the proper discount. Since neither of these two actions were taken, these line items which had no discounts were reported in SAP as a lost prompt vendor payment discount. According to the AP Guide, "If any of the line items are not relevant to discounts, they may set as not relevant to discounts by checking the No Discount box. . . ." It also states that "The Cash Discount field is used to take a fixed discount amount." Incorrect recording of lost prompt vendor payment discounts in SAP distorts the true value of lost prompt vendor payment discounts.

In reviewing P&P 24-19, and its proposed revision, we noted that there was no requirement that accounts payable staff receive annual training. In contrast, P&P 24-1, *Collecting, Securing, Depositing, and Reporting Cash*, requires that all cashiers and their supervisors attend training sessions at least annually regarding cash handling and reporting procedures.

- b. **Recommendation.** The Controller should consider offering periodic training to ensure that accounts payable staff are properly trained regarding prompt vendor payment discounts.
- c. **Management Comments.** Management stated, "Management concurs. Accounts Payable staff will offer training on business processes and SAP functionality to help departments avoid over reporting lost discounts. The training will include how the No Discount and Cash Discount functionality in SAP may be used to suppress discounts for invoice line items that are not discount relevant, guidance on how purchase orders may be set up, and advice on separate vendor invoice submission for discount relevant vs. non-discount relevant line items."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. Policy and Procedure 24-19 Needs Updating.

- a. **Finding.** Policy and Procedure 24-19 needs to be updated. It was last updated on April 12, 1999. As a result of the Municipality's implementation of SAP in October 2017, business processes have changed. Although P&P 24-19 was submitted for review several years ago, it had not yet been approved at the time of this audit. It is our understanding that Central Accounts Payable staff submitted a revised P&P 24-19 to the Office of Management and Budget (OMB) and that it had been reviewed by the Legal Department in mid-2021. Legal then returned it to OMB for final processing.
- b. **Recommendation.** The Controller should follow-up with OMB to ensure that P&P 24-19 is updated to reflect the new business practices because of the SAP implementation.
- c. **Management Comments.** Management stated, "Management concurs. Accounts Payable has followed up with OMB on P&P 24-19 and the policy has been submitted to the Municipal Manager and Mayor for approval. It is anticipated that the new policy will be approved soon."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on June 8, 2022.

Audit Staff:
Derek Reynolds