April 12, 2018

Mr. Jim Olds
Director of Management Audit
Port of Los Angeles
425 Palos Verdes Street
San Pedro, CA 90731

Dear Mr. Olds:

Harvey M. Rose Associates, LLC (HMR) is pleased to submit this report on our Performance Audit of the Accounts Payable Function at the Port of Los Angeles. This report presents our audit findings, conclusions and recommendations primarily pertaining to the Accounts Payable section of the Port’s Accounting Division.

Thank you for the opportunity to serve the Port of Los Angeles. Please contact us at any time if you have questions or would like further information about the contents of this report.

Sincerely,

Fred Brousseau
Principal
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Executive Summary

Harvey M. Rose Associates, LLC was retained by the Port of Los Angeles (POLA) to conduct a *Performance Audit of the Accounts Payable function*. The Port’s overall objective for the audit was to assess the efficiency and effectiveness of the accounts payable function during the years 2015-2017. The audit was directed by POLA’s Departmental Audit Manager who oversaw the audit work performed by our firm.

The audit findings and recommendations are reported in five areas, as follows.

1. Summary of findings: Accounts Payable Internal Controls

   - Port payments are being processed accurately based on a review of sample transactions but formalized internal controls are needed to ensure the Port’s $411 million in annual payments are all for legitimate purposes and that the Port is getting the most for its resources.

   - In a review of documentation for a sample of 56 AP transactions from the three-year audit review period through Fiscal Year 2016-17, we found the Port’s Accounts Payable section fulfilled one of its key roles by processing payments accurately, that prices and rates were consistent with underlying purchase orders and agreements, and that payment information was accurately entered into ERP, the Port’s electronic accounting and financial management system.

   - The AP section processed payments that averaged $411.4 million annually over the three fiscal years 2014-15 through 2016-17. Given the nature and scale of their function, a critical role the Accounts Payable (AP) section should play is setting and implementing internal controls related to the organization’s accounts payable functions. This role needs strengthening by the AP section.

   - The AP section’s internal controls should include policies, procedures, and management practices to minimize risk to POLA’s resources, including adequate monitoring of the legitimacy and accuracy of all POLA payments and adherence by all POLA employees to pertinent City of Los Angeles and POLA controls and practices.

   - The AP section has some internal control processes and procedures in place but they are incomplete and not fully documented. Management should enhance its written policies, procedures, and controls to improve its monitoring of vendor payment activity and to ensure staff compliance with pertinent policies and procedures and to identify and correct identified risks.

Based on the above findings, we have made the following recommendations:

POLA management should direct the Director of Accounting to:

1.1 Update POLA’s “Payment Procedures” manual with new accounts payable internal control procedures to address segregation of duties, proper purchasing methods, timely payments and quality control monitoring, verification of vendor Business Tax Registration Certification and insurance requirements, and other elements, with regular adherence to these procedures to be documented by AP section staff.
Executive Summary

1.2 Create AP staff training materials that detail all internal control procedures and their objectives. Provide trainings to all AP staff annually.

1.3 Update Accounts Payable staff evaluations to include staff performance in adhering to accounts payable internal controls.

1.4 Establish a formal AP quality control system to include an annual risk assessment of the effectiveness of existing internal controls and to identify any new internal controls that may be necessary, with corrective actions documented and reported to senior POLA management when risks are identified and changes in controls are made.

1.5 Establish a method in ERP to regularly monitor upcoming potential vendor discounts, and any assessed late fees (even if they are later waived by the vendor), to track AP staff performance and to ensure that potential cost savings are captured and penalty fees avoided.

2. Summary of findings: Vendor Payment Timing

♦ Vendor payments take a median of 33 days from invoice date to payment, meaning that for approximately half of all vendors, more than 33 days pass before they are paid. Most of the elapsed time in the payment cycle is not due to the AP section’s work; rather, it is the time between when invoices are sent and end-user divisions record their purchased items as received in ERP, the Port’s financial system.

- Los Angeles City policy requires that vendors be paid within 30 days of the City’s receipt of invoices. The Port of Los Angeles’ (POLA) policy varies from City policy in that the Accounts Payable section (AP) begins tracking the 30 day payment timeline from either the date the invoice is received by AP or when the end-user division records the goods or services procured as “received” in the ERP system, whichever is later. AP staff report that this is also common practice in other City departments.

- Our analysis of AP transactions over the three years between FYs 2014-15 and 2016-17 found that a median of 33 days elapsed between invoice dates and vendor payment dates. Since this is the median, this means that half of the vendor payments are taking longer than 33 days.

- Mechanisms are not in place for AP and POLA management to systematically test compliance with either City or POLA vendor payment timeline standards by extracting and summarizing activity data from ERP. Instead, tracking vendor payment time requires manually extracting dates from a confusing set of hand-stamps on invoice documents.

- Breaking down the 33 day median payment cycle time, we found that the median time between invoice date and the date end-user divisions record their procured items as received was a median of 20 days, while the median time elapsed between the end-user “received” date and vendor payment was a relatively shorter seven days, indicating that most of the elapsed vendor payment time is due to the end-user divisions, and not the AP section.

- AP and POLA management need additional methods to monitor and manage the vendor payment cycle to eliminate unnecessary delays. Invoice arrival dates at AP should be recorded in ERP to allow
Executive Summary

for management tracking of vendor payment cycle time consistent with City and POLA time standards.

Based on the above findings, we have made the following recommendations:

POLA management should direct the Director of Accounting to:

2.1 Establish a policy of paying vendors within 30 days of invoice receipt date, as stated in the City Controller Manual.

2.2 Record and track invoice receipt dates and dates that invoices are submitted to end-user divisions in ERP.

2.3 Utilize ERP capabilities to automate reminders to end-user divisions to update status of receipt of goods.

POLA executive management should:

2.4 Communicate to all end-user divisions the importance of prompt vendor payments including timely recording of goods and services received dates in ERP and receive and act on regular reports on median vendor payment time, by division, to ensure prompt vendor payments and compliance with City and POLA vendor payment standards.

3. Summary of findings: Purchasing Cards, Corporate Charge Cards, and Airfare

- Purchasing card controls could be improved if staff provided complete documentation of their purchases to the AP section more expeditiously. In FY 2016-17, 54 days elapsed at median for staff to provide their required invoices and documentation to the AP section, or 14 days more than the 40 days in which the materials should be provided.

- The Port has three purchasing programs that provide procurement and payment mechanisms outside the standard procedures, all administered by the Accounts Payable (AP) section: 1) a purchasing card program (Pcard) for small items and incidentals, 2) a corporate charge card program for senior level employees work-related travel, marketing, and meeting costs, and 3) an airfare program which allows employees to buy air tickets for international and domestic work travel from a single private contractor. These programs all have the aim of reducing administrative burdens and lowering transaction costs.

- In Fiscal Year 2016-17, the Port spent $589,789 using Pcards, $281,223 using corporate charge cards, and $247,673 on airfare, for a total of $1,118,685.

- For Pcards, we found that POLA’s policies are not adhered to by staff in all cases. The most pervasive problem we found is that for 82 percent of all Pcard transactions during the audit
review period, Pcard holders did not provide AP with an item description of what they had purchased, though this is required in POLA policies.

- The City of Los Angeles’s Pcard manual states that end-user divisions have 10 days to reconcile their receipts and submit documentation to division Purchasing Card Coordinator following the close of the 30 billing cycle date, for a total of 40 days to provide the documentation. The median number of days elapsed between the date an item was purchased and the date expense reports were submitted during Fiscal Year 2016-17 was 54 days, or fourteen days more than the maximum 40 day cycle. When documentation is submitted late, the balance due has already been paid, rendering review of the documents a weak control. There are no penalties or repercussions for staff that submit their expense documents late to the AP section.

Based on the above findings, we have made the following recommendations:

POLA management should direct the Director of Accounting to:

3.1 Utilize ERP internal control capabilities to ensure appropriate documentation of items and services purchased with Pcards and timely submission of reports; (e.g., don’t allow employees to submit an expense report without inputting required fields related to purchases, such as item description.)

3.2 Develop an internal document that acts as a supplement to the Controller’s Office Pcard Manual which accurately captures Pcard documentation practices within ERP.

3.3 Direct AP section staff to begin recording the date that expense report documents are provided to the Pcard Coordinator so that AP section management can track compliance with the City’s time standard that expense documents be transmitted to the Pcard Coordinator within 10 days of the closing of the billing cycle for the card.

3.4 Direct AP end-user division heads to develop policies and procedures for corporate charge cards. This includes clarifying:

   a. Spending and transaction limits for cards
   b. Clear guidelines for appropriate use of corporate charge cards, specifying any disallowed items
   c. Record keeping requirements, including approvals process and required documentation
   d. Reconciliation process for cardholder and supervisor
   e. Procedures for handling disputes and unauthorized purchases
   f. Processes for obtaining exceptions to written policies
   g. Procedures for card issuance and cancelation, lost or stolen credit cards, and employee termination
   h. Segregation of duties for payment approvals, accounting, and reconciliations
   i. Any training requirements for card holders
   j. Any auditing processes that will be performed to test controls on cards
3.5 Direct all POLA end-user division heads to comply with standards for timely submission of expense reports, and monitor staff oversight of Pcard use within their division.

4. Summary of findings: Vendor Database

- Vendor legitimacy is a risk in an organization the size of the Port and vendor information is a critical part of accounts payable internal controls. The Port’s current system does not provide sufficient assurances about the legitimacy of all vendors.
  - An effective vendor database should help ensure that all vendors are legitimate and should minimize payment errors related to duplicate vendor entries. To reduce the risk of payments to fraudulent vendors, controls are needed over who has authority to add, change, and delete vendor records and to ensure that those individuals are not also authorized to process vendor payments.
  - Vendor master file internal controls should include regular activity reports to management, consistent naming and data entry conventions, and routine removal of old or duplicate entries. Additionally, all vendor master file changes should be documented to reduce the chance of fraud.
  - The AP section maintains a vendor database that is referred to by AP staff as they process payments.
  - The database contains 10,135 vendor or payee records with a status of “Active”. However, up to 7,826 records have not been used or paid by POLA for at least the last three fiscal years. These vendors should be classified as inactive and removed from the records. Having so many inactive vendors makes the database cumbersome for staff to use and provides unnecessary opportunities for fraudulent payments by falsely reactivating these vendors and payees.
  - POLA’s vendor database has controls in place to ensure vendor legitimacy but adherence to these controls is not well documented and the controls are weak.
  - Controls over staff authority to access and make changes to the database are not sufficient. Changes in vendor information are not reviewed and there is insufficient segregation of duties in one case between a staff member authorized to make changes to the database and process vendor payments. Management does not receive reports on vendor database activity or changes to ensure adequate management monitoring of vendor legitimacy.
  - There are effectively no formal written guidelines around vendor management. Aside from one note about vendor name changes, the AP Payment Procedures and the Port’s Financial Procedures do not contain protocols regarding maintenance of the vendor master file.

Based on the above findings, we have made the following recommendations:

POLA management should direct the Director of Accounting to:
4.1 In conjunction with the Contracts and Purchasing division, establish formal, written vendor data management procedures for approval by senior POLA management to:

i. Restrict authority to add/edit/deactivate vendor records to employees that do not have the ability to enter or approve invoices,

ii. Standardize vendor data entry with validation-controlled naming conventions,

iii. Require that a non-AP section staff such as an employee from another Accounting division unit review, approve, and document all new vendor additions and changes to existing vendor records,

iv. Document all AP section staff vendor verifications and changes,

v. Mandate AP section staff conduct more robust vendor verifications (consider conducting interviews of new suppliers, investigating key individuals of small suppliers, requiring a physical address, etc.),

vi. Automatically deactivate idle vendors after one year of no activity.

4.2 Direct AP section staff to clean up duplicate and legacy records in the vendor database in order to facilitate data analysis and establish a schedule for regular data scrubbing.

4.3 Work with the City Office to Finance to automate City Business Tax Registration Certificate (BTRC) verification process by determining if the Office of Finance’s LATAX system can transmit vendor name and BTRC information to ERP on a daily basis so that staff can verify existing businesses automatically within ERP, eliminating the need for manual verifications and further documentation.

4.4 Establish routine vendor fraud detection reporting or spot checks by management, with potential monthly reports to summarize:

i. Vendors by invoice volume activity and invoice amount,

ii. Vendor year to year analysis,

iii. Number of cancelled checks by vendor as a share of the total number of checks for each vendor,

iv. Above average payments by vendor,

v. Vendor/employee cross-check to compare Tax IDs to Social Security Numbers AND compare vendor addresses against employee addresses,

vi. Vendors with mail drop addresses,
5. Summary of findings: AP Division staffing

- A survey of other ports and proprietary City agencies shows that the Port’s AP section is more costly per transaction than the comparison agencies. This appears to be largely due to a higher level of staffing.
  - In a comparison with three other west coast ports and two other City proprietary departments, we found that the Port of Los Angeles Accounts Payable section (AP section) is incurring higher costs per AP transaction than comparison agencies. While POLA does not have the highest volume of AP transactions of the surveyed agencies, it does have higher costs per transaction because it has comparatively more staff positions than the peer agencies.
  - Median cost per AP transaction processed was $66.93 for POLA’s AP division compared to $22.27 for the five surveyed agencies for the three-year period between FYs 2014-15 and 2016-17. The average number of invoices processed per position at POLA’s AP section was 2,139 for the three-year period whereas the average for the five surveyed agencies was 4,443. Finally, the AP section’s seven full-time positions assigned to processing standard payments processed a median of 14,719 transactions each year for the three-year period between FYs 2014-15 and 2016-17 whereas the median in the five other agencies was 29,214.
  - Decentralization of elements of the AP process since the implementation of ERP and a lack of full automation of the processes are factors that may be contributing to the higher level of staffing and higher costs of POLA’s AP function compared to the other agencies surveyed.

Based on the above findings, we have made the following recommendations:

POLA management should direct the Director of Accounting to:

5.1 Prepare an analysis for the Chief Financial Officer of how current processes could be streamlined through automation and other means to reduce AP staffing levels over time.

5.2 Develop a long-term plan for streamlining AP processes and lowering the staffing level and cost per transaction of accounts payable as AP section attrition occurs.

5.3 Report AP transaction costs and productivity measures each year to the Chief Financial Officer.
Introduction

Harvey M. Rose Associates, LLC was retained by the Port of Los Angeles (POLA) to conduct a Performance Audit of the Accounts Payable function. The Port’s primary objective for the audit was to assess the efficiency and effectiveness of the accounts payable function during the years 2015-2017. The audit was directed by POLA’s Departmental Audit Manager who oversaw the audit work performed by our firm.

The Port’s Accounts Payable division is a unit of the Accounting division, headed by the Director of Accounting. The division is staffed by 10 positions that process vendor and other payments. Those payments had an average value of $411.4 million for the three year audit review period spanning FYs 2014-15 through 2016-17. Annual transaction volume was approximately 44,928 payment transactions during the three year period, or an average of 14,976 per year.

The Accounts Payable division’s work is supported by the Port’s ERP automated financial system. Purchase orders are produced in the system and many of the required approvals and milestones in the procurement and payment process are captured in the system. However, the accounts payable process still includes a number of paper-based manual procedures. Agreements with vendors, for example, are not uploaded to ERP but are collected and manually reviewed by AP division staff in processing vendor invoices.

Audit field work took place between June 2017 and March 2018.

Scope

Specific objectives of this performance audit were to assess: compliance with City and POLA policies, procedures and industry best practices; efficiency of the AP division’s business processes, including timeliness of payments; use of POLA’s financial management system; adequacy of internal accounting controls; reconciliation procedures; communications between the AP division and POLA’s end-user divisions; and division staffing levels.

Methods

This performance audit was conducted in compliance with Generally Accepted Government Auditing Standards promulgated by the U.S. Government Accountability Office (GAO). This ensures that all audit staff was independent, sufficiently trained and supervised, and that all findings are supported by adequate evidence.

Specific methods used in this audit included: interviews with the Director of Accounting and all Accounts Payable division staff; collection and review of key documents including all relevant City and Port policies and procedures, including ERP documentation, collection and analysis of accounts payable transaction data from the three year audit review period; and collection and review of job descriptions, work flow and organizational structure for the division. Interviews
were also conducted with selected end-user divisions within POLA that regularly interact with the Accounts Payable division.

We conducted a risk assessment at the conclusion of our initial interviews and document and data review which assisted in determining priorities and areas of particular focus for our subsequent audit activities.

Vendor payment processes were mapped based on our review of City and POLA policies and procedures and interviews with AP division staff. Accounts payable transactions from the three year audit review period were analyzed to identify the distribution and volume of transactions throughout POLA and key summary data points and to establish a representative pool of transactions to use for sampling purposes. These datasets were obtained from POLA’s ERP and Checkbook LA, one of the webpages within the City Controller’s Control Panel open data website.

We measured cycle time for the vendor payment process using both the ERP and City Controller’s datasets since neither source had a complete record of milestone dates and pertinent information for each transaction such as items purchased, vendor name, purchasing authority, POLA division, and others.

We analyzed internal controls through a combination of analyzing the datasets of all transactions and through a review of all supporting documents for a sample of transactions. The backup documents included requisitions, purchase orders/agreements, invoices, records of end-user divisions’ receiving and approving the purchased goods and services, communications between the AP division and the end-user division and/or vendor, and records of AP division approvals of the payments.

Three alternative systems of purchasing goods and services at POLA were analyzed, including purchasing cards (Pcards), the corporate charge cards, and air travel purchases. Together, these three programs generated approximately $1.1 million in expenditures in FY 2016-17. As with the regular AP transactions, we analyzed payment activity for efficiency, compliance with policies, and internal controls for the three programs using a combination of datasets of all transactions and supporting documentation for a sample of transactions.

We obtained and analyzed the vendor database used by the AP division to record and verify the legitimacy of vendors before they are paid by POLA. The vendor database was extracted from ERP. We tested internal controls in place for the vendor database and to determine if AP division staff is using it to verify vendor legitimacy before approving payments. We evaluated the information contained in the vendor database and controls over modifications. We confirmed certain information in the vendor database against third party sources such as the City’s Office of Finance Business Registry to verify Business Tax Registration Certificate numbers.

To assess the adequacy of the AP division’s staffing level, we prepared an inventory of tasks performed by staff and compiled workload measures for each. We then collected staffing details, job descriptions, and salary and other cost information, and workload measures for POLA and accounts payable functions in other comparable ports and other proprietary City departments. We compared staffing levels normalized by workload measures and costs to
determine how the level of staffing and division costs for the AP division compared to the other agencies.

We prepared a draft report and provided it to the Director of Accounting for review and input. His input was obtained through an exit conference, after which the report was modified where appropriate, and then provided in final form to the Departmental Audit Manager.
1. Accounts Payable Internal Controls

- In a review of documentation for a sample of 56 AP transactions from the three-year audit review period through Fiscal Year 2016-17, we found the Port’s Accounts Payable section fulfilled one of its key roles by processing payments accurately, that prices and rates were consistent with underlying purchase orders and agreements, and that payment information was accurately entered into ERP, the Port’s electronic accounting and financial management system.

- The AP section processed payments that averaged $411.4 million annually over the three fiscal years 2014-15 through 2016-17. Given the nature and scale of their function, a critical role the Accounts Payable (AP) section should play is setting and implementing internal controls related to the organization’s accounts payable functions. This role needs strengthening by the AP section.

- The AP section’s internal controls should include policies, procedures, and management practices to minimize risk to POLA’s resources, including adequate monitoring of the legitimacy and accuracy of all POLA payments and adherence by all POLA employees to pertinent City of Los Angeles and POLA controls and practices.

- The audit team found that the AP section does not monitor or ensure the segregation of duties of end-user divisions in approving and receiving purchases nor does AP formally track potential vendor discounts and late fee penalties to ensure compliance with the City Controller’s policies. The audit team also found that the AP section does not systematically document staff tasks to ensure the legitimacy of vendors, such as verifying their City business license status.

- The AP section has some internal control processes and procedures in place but they are incomplete and not fully documented. Management should enhance its written policies, procedures, and controls to improve its monitoring of vendor payment activity and to ensure staff compliance with pertinent policies and procedures and to identify and correct identified risks.

- AP section management should record actions it takes to implement internal controls and make better use of ERP capabilities to monitor internal control effectiveness and to identify risks. POLA executive management should direct all POLA divisions heads to implement internal controls pertaining to segregating the approval and receiving of purchases.
Overview of internal controls

The Accounts Payable (AP) section at the Port of Los Angeles (POLA) is responsible for processing payments that average approximately $400 million in vendor transactions each year on behalf of POLA end-user divisions. AP reviews transactions to assess validity and processes payment approvals to ensure accurate and timely payments to POLA vendors.

There are numerous risks inherent to accounts payable processes. In order to ensure valid payments and that POLA resources are being used only for legitimate purposes, AP should have procedures to:

- Ensure that payment requests are compliant with contract terms
- Ensure that proper segregation of duties is occurring (e.g., that different end-user division staff members are responsible for approving invoices and for reporting that goods/services are received)
- Ensure that end-user divisions use valid purchasing methods (for example, only using authority for emergency expenditures for true emergencies)
- Ensure that all transactions adhere to City of Los Angeles and departmental purchasing policies and procedures
- Have a quality control process that includes management review of transactions
- Avoid duplicate payments

Multiple authorities provide guidance on how to design an internal control system to manage payment risks.

The U.S. Government Accountability Office

The Government Accountability Office’s Green Book (Standards for Internal Control in the Federal Government, GAO-14-704G) recommends that management design internal controls to achieve objectives and respond to risks, monitor the effectiveness of internal controls, and implement control activities through policies (OV.209). In addition, the Green Book recommends that management maintain documentation of its internal control system (3.09).

Best Practices: Government Finance Officers Association

Internal Control and Management Involvement

The Government Finance Officers Association’s best practice regarding the internal control and management involvement recommends that managers:

- Ensure that all employees responsible for internal controls in any way receive the information and training they need to fulfill their responsibilities
- Document all internal control procedures for financial management
- Periodically evaluate internal controls to ensure they are adequately designed to achieve their intended purpose, have been implemented, and continue to function as designed
Internal Control Environment

The Government Finance Officers Association’s best practice regarding internal control environment recommends that management:

- Require written procedures for important government processes
- Develop flowcharts of each significant process
- Include internal control goals as part of employee performance reviews

Los Angeles City Controller’s Accounting Manual Policies

Section 1.9.4 of the Los Angeles City Controller’s Accounting Manual, “Internal Controls for Invoice Payments,” describes the overall policies that City departments, including POLA, must adhere to in order to validate payments, optimize discounts, and avoid fees. Generally, the Controller’s Accounting Manual does not describe procedures for complying with these policies. The details of such internal controls are left to departmental accounting sections, including POLA’s.

The policies in the Controller’s Accounting Manual generally state that internal controls for payments should:

- Ensure that invoices comply with contract terms
- Ensure proper segregation of duties over invoice approval and receipt of goods
- Ensure that discounts are taken whenever possible

In addition, Section 1.9.10 of the Controller Accounting Manual, “Invoices,” states, “it is City policy to pay vendors within 30 days of receipt of invoice.”

Finally, regarding duplicate payments, Section 1.9.19 of the Controller’s Accounting Manual, “Duplicate Payments,” recommends that City departments check the Controller’s financial management system (FMS) to ensure invoices have not already been paid. Section 1.9.4 of the Controller’s Manual states that invoices should be marked “paid” or with some other phrase indicating they have been processed for payment.

Accounts Payable Section Procedures

Section 3.9 of POLA’s internal policies and procedures document, “Payment Procedures,” outlines the high-level business process AP and other POLA organizational units should follow to make payments to vendors. The procedures state that AP will ensure that vendors have City business tax registration certificate (BTRC) numbers, meaning that vendors have registered with the City and paid the appropriate City business taxes. The procedures also state that invoices must match purchase orders and other supporting documents, that AP will “try” to capture early discounts, and that invoices should be paid within 30 days of receipt of the invoice.

In interviews with the audit team, AP management and staff stated that they relied on the City Controller’s Accounting Manual “Approval of Payments” section, [revised November 2012] as well as POLA AP’s Payment Procedures document (revised June 2010) to govern the business processes of

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1 AP staff report that the actual City practice is to pay vendors within 30 days of receipt of invoice or date the purchased goods and services are recorded as received, whichever is later. This policy is discussed further in Section 2 of this report.
validating payments. As indicated by the revision date, POLA AP’s payment procedures have not been reviewed or revised since the implementation of POLA’s new financial management system, ERP, in October 2012.

AP’s approach to the internal control elements is discussed below. The information presented is based on interviews with AP management and staff and the audit team’s analysis of a sample of 56 AP payment transactions from the three-year audit review period. Details on our sampling methods are provided as an appendix to this section.

Analysis of AP internal controls

As noted above, POLA AP has high-level procedures that direct AP staff to make sure that purchase orders, invoices, and supporting documents are all consistent. POLA AP payment procedures also state that payments should be received by vendors within 30 days of POLA’s receipt of invoice. In practice, however, AP’s procedures do not serve as a comprehensive quality control system. They do not address segregation of approving/receiving duties, avoiding late fees, optimizing discounts, avoiding duplicate payments, identifying transactions that may merit additional review from AP management, or establishment of a quality control system that would include regular management review of AP performance metrics and risk factors.

Exhibit 1.1 below summarizes POLA AP’s compliance with pertinent City and POLA policies and procedures and presents our findings from our sampling of 56 transactions for each risk area.
### Exhibit 1.1: Summary of internal control gaps for POLA’s accounts payable function

<table>
<thead>
<tr>
<th>Risk</th>
<th>Controller Policy</th>
<th>AP Procedure</th>
<th>Sampling results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment requests are not compliant with purchase order/contract terms</td>
<td>Section 1.9.4 of Controller Manual</td>
<td>Section 3.9 of POLA Accounting Manual</td>
<td>Compliant</td>
</tr>
<tr>
<td>Divisions are not using valid purchasing methods (for example, not using authority for emergency expenditures for true emergencies)</td>
<td>None</td>
<td>Section 3.9 of POLA Accounting Manual</td>
<td>Compliant. Emergency purchases are reviewed and signed off on by the City Attorney’s Office before they are paid.</td>
</tr>
<tr>
<td>Proper segregation of duties is not occurring (i.e., the same end-user division individual approves invoices and indicates goods/services are actually received)</td>
<td>Section 1.9.4 of Controller Manual</td>
<td>None</td>
<td>AP section management does not independently monitor and verify ERP processes and controls to ensure that the same end-user division individuals are not approving invoices and also reporting goods and services as received. AP section cannot verify if this segregation is occurring with their current ERP access privileges.</td>
</tr>
<tr>
<td>A standardized quality control process that includes risk-based management review of payment transactions is not in place</td>
<td>None</td>
<td>None</td>
<td>AP management reviews certain payment transactions before they are approved, but selection of those transactions is not risk-based.</td>
</tr>
<tr>
<td>Duplicate payments are being made and going undetected</td>
<td>Sections 1.9.4 &amp; 1.9.19 of Controller Manual</td>
<td>None</td>
<td>AP does not document systematic testing of transactions for duplicate payments and instead relies on end-user divisions to control for duplicate payments. Although ERP will not allow two invoices with the same invoice number to be processed, this control would not stop a duplicate payment with a different invoice number.</td>
</tr>
<tr>
<td>Discounts are not being taken whenever possible</td>
<td>Section 1.9.4 of Controller Manual</td>
<td>Section 3.9 of POLA Accounting Manual</td>
<td>ERP can produce reports showing discounts taken and missed after the fact, but AP does not document its review of such reports or actions taken as a result. Invoices with discount payment terms are not centrally tracked or proactively prioritized by management. Not all available discounts are taken.</td>
</tr>
</tbody>
</table>
### Section 1: Accounts Payable Internal Controls

<table>
<thead>
<tr>
<th>Risk</th>
<th>Controller Policy</th>
<th>AP Procedure</th>
<th>Sampling results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late fees are being incurred due to late payments</td>
<td>Section 1.9.8 of Controller Manual states that late fees are allowable</td>
<td>None</td>
<td>Any late fee payments are not centrally tracked or reviewed by AP.</td>
</tr>
<tr>
<td>Management does not have information needed to determine if invoices are being paid within 30 days</td>
<td>Section 1.9.19 of Controller Manual</td>
<td>Section 3.9 of POLA Accounting Manual</td>
<td>Approximately half of all payments from the audit review period were found to take longer than 30 days. AP management does not have a system for tracking elapsed payment time to assess compliance with City policy.</td>
</tr>
</tbody>
</table>

Source: Audit team review of Controller policies, AP procedures, and sample AP transactions.

**POLA AP has processes and procedures in place for internal controls, but they are incomplete and mostly undocumented**

Consistent with the City Controller’s internal control policy that invoices must comply with contract terms (meaning purchase orders as well as agreements), the AP section’s written policies call for AP clerks to perform a “three way match” by reviewing invoices, purchase orders, and receiving information to ensure they are consistent. In addition, the written procedures call for AP staff to compare underlying contracting documents to payment requests to ensure compliance with contract terms. This procedure should ensure that vendors are not being overpaid or paid at prices or rates higher than allowed in their purchase order or agreement.

Although POLA AP relies on the City Controller’s Accounting Manual and its own limited procedures to govern its business processes, POLA lacks formal procedures for many common internal controls for payments, as follows.

**Port-wide segregation of duties not ensured**

It is best practice in payment processing and required in the City Controller’s Accounting Manual to segregate invoice approval duties so that the individual who receives goods or services and the individual who approves an invoice—in the Port’s payment process, the end-user division approver—are different.

POLA AP clerks do not routinely check whether POLA divisions have segregated duties so that different staff are receiving goods or services and approving invoices. Instead, AP relies on end-user divisions to properly segregate their purchasing duties. POLA AP clerks assume that if an end-user division has recorded goods or services as “received” in POLA’s financial system and has submitted an approved invoice, then the division has processed the payment request with all appropriate duties segregated. This assumption is never verified by AP staff. Furthermore, ERP’s current configuration makes it impossible for AP staff to identify which end-user division staff received the goods. They must instead rely on handwritten signatures, often illegible and inconsistent, indicating goods or services received on paper invoices. At the exit conference for this audit, AP management reported that ERP contains different user roles for approving invoices and for receiving goods, but confirmed that it relies on end-
Section 1: Accounts Payable Internal Controls

user division to ensure proper segregation of duties as well as any controls that may be in place within ERP. The AP section does not independently verify that these controls are in place and working effectively and that any delegated staff roles and restrictions in ERP are updated when staff changes occur.

Lack of systematic monitoring of complex or high-risk transactions

The AP section has no criteria, policy, or procedure that indicates whether and when complex or high-risk transactions merit management review. At the exit conference, POLA AP management reported that they try to review high value transactions (typically over $150,000).

The AP section lacks internal control procedures to address high-risk transactions. The primary goal for the AP section, as stated in audit interviews with AP managers and staff, is to “get payments out.” While timeliness is important, the POLA AP section faces risks beyond timely payment, and AP must ensure that payments are timely and valid and cost effective. It should be noted, however, that our review of 56 sample transactions, summarized in Exhibit 1.2 below, found only one quality control error.

AP management does not perform ongoing monitoring of the effectiveness of existing internal controls and does not conduct periodic risk assessments to identify the need for new internal controls

AP section management does not regularly review its procedures or conduct periodic risk assessments to identify the need for new or modified internal controls. Such an assessment could include, for example, whether POLA end-user divisions have properly segregated user controls for invoice approvals and receiving goods. As discussed in detail in Section 2, POLA AP does not track or have a method for using ERP to track whether it is meeting the City Controller’s policy of paying invoices within 30 days of receipt of the invoice.

According to the Government Accountability Office’s Green Book (Standards for Internal Control in the Federal Government, GAO-14-704G), management should identity, analyze, and respond to risks by designing internal controls and monitoring their effectiveness (Section 7.01). Further, the Green Book states that management should evaluate whether internal controls exist and have been properly designed to address identified risks (OV3.05). The Green Book also recommends that management evaluate whether internal controls were consistently applied during a given period (OV3.06).

The Green Book states that in monitoring internal control systems, management should establish the current state of the organization’s internal control environment and outcomes as a baseline to measure future performance (16.02). Evaluations of internal controls include ongoing reviews such as supervision of staff, reconciliation activities, and review of regular reports (16.05). Management should also undertake periodic evaluations, such as assessing internal control design and testing internal controls (16.06-07). Outcomes of ongoing and period evaluations should be measured against baseline and corrective actions taken, as necessary (16.09).

POLA AP has not historically relied on aging reports to prioritize invoice review

An accounts payable aging report lists unpaid vendor invoices, organized by number of days past due, and allows accounts payable managers to assess how many invoices are overdue or nearly due for payment. Aging reports may be used to ensure that invoices with discount payment terms are prioritized, to avoid late invoice payments and associated late fees, and for monthly reconciliation with
the accounts payable trial balance. Aging reports are also useful as an overall assessment of the performance of an accounts payable department.

During the audit, POLA AP staff stated in interviews with the audit team that they did not make use of aging reports until after invoices had been fully processed by AP clerks, which could mean AP is not obtaining the information needed to allow for the prioritization of discounts, avoidance of late fees, and increased timeliness of invoice payments. In addition, AP management stated that they only review such reports after they have approved payment requests that have been processed by AP clerks so that the Controller’s demand auditors can prioritize certain requests for payment.

At the audit exit conference and in subsequent discussions with auditors, AP management reported that ERP’s aging reports were not accurate since at least May 2016. However, after our inquiries about aging reports while this audit was in process, AP section management now reports that the accuracy of the aging reports has been corrected and that they review them monthly to prioritize invoices for review.

There is no staff training on internal controls or their purpose

The audit team requested training materials provided to AP staff between FY 2014-15 and FY 2016-17 to determine the extent to which internal control policies and procedures are disseminated to staff through training. The materials provided were all technical procedures for using ERP, and no training materials related to internal controls were provided. In addition, AP staff stated in interviews with the audit team that they do not receive any formal training on internal controls and their importance in minimizing fraudulent payments, minimizing exposure to late fees, or optimizing early payment discounts.

Performance evaluations of AP section employees do not measure to what extent they are meeting internal control requirements

The audit team reviewed the evaluation form used to annually assess and document the performance of POLA AP staff. The form is the standard “Employee Evaluation Report” provided by the City of Los Angeles. The form evaluations employees on the following measures:

- Quantity of work
- Quality of work
- Oral communication
- Written communication
- Work habits
- Personal relations
- Adaptability
- Other (specify)

Beyond the “Other” category or the general comments sections, there is no designated space to evaluate employees’ adherence to AP internal controls.
Audit testing: results of review of sample AP transactions

Payment compliance with contract/purchase order terms

The audit team selected a judgmental sample of 59 AP transactions from FYs 2014-15, 2015-16, and 2016-17 to analyze the Port’s compliance with the Controller’s regulations and assess the strength of the Port’s own internal and management controls. We requested that AP provide us with the underlying documentation (stamped invoices, underlying purchase orders, contracts or agreements, written communications, etc.) associated with each transaction. Details on our sampling methods are provided as an appendix to this section. Due to the unusual nature of three of our 59 selected transactions, ultimately the audit team was able to completely review 56 transactions.

As part of our review of the underlying documentation provided by AP, the audit team verified that the sampled purchases were compliant with associated purchase orders (when purchase orders were provided) and with other underlying agreements, orders, or quotes. The audit team also verified that relevant invoice information, including dollar amount and date of invoice, was accurately recorded in ERP and in Checkbook LA (the City Controller’s public purchasing and payment database). Exhibit 1.2 summarizes the results of our review of sample transactions.
Exhibit 1.2: Testing results for 56 sample payment transactions, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th>Test</th>
<th>Number of errors</th>
<th>Invoices tested</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of invoice accurately recorded in ERP and Checkbook LA</td>
<td>1/56</td>
<td>56</td>
<td>AP response: “This was an oversight by AP staff encoding the invoice date with the date when she processed the invoice for payment.”</td>
</tr>
<tr>
<td>Dollar amount of invoice accurately recorded in ERP and Checkbook LA</td>
<td>0/56</td>
<td>56</td>
<td>When handwritten corrections were made, audit team checked against handwritten corrections.</td>
</tr>
<tr>
<td>Invoice price and quantity compliant with PO</td>
<td>0/50</td>
<td>50</td>
<td>50 invoices tested: 6 invoices had no PO provided in the underlying documentation. When handwritten corrections were made, audit team checked against handwritten corrections.</td>
</tr>
<tr>
<td>Invoice price and quantity compliant with underlying agreement, contract, quote, or other document</td>
<td>0/52</td>
<td>52</td>
<td>52 invoices tested: 4 invoices had no agreement or other underlying documentation that detailed price and quantity. When handwritten corrections were made, audit team checked against handwritten corrections.</td>
</tr>
<tr>
<td>End-user received verification performed by AP staff</td>
<td>9/56 were missing signed received verification stamp</td>
<td>56</td>
<td></td>
</tr>
</tbody>
</table>

Source: Auditor review of Checkbook LA database, ERP database, and sample transaction documentation submitted by the Port of Los Angeles

The AP section staff appears to be diligent in reviewing invoices

In our review of the underlying documentation for the sampled transactions, the audit team noted that AP staff occasionally corrected vendor invoices so that payment would be consistent with the purchase order and/or the underlying agreed-upon payment terms. The audit team also noted that AP staff followed up via email with vendors to request verification for shipping or other charges when the invoice provided by the vendor did not contain sufficient information to allow AP accounting staff to verify the charges on the invoice. In all cases the corrections made by the AP accounting were reflected in payments as recorded in ERP and in Checkbook LA.

The AP section does not document how it ensures compliance with administrative requirements such as confirming vendors have an active Business Tax Registration Certificate

Some manual verifications performed by AP clerks, such as verification of insurance and active BTRC status, cannot be validated based on our sample of invoices. Although much of AP’s payment process is completed and recorded digitally, several verifications required by the Los Angeles City Controller’s Office and AP’s Payment Procedures are currently performed manually and not recorded in ERP or on
the underlying hard copy documentation. These manual checks include confirming that a vendor has a Business Tax Registration Certificate (BTRC) number with the City of Los Angeles Office of Finance, confirming that a vendor has the appropriate insurance through the Office of Risk Management, and ensuring that a vendor has a federal Tax ID number. While the AP clerks might perform these checks, the audit team was not able to verify that these checks were completed based on the supporting documentation provided by the AP section for the entire sample.

**BTRC verification not documented**

As noted above, AP’s “Payment Process” document states that “Accounting checks the invoice for the Business Tax Registration Certificate (BTRC) number. Accounting will not process payment without a BTRC number.” This policy indicates that an invoice should include the vendor’s BTRC number printed on the invoice. However, the audit team found that in practice most vendors do not include BTRC numbers on their invoices. Only ten of the 56 invoices sampled (18 percent) included a BTRC number that was printed on the invoice by the vendor and 46 invoices did not, which demonstrates that the AP section does not enforce the policy that BTRC numbers be included on invoices before payment can be processed.

Based on interviews with AP section clerks, the process for checking BTRC numbers when they are not included on vendor invoices is as follows:

1) Manually check the vendor name with the active business list in ERP. If the listing is in ERP then the clerk can proceed with payment.

2) If the vendor is not in ERP, then the clerk manually checks the LA Office of Finance’s vendor database to confirm a vendor’s BTRC number. If the clerk is able to confirm based on the vendor database, he or she is able to proceed with payment.

This verification process is not documented in ERP or on paper documentation.

In three of the 56 invoices sampled a BTRC number was handwritten on an invoice or a BTRC number was discussed in documented communications sent to us by AP. In addition eleven invoices included a printout from the City’s Office of Finance that indicated that AP clerks had searched the website and found an appropriate BTRC number. However, because there is no consistent physical or electronic documentation of the BTRC check within ERP or on paper documents, overall the audit team was unable to confirm whether or not AP clerks verified vendors’ BTRC numbers for all invoices.

As a proxy for confirming BTRC numbers, we compared the vendors in our sample of transactions to the vendor database provided by AP. We were able to locate all of the sampled vendors within the vendor database, although some were difficult to find due to differences in spelling or punctuation in the vendor name. However, given the weak controls over the vendor database (see Section 4 of this report) a listing there does not guarantee that the vendor’s BTRC is up-to-date.

**Verifying vendor insurance**

The City Controller’s manual requires that vendors have approved insurance on file with the City Risk Manager.2 According to AP staff, any invoice involving labor or services is automatically electronically routed to Risk Management and invoice payment requires risk management approval.

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2 Controller Manual, Office of the Controller, April 2016. p. 130
AP does have a stamp that indicates whether insurance verification was completed. As detailed in Exhibit 1.4 below, AP staff used the stamp to indicate insurance verification for only five of the 56 sampled invoices.

**Exhibit 1.4: Insurance verification completed within the sample**

<table>
<thead>
<tr>
<th>Invoices within the sample</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance verification completed based on documentation on invoice</td>
<td>5</td>
</tr>
<tr>
<td>Insurance verification unclear</td>
<td>51</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56</strong></td>
</tr>
</tbody>
</table>

Source: Sample documentation submitted by the Port of Los Angeles

**Federal tax identification**

The Payments Procedures document provided by AP lists “Missing Taxpayer Identification Number” (TIN) as a “Common Payment Pitfall.”\(^3\) The LA City Controller’s Office also requires that “departments verify the TIN.”\(^4\) According to interviews with AP staff, the TIN check is done manually through paper files, and staff noted that copies of W-9/TIN documents are filed in the cubicle of a clerk.

Because there is no electronic record of TIN verification, the audit team was unable to confirm AP’s verification of the information.

**Vendor discounts tracked manually by AP staff**

Depending on the vendor and underlying contractual agreements, some invoice payment terms include discount terms to incentivize early payment if invoices are paid within a certain number of days. Examples of discount payment terms the audit team identified in our sample review include:

- A 2 percent discount if paid within 20 days
- A 1 percent discount if paid within 25 days
- A 2 percent discount if paid within 10 days
- A 5 percent discount if paid within 30 days
- A 20 percent discount if paid within 25 days

According to AP section staff, although payment terms are recorded in ERP, each AP clerk is responsible for manually keeping track of the authorities and suppliers with discount payment terms that are specifically assigned to him or her for processing. ERP is capable of generating a report detailing discounts taken and lost on invoices paid, but the report does not indicate upcoming discounts or discounts at risk of being missed, which would better allow AP management to proactively ensure that all invoices with discount terms are prioritized by AP staff. For this reason, AP section clerks must individually keep track of and prioritize invoices to be paid where discounts are offered. Further, the AP section does not have a policy nor does it document when and how it uses any reports generated by ERP regarding vendor discounts.

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\(^3\) Payment Procedures, Port of Los Angeles Accounts Payable, June 2010. p. 4.
The audit team identified five transactions in our sample of 56 AP transactions reviewed that had discount terms specified in the purchase order. Of these five, in one instance the discount payment terms were not met. The other four were paid early and the Port was awarded the discount. Though the one missing discount was for a small amount, it shows that the AP process has not been systemized to ensure that all discounts offered are routinely captured.

Proactively monitoring discount terms and associated savings *before* the discount is taken or lost would enable AP management to better assess the timeliness and overall performance of individual AP clerks and of the AP section overall, and could also generate cost savings for POLA if more discounts are awarded as a result. Further, such monitoring would demonstrate that POLA is compliant with the City Controller’s policies in this area.

**Late fee tracking**

According to AP staff, it is not common for POLA to be assessed fees for late invoice payments that exceed the payment terms. If POLA does receive a penalty invoice for a late fee, the invoice is brought to the attention of the end-user division for review and negotiation. If the vendor does not waive the late fee and the charge is authorized, the late fee will be absorbed by the division, and there is no separate account used specifically for late fee payments. Because late fees are absorbed by the division and no separate code is used to identify them, AP does not track the payment of late fees as a whole or compile late fee payments for monitoring. However, AP staff stated that ERP would be able to track late fees if they were coded separately.

Monitoring and assessing late fees, even if they are subsequently waived by the vendor, would enable AP management to assess the timeliness and overall performance of individual AP clerks and of the AP section overall, and could also generate cost savings for POLA if penalty fees assessed on late payments are eliminated as a result. Further, such tracking would demonstrate that POLA is complying with City Controller policies in this area.

**Recommendations:**

POLA management should direct the Director of Accounting to:

1.1 Update POLA’s “Payment Procedures” manual with new accounts payable internal control procedures to address segregation of duties, proper purchasing methods, timely payments and quality control monitoring, verification of vendor Business Tax Registration Certification and insurance requirements, and other elements, with regular adherence to these procedures to be documented by AP section staff.

1.2 Create AP staff training materials that detail all internal control procedures and their objectives. Provide trainings to all AP staff annually.

1.3 Update Accounts Payable staff evaluations to include staff performance in adhering to accounts payable internal controls.

1.4 Establish a formal AP quality control system to include an annual risk assessment of the effectiveness of existing internal controls and to identify any new internal controls that may be
necessary, with corrective actions documented and reported to senior POLA management when risks are identified and changes in controls are made.

1.5 Establish a method in ERP to regularly monitor upcoming potential vendor discounts, and any assessed late fees (even if they are later waived by the vendor), to track AP staff performance and to ensure that potential cost savings are captured and penalty fees avoided.
Appendix: AP Transaction Sampling Approach and Methods

The audit team selected a judgmental sample of 59 Checkbook LA transactions from FYs 2014-15, 2015-16, and 2016-17 to analyze the Port’s compliance with the Controller’s regulations and assess the strength of the Port’s internal and management controls. Before selecting the sample we conducted an analysis of the entire Checkbook database over the three years, which allowed us to identify the divisions that purchased the highest dollar value in transactions and the divisions with the highest volume of transactions. We used this analysis to ensure we sampled more transactions from both high-volume and high-dollar value divisions but that low-volume and low-dollar value divisions were not excluded from the sample. We also selected transactions completed under multiple purchasing authority types, as well as some transactions with longer than average elapsed time between invoice date and transaction date.

We requested that AP provide all underlying documentation that was used by AP staff and/or the Controller’s demand auditors to verify the accuracy of and to approve the payment of each invoice in our sample, including but not limited to:

- Attachments to the invoice from the vendor supporting or detailing the invoice
- Purchase order or other order for the purchase that establishes quantity, price, and sale terms
- Name of individual who made the order and name of individual who approved the invoice for payment
- Any correspondence related to the order or purchase, including communications between (a) the vendor and the purchasing Division or (b) AP staff and the Division
- The existing contract, agreement, price list, or other purchasing agreement with the vendor that governs pricing or payment terms
- All documentation provided by AP/purchasing Sections to the Controller’s demand auditors

Of the 59 transactions we selected for review, two were not included in the ERP database provided by AP because these two invoices were outside the general ledger date range requested by the audit team. We were able to perform some of our verification checks on these two transactions using Checkbook data alone, but were unable to perform the full testing, which required comparison against the ERP database as well as Checkbook. Therefore, these two invoices have been excluded from the results of our sample analysis presented in this section. Of these 57 remaining transactions, one was a record of petty cash payments. Petty cash payments differ significantly from other payments completed by AP, leading us to also exclude this record from our sample. Ultimately the audit team was able to completely review 56 transactions.
2. Vendor Payment Timing

- Los Angeles City policy requires that vendors be paid within 30 days of the City’s receipt of invoices. The Port of Los Angeles’ (POLA) policy varies from City policy in that the Accounts Payable section (AP) begins tracking the 30 day payment timeline from either the date the invoice is received by AP or when the end-user division records the goods or services procured as “received” in the ERP system, whichever is later. AP staff report that this is also common practice in other City departments.

- Our analysis of AP transactions over the three years between FYs 2014-15 and 2016-17 found that a median of 33 days elapsed between invoice dates and vendor payment dates. Since this is the median, this means that half of the vendor payments are taking longer than 33 days.

- Mechanisms are not in place for AP and POLA management to systematically test compliance with either City or POLA vendor payment timeline standards by extracting and summarizing activity data from ERP. Instead, tracking vendor payment time requires manually extracting dates from a confusing set of hand-stamps on invoice documents.

- Breaking down the 33 day median payment cycle time, we found that the median time between invoice date and the date end-user divisions record their procured items as received was a median of 20 days, while the median time elapsed between the end-user “received” date and vendor payment was a relatively shorter seven days, indicating that most of the elapsed vendor payment time is due to the end-user divisions, and not the AP section.

- Possible explanations for the median 20 day period before end-users record the procured goods and services as received are: a) vendors not delivering procured items until well after the invoice has been sent, b) AP not sending invoices to end-user divisions in a timely manner, and c) end-user divisions not entering their “received” status in ERP in a timely manner.

- AP and POLA management need additional methods to monitor and manage the vendor payment cycle to eliminate unnecessary delays. Invoice arrival dates at AP should be recorded in ERP to allow for management tracking of vendor payment cycle time consistent with City and POLA time standards. Automated systems should be set up to remind end-user divisions to record when their goods or services are received promptly in ERP. The entire vendor payment cycle should be tracked by AP section management using ERP with the goal of minimizing the payment cycle and end-user division processing times. POLA executive management should direct all POLA divisions to enter received dates timely and monitor division performance complying with this directive.

Based on information currently recorded, POLA cannot accurately and systematically assess its compliance with policies requiring them to pay vendors within 30 days

Section 1.9.10 of the Los Angeles City Controller’s Manual states that it is City policy to pay a vendor within 30 days of the City’s receipt of an invoice. AP section staff have communicated that this policy is interpreted at the Port, and other City agencies, as meaning that the 30 days starts the date invoices are...
received, or the date the end-user division records the purchased items as received, whichever is later. This interpretation is not consistent with the Controller’s directive in Section 1.9.10.

Because AP does not systematically record the date invoices are received, the AP section is unable to accurately and systematically assess its compliance with either the Controller’s Manual Standard or POLA’s own 30 day vendor payment standards.

Invoices are generally received by AP staff twice: first, when vendors first submit them directly to AP, as required in their purchase orders or agreements and, second, after they have been logged in by AP staff and sent to, approved, and returned to AP staff by the end-user divisions. One or both of these invoice received dates may be hand-stamped on the invoice documents but they are not recorded in ERP. As such, tracking of payment timing using either of these dates requires manually retrieving the dates from the hard-copy documents. In instances where only one date is hand-stamped on the document, as we found to often be the case in our review of a sample of invoices, it is not clear which of the two dates the hand-stamp represents, rendering the date unreliable for tracking AP’s vendor payment time.

The date the invoice is first received at AP is not recorded in ERP or recorded systematically through paper documentation

According to AP staff, when an invoice is mailed from a vendor to AP for payment, it is hand-stamped as received by AP and then distributed to the appropriate division for review and approval. If the goods or services on the invoice have already been recorded as received by the end-user divisions in ERP, then this date of receipt of invoice would be the date that begins AP’s 30-day payment window. Examples of the AP receipt stamp are included in Exhibit 2.1 below.

Exhibit 2.1: Examples of AP division’s invoice received date-stamps

![Example of AP division’s invoice received date-stamps](image)

Source: Sample of AP documents provided by AP

This date of invoice receipt is not recorded in ERP; it is only stamped on the paper copy of the invoice. Therefore, AP management is unable to monitor and assess whether the division is meeting required performance goals of paying vendors within 30 days of the latter of invoice receipt or the date the goods or services are recorded as received in ERP without conducting a manual review of the date stamps on invoices. Furthermore, physical stamps are prone to erroneous interpretation if the stamp ink is too faint, as was the case in the examples shown in Exhibit 2.1 above, and the date represented by the stamp is unclear in many instances, as described below.
The “received date-stamp” used to indicate the date the invoice is initially received at AP is also used at other times

As mentioned above, sometimes invoices have two stamps with two different dates; in these cases, it can be assumed that the earlier stamp is the date the invoice was initially received by AP from the vendor, and that the later stamped date is when the invoice was received back from the end-user division after they reviewed and approved it. However, only nine invoices in our sample of 56 AP payment transactions had more than one dated stamp. For the other 47 transactions reviewed, it is unclear which date the stamp indicates: when the invoice was initially received at AP, or when it was received from the end-user division after approval. Comparing the stamp date with the invoice date reveals that, in some cases, the date stamped is a few days after the invoice is dated, which likely indicates that it was stamped when the invoice was first received. In other cases, the date stamped is significantly later than the invoice date, which likely indicates that it was stamped after the invoice was received back from the end-user division.

AP records an “invoice created” date in ERP after the second time the invoice is received from the end-user division after they have approved it for payment. The invoice created date is not an accurate record of when an invoice was initially received as it generally occurs many days after the initial receipt of the invoice. Because of these limitations, using ERP for systematic evaluation of when invoices have been received is impossible. However, the current manual recording of these dates are not an effective or efficient system either.

Date of receipt of goods or services may be prone to human error

According to POLA policy, the second date that may begin the 30-day payment processing timeframe is the date that the goods or services are received, if that date is later than the date the invoice was received. The receipt of goods and services is electronically recorded by end-user division staff in ERP and an invoice will not be approved for payment by AP until the transaction has been marked received in ERP. However, the date that the end-user division records its purchased goods or services as received may be different than the date the goods or services were actually received. If end-users are delayed in recording goods or services as received, this delays the entire payment process. If an end-user division waits until an invoice has been sent for approval to record the items as received in ERP, even if the items were received a month before, then that received date in ERP is not an accurate representation of actual receipt of the goods or services procured. Similarly, if an end-user division does not record their purchased items or services as received in ERP on a timely basis, the date in ERP would be later than when they were actually received. The AP section has no way to control for delays at the end-user divisions in recording an item as received in ERP.

There is no record in ERP indicating if the vendor is causing delays by delivering the goods and services well after the invoice or whether the end-users have received the procured items but not entered the received data in ERP timely. A third possible explanation for delays is that the AP division could have received the invoice from the vendor but not sent it the end-user division timely. This cause of delay cannot be discerned from ERP data either.
By using invoice dates as a proxy for invoice received dates, AP meets the Port’s 30 day vendor payment standard but does not meet the City’s 30 day standard

As previously noted, the date invoices are received by the AP section, which can be the starting date for measuring compliance with the City or POLA’s vendor payment timing standards, is not consistently recorded and it is therefore not possible to systematically measure whether vendors are being paid within 30 days of invoice receipt. The audit team therefore assessed POLA AP’s compliance with the 30-day standard using only the dates available through ERP: Invoice Date, Goods and Services Received Date, and Payment Date. We reviewed POLA’s compliance with both the Port’s own standard and the City standard based on the Controller’s manual. As mentioned, AP staff reported to us that other City departments also use the same 30 day standard that the AP section uses, which diverges from the City policy stated in Section 1.9.10 of the Controller’s manual. We included both policies in our evaluation.

Port Standard: AP consistently meets their internal standard of paying vendors within 30 days of receiving goods or receiving an invoice, whichever comes later, but total elapsed time for vendors to get paid is significantly longer than just the AP section’s cycle time

In assessing the Port’s performance based on their own vendor payment standard, our analysis showed that it took the Port a median of 7 days between the Goods and Services Received Date or Invoice Date (whichever is later) and the Payment Date. To calculate timing, we created a “Max Date” field which represented the later date between the Receipt Date and Invoice Date. We then compared the max date to the payment date. Because a key date—the date the invoice is first received by AP—is missing from these datasets, we used invoice dates as a proxy for invoice received date. It is reasonable to assume that the invoice dates are generally a few days before invoices are received by AP, allowing for time in the mail. Exhibit 2.2 shows the median time elapsed by fiscal year between the max date and payment date.
Section 2: Vendor Payment Timing

Exhibit 2.2: Median number of days between receipt of goods or services or invoice date, whichever is later, and payment of invoice, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th></th>
<th>Number of invoices</th>
<th>Median number of days between receipt of goods or invoice date and payment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14-15</td>
<td>15,650</td>
<td>8</td>
</tr>
<tr>
<td>FY 15-16</td>
<td>14,598</td>
<td>7</td>
</tr>
<tr>
<td>FY 16-17</td>
<td>14,270</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>44,518*</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: ERP extraction of invoices from fiscal years 2014-15—2016-17 provided by AP

*Note: We excluded 402 invoices (approximately 0.8% of all invoices) from the past three years of data because these invoices did not follow normal payment procedures. These cases represent several scenarios:

- Payments were issued on multiple dates because goods were received on multiple dates
- The payment date precedes the “start date.” This could happen because the Port needs to pay for services prior to receiving them, such as when they pay for an employee to attend training.

Based on POLA’s own vendor payment standard, it pays vendors within 30 days for 86% of all invoices. However, the AP section’s payment cycle timing does not accurately reflect vendors’ experience, in which payment can take substantially longer than the median of seven days between invoice date and good and services received date, whichever is later, and payment date.

**City Standard: POLA falls short of the City Controller’s 30 day vendor payment standard between invoice received and vendor payment dates**

In calculating POLA’s vendor payment performance based on the City standard we also used invoice date as a proxy for invoice received date. We found that a median of 33 days elapsed between invoice date and vendor payment date as shown in Exhibit 2.3.
Exhibit 2.3: Median number of days between invoice date and payment date by fiscal year, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Invoices</th>
<th>Median Days Between Invoice Date and Payment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14-15</td>
<td>15,823</td>
<td>34</td>
</tr>
<tr>
<td>FY 15-16</td>
<td>14,700</td>
<td>34</td>
</tr>
<tr>
<td>FY 16-17</td>
<td>14,316</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>44,884*</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: ERP extraction of invoices from fiscal years 2014-15—2016-17 provided by AP

*36 invoices omitted because the invoice date preceded the payment date

The difference of three days may simply encompass the time it takes for AP to receive an invoice after it is mailed by the vendor. However, 50 percent of all invoices take over 33 days to process. To better understand the upper half of invoices we have included Exhibit 2.4, which indicates the time-elapsed between Invoice Date and Payment Date by percentile.

Exhibit 2.4: Time-lapse between invoice date and payment date for the 50 percent of payments with the longest cycle time, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Number of Days Between Invoice Date and Payment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>70</td>
<td>48</td>
</tr>
<tr>
<td>80</td>
<td>59</td>
</tr>
<tr>
<td>90</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: ERP extraction of invoices from fiscal years 2014-15—2016-17 provided by AP

*Note: The table above shows the percentage of invoices that had a total number of days between invoice date and payment date that were as high as the tabled value or less. For example, 60 percent of invoices had 40 days or fewer between invoice date and payment date, leaving the remaining 40 percent of invoices with over 40 days between the invoice date and payment date.
These percentiles demonstrate that POLA falls short of the City’s policy to pay vendors within 30 days for many of the later payments, with some unusual payments taking place even years after an invoice was dated. Within the 80th percentile of invoices processed it took a median or 59 days between invoice date and payment date, nearly double the 30 day standard. Determining the exact reason for the delay in payment is not possible, as there are several potential scenarios (e.g. vendors aren’t sending invoices or goods on time, end-user divisions aren’t timely in recording goods and services as received in ERP).

Our analysis also found that certain divisions tend to have longer delays than others. The Accounting division managed payments most expeditiously, taking a median of only 19 days between the invoice date and payment date, and the Environmental Management division had the longest delays, with a median of 52 days between invoice date and payment date. A table with all divisions can be found in Exhibit 2.5.
### Exhibit 2.5: Time-lapse between invoice date and payment date by division, FYs 2014-15 – 2016-17

<table>
<thead>
<tr>
<th>Division</th>
<th>Median Time elapsed between invoice date and payment date</th>
<th>Number of invoices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>19</td>
<td>1,738</td>
</tr>
<tr>
<td>Port Attorney</td>
<td>37</td>
<td>837</td>
</tr>
<tr>
<td>Construction and Maintenance</td>
<td>28</td>
<td>14,642</td>
</tr>
<tr>
<td>Contracts and Purchasing</td>
<td>38</td>
<td>1,140</td>
</tr>
<tr>
<td>Construction</td>
<td>28</td>
<td>1,357</td>
</tr>
<tr>
<td>Community Relations</td>
<td>34</td>
<td>854</td>
</tr>
<tr>
<td>Engineering</td>
<td>38</td>
<td>1,769</td>
</tr>
<tr>
<td>Environmental Management</td>
<td>52</td>
<td>3,879</td>
</tr>
<tr>
<td>Media</td>
<td>23</td>
<td>526</td>
</tr>
<tr>
<td>Human Resources</td>
<td>43</td>
<td>456</td>
</tr>
<tr>
<td>Information Technology</td>
<td>28</td>
<td>2,064</td>
</tr>
<tr>
<td>Port Pilot</td>
<td>34</td>
<td>535</td>
</tr>
<tr>
<td>Port Police</td>
<td>39</td>
<td>2,800</td>
</tr>
<tr>
<td>Public Relations</td>
<td>34</td>
<td>589</td>
</tr>
<tr>
<td>Risk Management</td>
<td>31</td>
<td>609</td>
</tr>
<tr>
<td>Other</td>
<td>36</td>
<td>2,238</td>
</tr>
<tr>
<td>No Division Listed</td>
<td>28</td>
<td>8,851</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33</strong></td>
<td><strong>44,884</strong>*</td>
</tr>
</tbody>
</table>

Source: ERP extraction of invoices from fiscal years 2014-15—2016-17 provided by AP

*Note: 36 invoices omitted because the payment date preceded the invoice date
Delays in payment typically occur between when an invoice is submitted and when purchased goods or services are recorded as received by end-user divisions.

To better understand where within the payment process delays were occurring, our team analyzed the time elapsed between key dates in the payment process.

With few exceptions, AP requires the following prior to paying an invoice:

1. A copy of an invoice
2. Confirmation of receipt of the purchased goods or services

These two events can occur in either order, however 90.7 percent of all invoices paid between FYs 2014-15 and 2016-17 had an invoice date that preceded the date that goods or services were recorded as received by end-user divisions. The most common order of events in AP payment processing is shown in Exhibit 2.6.

Exhibit 2.6: Most common order of events within AP payment processing

Vendor sends invoice (Invoice Date) → AP receives invoice / sends to end-user divisions (Invoice Receipt Date)* → End user division receives goods (Receipt Date) → AP pays vendors (Payment Date)

Source: ERP extraction of invoices from fiscal years 2014-15—2016-17 provided by AP

*Note: The date AP receives an invoice has a dashed outline because this date is neither recorded in ERP, nor is it consistently captured through paper documentation. The other three dates are available within the AP module of ERP.

ERP does capture an “Invoice Creation Date,” a system-generated date that indicates when the invoice row was created and saved in ERP. Because an invoice is not created in ERP until it has been approved by and sent back to AP from the end-user division for payment, the invoice creation date cannot be used as a proxy for the date the invoice first arrived at AP for processing.

The scenario in Exhibit 2.6 represents 90.7 percent of all invoices, or 40,754 of the 44,920 invoices recorded for the three year audit review period between FYs 2014-15 and 1016-17. The breakdown of the remaining 9.3 percent of invoices, or 4,166 invoices, is as follows:

- 779 invoices (2% of all invoices) lacked a received date; these items were often travel, or other intangible goods which may not require physical receiving.
- 3,021 invoices (7% of invoices) had a received date that preceded the invoice date. This occurs in scenarios where vendors provide goods or services before preparing and sending their invoice.
- 366 invoices (1% of invoices) had a payment date that preceded either the invoice date or the receipt date.
For the remaining 40,754 invoices, the median time elapsed between key steps is listed in Exhibit 2.7.

Exhibit 2.7: Median time-lapses between key dates within POLA payment processing, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th>Days elapsed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median time-lapse between Invoice and Received dates</td>
</tr>
<tr>
<td>Median time-lapse between Received and Payment dates</td>
</tr>
<tr>
<td>Median time-lapse between Invoice and Payment dates</td>
</tr>
</tbody>
</table>

Source: ERP extraction of invoices from fiscal years 2014-15—2016-17 provided by AP, covering 40,754 invoices.

The information in Exhibit 2.7 demonstrates that, typically, if there is a delay in the vendor payment process, it is more likely to occur between when the invoice is submitted and when the goods or services are recorded as received by end-user divisions than at a later point in the process. Once items have been recorded as received by the end user division, the AP section typically is able to pay vendors within seven days, eliminating the possibility that delays occur because of AP section negligence after other divisions have performed their required duties.

There are several plausible reasons a delay might occur between when an invoice is dated and when goods are received. They include:

- Vendors not delivering procured items and services until well after the invoice has been sent.
- Vendors not sending invoices in a timely manner.
- Invoice errors that require the AP section to send an invoice back to the vendor.
- Inadequate documentation of invoice costs that require AP section staff to communicate with vendor (e.g. lack of detailed bill).
- AP not sending invoices to end-user divisions in a timely manner.
- End-user divisions not being timely entering their “received” dates in ERP.

The AP section could address delays in vendor payments by better understanding the nature of the problem, which could be achieved with better utilization of ERP. To monitor and rule out AP section-caused delays, AP staff should enter the dates in ERP that they receive and send out invoices to end-user sections. Then, they should monitor what occurs next by sending out regularly scheduled inquiries and reminders to end-user divisions about the status of their invoices, with such messages ideally automated through ERP.

The end-user divisions should communicate back to AP whether or not they’ve received the procured goods and services. If they have, they should be reminded to enter a received date in ERP and send back the approved invoice so AP can complete the payment. Since end-user divisions do not have a reporting relationship to the Accounting Manager, a higher level executive at POLA should communicate the importance of prompt vendor payment processing to all divisions as well as monitor summary elapsed
vendor payment processing time, by division, to ensure that all divisions are meeting the City and POLA vendor payment time standards.

**Recommendations**

POLA management should direct the Director of Accounting to:

2.1 Establish a policy of paying vendors within 30 days of invoice receipt date, as stated in the City Controller Manual.

2.2 Record and track invoice receipt dates and dates that invoices are submitted to end-user divisions in ERP.

2.3 Utilize ERP capabilities to automate reminders to end-user divisions to update status of receipt of goods.

POLA executive management should:

2.4 Communicate to all end-user divisions the importance of prompt vendor payments including timely recording of goods and services received dates in ERP and receive and act on regular reports on median vendor payment time, by division, to ensure prompt vendor payments and compliance with City and POLA vendor payment standards.
3. Purchasing Cards, Corporate Charge Cards, and Airfare

- The Port has three purchasing programs that provide procurement and payment mechanisms outside the standard procedures, all administered by the Accounts Payable (AP) section: 1) a purchasing card program (Pcard) for small items and incidentals, 2) a corporate charge card program for senior level employees work-related travel, marketing, and meeting costs, and 3) an airfare program which allows employees to buy air tickets for international and domestic work travel from a single private contractor. These programs all have the aim of reducing administrative burdens and lowering transaction costs.

- In Fiscal Year 2016-17, the Port spent $589,789 using Pcards, $281,223 using corporate charge cards, and $247,673 on airfare, for a total of $1,118,685.

- The programs are governed by the City Controller’s Manual and, to a lesser extent, Port policies. Though the Port has clear policies and procedures for Pcards and airfare purchases, they lack well defined policies and controls for corporate charge cards. Without adequate policies and procedures and oversight to manage less restrictive purchasing programs, the Port is vulnerable to abuse of these programs or fraud.

- For Pcards, we found that POLA’s policies are not adhered to by staff in all cases. The most pervasive problem we found is that for 82 percent of all Pcard transactions during the audit review period, Pcard holders did not provide AP with an item description of what they had purchased, though this is required in POLA policies. While item descriptions are sometimes available on itemized receipts we found that receipts are not itemized or were missing in six of a sample of 33 transactions reviewed, or 18 percent of the sample transactions. The combination of the lack of item descriptions and missing or non-itemized receipts reduces POLA’s controls over Pcard purchasing.

- The City of Los Angeles’s Pcard manual states that end-user divisions have 10 days to reconcile their receipts and submit documentation to division Purchasing Card Coordinator following the close of the 30 billing cycle date, for a total of 40 days to provide the documentation. The median number of days elapsed between the date an item was purchased and the date expense reports were submitted during Fiscal Year 2016-17 was 54 days, or fourteen days more than the maximum 40 day cycle. When documentation is submitted late, the balance due has already been paid, rendering review of the documents a weak control. There are no penalties or repercussions for staff that submit their expense documents late to the AP section.

Background on purchasing programs

The Port of Los Angeles has three purchasing programs separate from the standard process that allow employees to quickly procure airfare, incidental low-cost items, and, for selected employees, other travel, marketing and conference/meeting costs. The three programs are: the Purchasing Card Program (Pcard), the Corporate Charge Card Program, and the Airfare program. These programs allow for expedited procurement for certain purchases, which decreases the administrative steps necessary for the purchases and thus should save the Port time and money. Each of the programs operates under
different regulations and policies, though they are all monitored by the same staff within the Accounts Payable section.

In total, $1,118,685 was spent through the three programs during FY 2016-17. Details on the breakdown of this spending can be found in Exhibits 3.1 and 3.2.

**Exhibit 3.1: POLA spending by purchasing programs, FY 2014-15—2016-17**

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pcard</td>
<td>$716,848</td>
<td>$663,954</td>
<td>$589,789</td>
</tr>
<tr>
<td>Corporate Charge Card</td>
<td>$278,947</td>
<td>$267,707</td>
<td>$281,223</td>
</tr>
<tr>
<td>Airfare</td>
<td>$262,982</td>
<td>$306,390</td>
<td>$247,673</td>
</tr>
<tr>
<td>Total</td>
<td>$1,258,777</td>
<td>$1,238,051</td>
<td>$1,118,685</td>
</tr>
</tbody>
</table>

**Exhibit 3.2: POLA spending through purchasing programs, FY 2014-15—2016-17**

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pcard</td>
<td>$716,848</td>
<td>$663,954</td>
<td>$589,789</td>
</tr>
<tr>
<td>Corporate Charge Card</td>
<td>$278,947</td>
<td>$267,707</td>
<td>$281,223</td>
</tr>
<tr>
<td>Airfare</td>
<td>$262,982</td>
<td>$306,390</td>
<td>$247,673</td>
</tr>
<tr>
<td>Total</td>
<td>$1,258,777</td>
<td>$1,238,051</td>
<td>$1,118,685</td>
</tr>
</tbody>
</table>

**Purchasing card program**

The Purchasing Card (Pcard) program was established by the City of Los Angeles to “...create a more efficient, cost-effective method of paying low-valued items costing less than one thousand dollars ($1,000).”\(^1\) In total, $589,789 was spent through the program in FY 2016-17 at POLA and 69 employees had a card through the program. Descriptions of total Pcard use by fiscal year can be found in Exhibit 3.3. Pcard use is largely directed by the City Controller Pcard Manual which was last revised in May 2015.

---

\(^1\) City of Los Angeles, Purchasing Card Program Card Holder Manual, May 2015 p.3
Section 3: Purchasing Cards, Corporate Charge Cards, and Air Travel

Exhibit 3.3: Total Pcard transactions and spending by year, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions per year</td>
<td>3,249</td>
<td>2,915</td>
<td>2,623</td>
</tr>
<tr>
<td>Spending per year</td>
<td>$716,848</td>
<td>$663,954</td>
<td>$589,789</td>
</tr>
<tr>
<td>Number of Pcard Holders</td>
<td>74</td>
<td>69</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

Pcard use decreased between FY 2014-15 and FY 2016-17, with total spending dropping by $127,059 and median spending per user dropping from $7,145 to $4,885. In FY 2016-17, each user made a median of 23 purchases over the course of the year using Pcards. Pcard purchasing behavior and use is detailed in Exhibit 3.4.

Exhibit 3.4: Median and average number of transactions and spending per Pcard holder, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Number of Transactions per user</td>
<td>44</td>
<td>42</td>
<td>38</td>
</tr>
<tr>
<td>Average Yearly spending per Pcard Holder</td>
<td>$9,687</td>
<td>$9,623</td>
<td>$8,548</td>
</tr>
<tr>
<td>Median Number of Transactions per user</td>
<td>32</td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td>Median Yearly spending per Pcard Holder</td>
<td>$7,145</td>
<td>$6,201</td>
<td>$4,885</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

Corporate charge card and airfare programs

The Port also operates a corporate charge card program which exists to “provide authorized cardholders a mechanism to pay for travel, business, and meeting event expenses” which “lead[s] to cost savings, and improve[s] operating efficiencies by minimizing the use of travel cash advances, eliminating the need to carry cash to pay for services, reducing the use of personal funds, and limiting the risk exposure to currency fluctuations when traveling abroad.” Air travel and corporate charge card purchases are paid for through a single vendor (Citibank), but the programs operate slightly differently. When using corporate charge cards, employees have a physical card that they use. Some items go through a requisition process, though these items are not subject to normal procurement procedures (e.g. bidding process). Airfare charges are not executed through an individual charge card, but instead a Statewide service operated by a single contractor.

Though POLA’s payments for the two programs are paid to the same company, we separately reference the two types of charges, referring to airfare purchases as “air travel” or “airfare,” and other travel, meeting and business expenses “corporate charge card purchases.” In total during FY 2016-17, $528,896 was paid to the charge card company: $247,673 was spent on air travel and $281,223 was used for corporate charge card purchases. The breakdown by year is listed in Exhibit 3.5.

2 American Express Charge Card Policy, Port of Los Angeles, July 16, 2008, 3.
Section 3: Purchasing Cards, Corporate Charge Cards, and Air Travel

Exhibit 3.5: Corporate charge card spending by year, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Charge Cards</td>
<td>$278,947</td>
<td>$267,707</td>
<td>$281,223</td>
</tr>
<tr>
<td>Air travel</td>
<td>$262,982</td>
<td>$306,390</td>
<td>$247,673</td>
</tr>
<tr>
<td>Total</td>
<td>$541,929</td>
<td>$574,097</td>
<td>$528,896</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

The Port used two different vendors for their charge card services during the period audited: American Express (used through October of 2016), and CitiBank (November 2016 to present). While operating through American Express (AmEx) the American Express Charge Card Policy and Procedures Manual, last revised in July of 2008, governed appropriate charge card use. When switching vendors the Port did not prepare new policies and procedures but instead continued to apply the American Express Charge Card Policy and Procedures Manual. These policies and procedures do not clarify card user responsibilities in a way that is easy for a card user to comply with.

Air travel charges are governed by the City of Los Angeles’s extensive travel regulations. Employees must go through a requisition process to purchase air tickets and purchase airline tickets using the Statewide travel agency service, CalTravelStore, to purchase flights at a discounted rate. This service charges all airline ticket purchases to a travel account under the corporate charge card program. Therefore, a traveling senior level employee with a POLA-issued corporate charge card would charge all travel-related expenses (hotel rooms, rental cars) to his or her individually-issued corporate charge card except for the airline ticket, which would be charged to the master airline ticket account through the State-wide travel agency service. Air travel is not discussed in detail in our findings, as our testing yielded no findings: documentation was thorough and demonstrated that AP staff was attentive and careful in their review of air travel documentation.

Corporate card spending encompasses lodging, meals, transportation, marketing, and other business/travel related expenses except for airfare. For this type of spending individual cards are issued. There were between 30 and 38 corporate charge card holders during each of the three fiscal years examined. The cards are meant for executives and senior level Port staff and they have a limit of $8,000 per billing cycle. Median and average annual usage per user can be found in Exhibit 3.6.
Exhibit 3.6: Corporate charge card user transaction summaries, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-2016</th>
<th>FY 2016-2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total spending</td>
<td>$278,947</td>
<td>$267,707</td>
<td>$281,223</td>
</tr>
<tr>
<td>Number of corporate card holders</td>
<td>38</td>
<td>31</td>
<td>30</td>
</tr>
<tr>
<td>Avg. spending per user/year</td>
<td>$7,341</td>
<td>$8,636</td>
<td>$9,374</td>
</tr>
<tr>
<td>Avg. # of transactions per year/user</td>
<td>35</td>
<td>44</td>
<td>49</td>
</tr>
<tr>
<td>Median spending per user/year</td>
<td>$4,753</td>
<td>$3,940</td>
<td>$4,232</td>
</tr>
<tr>
<td>Median # transactions per user/year</td>
<td>28</td>
<td>27</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

*Note: In FY 2016-17 the Port used two different corporate charge card programs, American Express and CitiMaster Card. This table combines the two programs.

Methodology: review of sample transactions

We used three methods to evaluate the Port’s use of the Pcard and corporate charge card programs: Interviews with AP staff who work on these programs, analysis based on the entire dataset of transactions from Pcards and corporate charge cards during Fiscal Years 2014-15 through 2016-17, and audit testing of a judgmental sample of 51 transactions from the programs.

Talking with staff gave us an understanding of how the programs work and a sense of challenges within the program which might not show up in a dataset. For example, if AP staff was able to expediently process all transactions but staff find the process tedious or time consuming this would not appear in a dataset. Data could provide the timeline of transactions, for example, but might not identify the inefficiencies within the process.

Second, we examined a dataset which included all Pcard, corporate charge card, and airfare purchases from Fiscal Years 2014-15—2016-17. We drew conclusions based on the entire dataset where possible, though at times the entire dataset lacked necessary details. Based on the entire dataset, we evaluated the time it took for divisions and AP to process transactions, one of the core functions of the Accounts Payable section, as well as the performance of specific divisions. We were also able to assess whether Pcard transactions had required documentation, which includes the date of a transaction, vendor name item/description, and total amount spent through the program. Certain aspects of the AP section’s performance, such as adherence to relevant policies, were not accessible through examining full transaction datasets.

To address these gaps, we completed audit testing on a judgmental sample of 51 transactions. This allowed us to assess adherence to relevant City and POLA policies. In total we reviewed 33 Pcard transactions, 15 corporate charge card transactions, and three air travel transactions. We discuss sampling criteria and findings for Pcards below, but we do not discuss corporate charge card in detail as the main problem identified for this program was a lack of policies and procedures to compare against current practices. In addition, we do not discuss air travel sampling as documentation was thorough and demonstrated that AP staff was attentive and careful in their review of air travel documentation.

Through this process we sought to assess whether the control framework in place for less restrictive cards ensured appropriate purchases, accurate records, and timely and efficient processing of payments.
Section 3: Purchasing Cards, Corporate Charge Cards, and Air Travel

Pcard Findings

Pcard expense reports are often submitted late and lack appropriate documentation

The City of Los Angeles’ Pcard manual states that divisions have 10 days to reconcile their receipts and submit documentation to the AP section’s Purchasing Card Coordinator following the close of a 30 day billing cycle, resulting in a maximum of 40 days between purchase and submission of expense reports. We found the median number of days elapsed between the date an item is purchased and the date an expense report is submitted during Fiscal Year 2016-17 was 54 days, or fourteen days more than the maximum number of days allowed.

The process for reconciliation and documentation of Pcard transactions is as follows:

1. Department purchasing card coordinator (an AP staff member) submits Pcard statements to cardholders.
2. Cardholders reconcile receipts with Pcard statements and complete a payment record in ERP that details transaction date, vendor name, item/description (one field), and purchase amount, at a minimum.
3. Cardholders submit their payment records to an end-user division supervisor, including all receipts.
4. Cardholder’s supervisor reviews and approves records in ERP.
5. Approval documentation is submitted to the Department Purchasing Card Coordinator within the Accounts Payable section through ERP.

All five of these steps must be completed within 10 days of the close of the billing cycle, according to Pcard policy. Billing occurs on a monthly cycle. If the end-user divisions complete their review and documentation in an appropriate timeframe, the AP section should have 20 days to review the documentation prior to paying a bill.

To examine whether end-user divisions are submitting documentation to the AP Department Purchasing Card Coordinator with appropriate time for AP to perform their review prior to paying Pcard statements, we compared the transaction date to the expense report submission date for all Pcard transactions from Fiscal Year 2014-15 through 2016-17 to estimate whether there were delays in the reconciliation and documentation process. The expense report submission date is the date a cardholder submits documentation to their supervisor (step three in above process).

We assumed that the date of expense report submission within end-user divisions is the same as the date that documentation is provided to the Purchasing Card Coordinator in the AP section, a date that is not available from ERP or any other source. To the extent this assumption is not correct and additional time elapses between when cardholders submit their records to an end-user division supervisor and when they are transmitted to the AP section, our estimates may underestimate the actual elapsed time before the documentation.

We estimated that there should be a maximum of 40 days between the transaction date and expense report submission date in order to meet the 10 day reconciliation/documentation threshold. Forty days accounts for the following:
Section 3: Purchasing Cards, Corporate Charge Cards, and Air Travel

- 30 days of a billing cycle
- 10 days for reconciliation period

Though we are using 40 days for testing purposes, we believe this to be a very conservative estimate of the time that should elapse between the date an item is purchased and the date an expense report is submitted. Our estimate assumes that the division supervisor can review and approve transactions and send them to the AP section on the same day an employee submits an expense report, making the 10 day reconciliation period more than ample. In addition, in many cases a transaction will require fewer days until they are documented and submitted. For example, if an employee purchased an item on January 15th, and the billing cycle for that card ended February 1st, the reconciliation for this item should be completed by February 10th. This item would technically require just 25 days for reconciliation. 40 days would be the maximum time allowed for an employee to submit their expense documentation to a supervisor for a transaction that took place on the first day of a 30 day billing cycle.

In Fiscal Year 2016-17, it took a median of 54 days between the date an item was purchased and the date an expense report was submitted. The median time-lapse for other fiscal years examined, 48 for FY 2014-15 and 54 for FY 2015-16, are presented below in Exhibit 3.7. This indicates that over half of all Pcard expense reports were submitted late in each fiscal year reviewed. In Fiscal Year 2016-17, only 26% of all expense reports for Pcards were submitted in 40 days or fewer. The late submission of expense reports does not allow AP to perform an adequate review of purchases before paying the vendor. In addition, currently AP does not have a way to discipline or train employees who are consistently late in turning in expense reports, in part because AP staff have not been given authority to do so. No other manager at POLA has been assigned responsibility for ensuring compliance with this policy.

To mitigate this problem, AP does follow up with divisions to provide them with a “charges pending report.” This report offers the division a list of outstanding reports by employee. It is then the division’s responsibility to follow up with employees to address outstanding charges. Though this begins to address the problem, timing of expense reports suggest that additional prompting may be necessary to ensure timely submission of expense reports.

Our analysis found that certain POLA end-user divisions allowed particularly long periods of time to elapse prior to submitting an expense report, while others met the 40 day maximum standard. The Construction and Maintenance (C&M) division was responsible for 2,020 Pcard transactions or 77% of all such purchases in FY 2016-17. In the same year, C&M submitted their Pcard expense reports a median of 59 days after the transaction date, well over the 40 days needed to comply with Pcard policy. A table that includes percentage of Pcard transactions and average time elapsed by division can be found in Exhibit 3.7, and a graph with median time elapsed by division (including only divisions that capture over 2% of purchases) can be found in Exhibit 3.8.
Exhibit 3.7: Median # days between a Pcard transaction and expense report submission, by division, FYs 2014-15—2016-17

<table>
<thead>
<tr>
<th>Division</th>
<th># of Transactions</th>
<th>% of transactions</th>
<th>Median # days, transaction to expense report</th>
<th># of Transactions</th>
<th>% of transactions</th>
<th>Median # days, transaction to expense report</th>
<th># of Transactions</th>
<th>% of transactions</th>
<th>Median # days, transaction to expense report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and Maintenance</td>
<td>2,647</td>
<td>81.47%</td>
<td>49</td>
<td>2,337</td>
<td>80.17%</td>
<td>56</td>
<td>2,020</td>
<td>77.01%</td>
<td>59</td>
</tr>
<tr>
<td>Port Police</td>
<td>384</td>
<td>11.82%</td>
<td>39</td>
<td>403</td>
<td>13.83%</td>
<td>38</td>
<td>410</td>
<td>15.63%</td>
<td>40</td>
</tr>
<tr>
<td>Graphics Services</td>
<td>83</td>
<td>2.55%</td>
<td>81</td>
<td>52</td>
<td>1.78%</td>
<td>63</td>
<td>48</td>
<td>1.83%</td>
<td>31</td>
</tr>
<tr>
<td>Port Pilot</td>
<td>39</td>
<td>1.20%</td>
<td>39</td>
<td>43</td>
<td>1.48%</td>
<td>42</td>
<td>42</td>
<td>1.60%</td>
<td>32</td>
</tr>
<tr>
<td>Risk Management</td>
<td>9</td>
<td>0.28%</td>
<td>-</td>
<td>5</td>
<td>0.17%</td>
<td>-</td>
<td>4</td>
<td>0.15%</td>
<td>36</td>
</tr>
<tr>
<td>Public Relations</td>
<td>27</td>
<td>0.83%</td>
<td>80</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Engineering</td>
<td>23</td>
<td>0.71%</td>
<td>29</td>
<td>36</td>
<td>1.23%</td>
<td>29</td>
<td>60</td>
<td>2.29%</td>
<td>38</td>
</tr>
<tr>
<td>Construction</td>
<td>16</td>
<td>0.49%</td>
<td>-</td>
<td>5</td>
<td>0.17%</td>
<td>-</td>
<td>5</td>
<td>0.19%</td>
<td>-</td>
</tr>
<tr>
<td>Cargo/Industrial Real Estate</td>
<td>6</td>
<td>0.18%</td>
<td>-</td>
<td>7</td>
<td>0.24%</td>
<td>-</td>
<td>5</td>
<td>0.19%</td>
<td>-</td>
</tr>
<tr>
<td>Human Resources</td>
<td>6</td>
<td>0.18%</td>
<td>-</td>
<td>8</td>
<td>0.27%</td>
<td>-</td>
<td>3</td>
<td>0.11%</td>
<td>-</td>
</tr>
<tr>
<td>Business and Trade Development</td>
<td>3</td>
<td>0.12%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Office of the City Attorney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harbor Division</td>
<td>3</td>
<td>0.00%</td>
<td>-</td>
<td>3</td>
<td>0.00%</td>
<td>-</td>
<td>1</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Community Relations</td>
<td>2</td>
<td>0.00%</td>
<td>-</td>
<td>14</td>
<td>0.48%</td>
<td>-</td>
<td>4</td>
<td>0.15%</td>
<td>-</td>
</tr>
<tr>
<td>Wharfinger</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>0.00%</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>3,249</td>
<td>48</td>
<td>2,915</td>
<td>54</td>
<td>54</td>
<td>2,623</td>
<td>54</td>
<td>54</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP
Exhibit 3.8: Median time lapse between a Pcard transaction and expense report submission date, by division, FYs 2014-15 –2016-17

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

Notes: *Divisions with fewer than 2% are included in the all divisions category in the graph

**Transactions that lacked an expense report were omitted from analysis. There were 40 missing expense reports from FY 2016-17, 16 from FY 2015-16, and 3 from FY 2014-15.

As demonstrated, expense reports related to Pcards are typically submitted late. When divisions submit reports late, the POLA Pcard Coordinator in the AP section lacks documentation to perform a review of Pcard charges prior to paying the balance due on the card. This, in turn, increases the risk that the Port is paying for inappropriate uses of Pcards, as bills are paid prior to reviewing records.

Pcard sampling process

As previously mentioned, our team performed audit testing on a sample of Pcard transactions to better understand Pcard controls. We examined the full documentation of a judgmental sample of 33 transactions. Our sampling process took the following criteria into consideration:

- Equal representation of the three fiscal years surveyed (11 transactions per year)
- Representation of all divisions and categories of goods, with higher representation of the divisions that used Pcards the most.
Section 3: Purchasing Cards, Corporate Charge Cards, and Air Travel

- Representation of merchants where Pcard spending was highest.

We also included transactions in our sample that appeared to violate the following POLA Pcard policies:

- Items/transactions that exceeded allowable transaction amounts
- Items that appeared to violate Pcard policies pertaining to disallowed items

Our goal in including some transactions that appeared to violate POLA policies and regulations was to review the details of those transactions and assess whether they had been granted exceptions to the POLA regulations or whether there are weaknesses in internal controls that allowed such transactions to take place. In discussing our sample results below, we’ve separated policy violations that appeared in our sample by design (e.g. high dollar transactions and disallowed items) from policy violations that appeared in our sample by chance. Given the small size of the sample and the intentional representation of certain policy violations, findings from the sample are not necessarily representative of Pcard transactions at large. We compared our sample against policies and regulations outlined in POLA’s Pcard manual. Our findings are discussed below.

Pcard regulations are inconsistently followed

We reviewed a sample of 33 Pcard transactions evaluating against requirements in the Pcard Manual, the document governing Pcard use. We found several consistent policy violations, the most common being failure to include an item description for purchases, a required part of the documentation process, and missing receipts. In total 83% of purchases made with a Pcard lacked an item description, though this is a Pcard policy manual requirement. In addition, six of the items sampled (18%) were missing receipts.

Pcard manual regulations

The Pcard manual establishes allowable Pcard use and required documentation. We’ve summarized several key regulations below.

**Thresholds for Pcard transactions:** PCard holders are expected to charge no more than $5,000 per billing cycle or $1,000 per single transaction to their Pcard.³

**Disallowed items:** There are many items that cannot be purchased using a Pcard. These include electronics, uniforms, computer hardware, and others.⁴

**Inclusion of item description and receipts:** Pcard holders are required to attach item descriptions and all receipts to a payment record document provided to the AP section.⁵

**Ability to make purchases using Pcards:** The Pcard manual states that “The individual whose name appears on the card is the only individual authorized to use the card. Usage by any other individual is strictly prohibited.”⁶

³ City of Los Angeles, Purchasing Card Program Card Holder Manual, May 2015 p.3
⁴ Ibid 4.
⁵ Ibid 3.
Approval requirements: There are two levels of approval for Pcard purchases. First, a division supervisor or manager for the Pcard holder must review Pcard purchase documentation for completeness and approve the Pcard purchases, then the Department Pcard Coordinator reviews the Pcard documentation for completeness.

Pcard documentation frequently does not include an item description for purchases, making it difficult for supervisors to have oversight over purchases

Our review of the full dataset of Pcard transactions for the three year period between FYs 2014-15 and 2016-17 found that the most common violation of POLA’s Pcard policies and regulations is that items descriptions were not included in Pcard expense statements in a median of 83 percent of transactions during the three year audit review period.

The Pcard Manual states that Pcard holders will at a minimum document “each transaction by date, vendor name, item/description, and total amount.” Our review of all Pcard transactions between FYs 2014-15 and 2016-17 showed that the majority of transactions lack a description of the item in ERP documentation. The intent of this regulation is to allow supervisors to confirm that the specific goods purchased are appropriate for Port business, and to allow supervisors to confirm that the purchased goods are present at their division. In many cases, the Port can still follow the intent of their regulation because receipts are itemized; however, this is not true in all cases. Some receipts lack detail, and, in some cases, ERP documentation does not allow users to view the details of documentation (e.g., sometimes a receipt covers an invoice that includes itemized information). Beyond this, in certain cases, receipts have been lost.

Exhibit 3.9: Pcard transactions missing an item description, FY 2014-15—2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions missing item description</td>
<td>2,736</td>
<td>2,391</td>
<td>2,071</td>
</tr>
<tr>
<td>Total Transactions</td>
<td>3,249</td>
<td>2,915</td>
<td>2,623</td>
</tr>
<tr>
<td>Percent of total</td>
<td>84%</td>
<td>82%</td>
<td>79%</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

Within our sample of 33 transactions, four lacked both a receipt and an item description. In addition, two transactions contained receipts but the details do not clarify what items were purchased either because the receipt is not clear or the items on the receipt were not described within documentation. Thus, for six items in our sample of 33 transactions, or approximately 18 percent of the sample transactions, it would be difficult for a supervisor to document their review of employee purchases to ensure appropriate use of the Pcard program and POLA resources.

Clarifying an employee’s responsibilities regarding appropriate documentation of would enhance the controls on the program. For example, if the Port developed internal procedures clarifying that in instances where a receipt is itemized, an employee does not need to detail purchases or provide item descriptions, but in other instances an employee should provide a list of purchases in ERP

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6 Ibid 4.
documentation if the receipt is not itemized this would support proper documentation and offer an efficient solution to documentation problems.

Policy violations found through sampling process include missing receipts, lack of appropriate approval, and allowing others to use cardholder’s Pcard

Other POLA policies and regulations, for which some transactions were found to be non-compliant, were: missing receipts, unclear receipts (resulting in a similar violation as a missing receipt), missing approvals, and employees allowing others to use their Pcards. These violations weaken the controls put in place to ensure appropriate use of the Pcard program. However, the extent of such violations varied by policy. Exhibit 3.10 presents the frequency of these violations.

Exhibit 3.10: Number of Items within a sample of 33 Pcard transactions that violate Pcard regulations, Fiscal Years 2014-15 through 2016-17

<table>
<thead>
<tr>
<th>Policy violation</th>
<th>Items in sample</th>
<th>Percent of total sample of 33 transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missing receipt</td>
<td>6</td>
<td>18%</td>
</tr>
<tr>
<td>Missing receipt and no item description provided</td>
<td>4</td>
<td>12%</td>
</tr>
<tr>
<td>Unclear receipt and no justification provided**</td>
<td>2</td>
<td>6%</td>
</tr>
<tr>
<td>Lacks appropriate approval</td>
<td>5†</td>
<td>15%</td>
</tr>
<tr>
<td>Allows others to purchase using Pcard</td>
<td>1</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Sample documentation provided by AP

**Though receipts were provided in some cases, there were a number of instances in which the receipts were very unclear, either because the ink was so faded or because items are not described on the receipt. With a combination of an unclear receipt and no item description provided it becomes more difficult for a supervisor to perform a full review of Pcard documentation.

As previously noted, we do not conclude that the sample selected is representative of all transactions as a whole, though through the process it is clear that for at least some Pcard transactions, there is deviation from outlined policies.

The Port noted that two of the six charges with missing receipts were items that had been returned and the charges were zeroed out within a credit card cycle. This means that the charges were resolved before Port staff needed to reconcile their payments. In these cases the Port does not collect receipts as they have not had remit a payment. As such, it is not a problem that two of the six receipts were missing.

7 At the time of the Audit, all five charges were missing appropriate approvals. AP followed up with the division once these items were selected for our sampling process and requested that these items be appropriately approved. As of 4/11/2018, these five items now have appropriate approvals.
Through violating Pcard regulations, POLA loses important internal controls

As described above, we found a number of policy violations within the sample of Pcard transactions. Each of the policies is meant to protect the Port against misuse of cards. We’ve described the purpose of each policy below:

- **Including receipt**: Including receipts allows supervisors to monitor purchases and confirm that all purchases are necessary for Port business.
- **Including item description or justification**: Including an item description or justification for purchases allows supervisors to monitor purchases and confirm that they are necessary for Port business.
- **Approvals process**: The Port has developed a three-way review process to ensure that Pcard transactions follow appropriate documentation processes and are used for Port business only. The Pcard manual only requires a two-way check. The AP section’s process includes a check of receipts by supervisors, an approval allowing receipts to be processed by the Director of Accounting, and a final check by the POLA Pcard Coordinator confirming that amounts on the billing statement match the approved charges.
- **Allowing only one user per Pcard**: Allowing only the Pcard holder use of a Pcard creates a system of accountability. Should someone misuse their card, the Port is then able to hold that employee accountable.

Without adherence to policies and procedures, POLA loses some of the controls they’ve put in place. While the violations discussed do not definitively indicate abuse of the program, the violations do indicate weaknesses in program controls, making it easier for an employee to misuse the program if they choose to do so.

**Items that violate transaction limits or allowable purchase regulations do not include an exception approving purchases**

We selected certain transactions for review from the three year period because they appeared to violate Pcard policies pertaining to transaction dollar limits and allowable purchases. These violations could be identified from the Pcard dataset of all transactions from the audit review period that we received from the AP section. We selected them for further review to ascertain whether Pcard users had gone through required approval processes for the items. We reviewed seven transactions that violated the dollar threshold and three transactions that appeared to include disallowed items.

Our sample included seven items that were above allowed spending thresholds, representing 21% of the 33 transactions sampled. Two of the seven charges above allowed thresholds were zeroed out before the Port had to remit payment. It is worth noting that going above transaction limits is highly unusual; over the three years reviewed, items over allowed thresholds make up less than 1% of all purchases within a given fiscal year. In reviewing these transactions, we assessed whether the card user or division requested an exception to Pcard policies from the Controller’s Office. The Controller’s Office may issue exceptions to Pcard policies if exceptions are requested in writing. None of the seven transactions selected had documentation indicating that an employee had requested or received an exception to

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*Harvey M. Rose Associates, LLC*
policies. The exceeding dollar amounts ranged from 6% to 30.2% percent above the $1,000 per transaction limit, or from $60 to $302 above the limit.

Similarly, our team intentionally elected to include transactions that appeared to include prohibited purchases in our sample. The Pcard manual has a very clear list of prohibited items. We included three transactions for electronics (3 items: power cords for AV equipment, electronics rentals, and computer adapters) which are not supposed to be purchased with Pcards according to Pcard policy. Again, we aimed to assess whether Pcard users submitted requests for exceptions to the Controller’s Office policies. Beyond these three items, we identified that one additional item in our sample included the purchase of uniform hats, a prohibited purchase. None of the four disallowed items had requested or received an exception allowing them to purchase prohibited items. Therefore, in at least these cases, violations of Pcard policy appeared to occur. Assessing the number of prohibited purchases within the entire population of transactions is not possible without seeing full documentation for transactions because most purchases do not include an item description.

In instances where there is a clear policy violation, AP staff follow up with Pcard holder and their supervisor to explain the employee’s policy violation and direct them back to the Pcard manual. AP section provided us with a copy of this type of communication.

**Pcard regulations have not been updated since the introduction of electronic processing**

The Pcard manual was written for a process that was largely paper-based. As such, many of the regulations are not applicable in the current environment. For example, the Pcard manual states that “At the workplace, the cardholder should have another individual review the receipts/invoices, verify cost and confirm receipt of goods by signing the invoice/receipt. (The signature should be that of a City employee from the same unit and at an equal or higher classification as the cardholder, and signature must be legible.)”

This process is outdated, as currently receipt review is completed online through the ERP system and receipts do not require a signature. Other examples include reference to specific forms, such as the Purchasing Card Payment Record, which is also completed online. In addition, as described in interviews, AP has developed certain internal processes, such as their three way check for Pcard purchases, which are not captured by current policies and procedures. Internal Pcard processes should be documented periodically to ensure that policies described match current practice.

**Corporate charge cards require clear and up to date policies and procedures**

The Port has corporate charge cards which are used by an average of 34 POLA senior staff annually for travel, business, marketing, and meeting event-related expenses. The Port used American Express cards (AmEx) during FYs 2014-15, 2015-16, and half of FY 2016-17. Midway through FY 2016-17, the Port switched to CitiBank cards.

Interviews and communications with the Port staff suggest that there is no list of approved or disapproved types of charges for corporate charge cards. Further, there is no maximum number of transactions per day or billing cycle, nor a maximum dollar amount for a single transaction. Previously
Section 3: Purchasing Cards, Corporate Charge Cards, and Air Travel

there was no limit on the cards, though currently corporate charge cards have a credit limit of $8,000 to $10,000 per billing cycle.\(^\text{10}\) There is a policies and procedures manual for American Express Charge Cards, the corporate charge cards previously used by the Port, which was last revised in 2008. Similar to the PCard manual, many of the procedures within the manual do not apply to the current electronic processes. When operating under the AmEx policy manual there were certain regulations that the Port needed to comply with, such as providing itemized lists of meal attendees and identifying non-meal purchases. However, overall practices for card users are not as detailed as the policies and procedures for Purchasing Cards.

Since that time period, the Port switched to CitiBank cards but the Port did not prepare new policies for these cards. Instead, AP section staff stated that they continued to use the AmEx Policies. The AmEx policies do not clarify card user responsibilities in a way that is easy for a card user comply with. AP staff should prepare internal policies which clarify:

a. Spending and transaction limits for cards
b. Clear guidelines for appropriate use of corporate charge cards, specifying any disallowed items
c. Record keeping requirements, including approvals process and required documentation
d. Reconciliation process for cardholder and supervisor
e. Procedures for handling disputes and unauthorized purchases
f. Processes for obtaining exceptions to written policies
g. Procedures for card issuance and cancelation, lost or stolen credit cards, and employee termination
h. Segregation of duties for payment approvals, accounting, and reconciliations
i. Any training requirements for card holders
j. Any auditing processes that will be performed to test controls on cards

Corporate charge card and airfare expense reports not submitted in a timely manner

Policies pertaining to submission of an expense reports for charge card purchases and airfare purchases require updates. While there were policies related to submission of an expense report when the card operated under AmEx, currently POLA does not have policies regarding their timeline for submission of expense reports related to corporate charge card purchases. Expense reports create systems of accountability, however without timely submission of expense reports it becomes harder for POLA and the AP section staff to oversee the corporate charge card program. In addition, because AP pays credit card bills prior to viewing expense reports in many cases, it becomes harder to resolve problems as they arise, rendering expense reports a weak control when not provided timely.

To measure the performance of POLA, we analyzed the time elapsed between the date a purchase was made and the date an expense report was submitted for both airfare and corporate charge card expenses. We found that at the median, it took corporate charge card holders 29 days to submit an expense report in FY 2016-17. In total, 60 percent of corporate charge card purchases had a time lapse of 40 days or fewer, while the other 40 percent had a longer time lapse. Exhibit 3.11 shows time-lapse between the date an item was purchased with a corporate charge card and the submission of an expense report by percentile, looking specifically the latest 50 percent of expense report submissions.

\(^\text{10}\) 15 December 2017. Email from POLA staff.
Exhibit 3.11: Time-lapse in days between purchase with a corporate charge card and submission of an expense report by percentile, FY 2014-15-FY 2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>31</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>75th percentile*</td>
<td>84</td>
<td>72</td>
<td>63</td>
</tr>
<tr>
<td>90th percentile</td>
<td>165</td>
<td>150</td>
<td>95</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

*Note: The table above shows the percentage of purchases that had a total number of days between purchase date and expense report submission date that were as high as the tabled value or less. For example, 75 percent of invoices had 84 days or fewer between the purchase date and expense report submission date in FY 2014-15. Therefore, 25 percent of purchases had over 84 days between the purchase date and expense report submission date.

Airfare purchases had longer time lapses between a purchase and submission of expense report, with a median time lapse of 59 days in FY 2016-17.

Because airfare purchases must go through a requisition process, there are controls in place to curb inappropriate use of airfare purchases. In addition, expense reports are due 30 days after the final date of business travel per travel policy, which may account for the time delays related to airfare purchases. Exhibit 3.12 shows the time lapse between an airfare purchase and submission of an expense report by percentile for all fiscal years examined.

Exhibit 3.12: Time lapse in days between an Airfare purchase and submission of an expense report by percentile, FY 2014-15-FY 2016-17

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15</th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>56</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>75th percentile</td>
<td>91</td>
<td>97</td>
<td>84</td>
</tr>
<tr>
<td>90th percentile</td>
<td>222</td>
<td>201</td>
<td>155</td>
</tr>
</tbody>
</table>

Source: ERP data extraction covering Pcards and corporate charge cards provided by AP

As noted above, AP should develop policies and procedures for corporate charge card purchases. Expense report submission timing is one aspect of the policies and procedures that requires an update.

**Recommendations**

POLA management should direct the Director of Accounting to:

3.1 Utilize ERP internal control capabilities to ensure appropriate documentation of items and services purchased with Pcards and timely submission of reports; (e.g., don’t allow employees to submit an expense report without inputting required fields related to purchases, such as item description.)

3.2 Develop an internal document that acts as a supplement to the Controller’s Office Pcard Manual which accurately captures Pcard documentation practices within ERP.
3.3 Direct AP section staff to begin recording the date that expense report documents are provided to the Pcard Coordinator so that AP section management can track compliance with the City’s time standard that expense documents be transmitted to the Pcard Coordinator within 10 days of the closing of the billing cycle for the card.

3.4 Direct AP end-user division heads to develop policies and procedures for corporate charge cards. This includes clarifying:

   a. Spending and transaction limits for cards
   b. Clear guidelines for appropriate use of corporate charge cards, specifying any disallowed items
   c. Record keeping requirements, including approvals process and required documentation
   d. Reconciliation process for cardholder and supervisor
   e. Procedures for handling disputes and unauthorized purchases
   f. Processes for obtaining exceptions to written policies
   g. Procedures for card issuance and cancelation, lost or stolen credit cards, and employee termination
   h. Segregation of duties for payment approvals, accounting, and reconciliations
   i. Any training requirements for card holders
   j. Any auditing processes that will be performed to test controls on cards

3.5 Direct all POLA end-user division heads to comply with standards for timely submission of expense reports, and monitor staff oversight of Pcard use within their division.
4. Vendor Database

- An effective vendor database should help ensure that all vendors are legitimate and should minimize payment errors related to duplicate vendor entries. To reduce the risk of payments to fraudulent vendors, controls are needed over who has authority to add, change, and delete vendor records and to ensure that those individuals are not also authorized to process vendor payments.

- Vendor master file internal controls should include regular activity reports to management, consistent naming and data entry conventions, and routine removal of old or duplicate entries. Additionally, all vendor master file changes should be documented to reduce the chance of fraud.

- The AP section maintains a vendor database that is referred to by AP staff as they process payments that contains vendor information such as Vendor Number, Vendor Name, Vendor Status, Vendor Site Code, Address, Site Status, and City Business Tax Registration Certificate number.

- The database contains 10,135 vendor or payee records with a status of “Active”. However, up to 7,826 records have not been used or paid by POLA for at least the last three fiscal years. These vendors should be classified as inactive and removed from the records. Having so many inactive vendors makes the database cumbersome for staff to use and provides unnecessary opportunities for fraudulent payments by falsely reactivating these vendors and payees.

- POLA’s vendor database has controls in place to ensure vendor legitimacy but adherence to them is not well documented and the controls are weak.

- Controls over staff authority to access and make changes to the database are not sufficient. Changes in vendor information are not reviewed and there is insufficient segregation of duties in one case between a staff member authorized to make changes to the database and process vendor payments. Changes to vendor information are not reviewed and approved by staff independent of the AP unit, which would serve as a key control to prevent fraudulent payments. Management does not receive reports on vendor database activity or changes to ensure adequate management monitoring of vendor legitimacy.

- There are effectively no formal written guidelines around vendor management. Aside from one note about vendor name changes, the AP Payment Procedures and the Port’s Financial Procedures do not contain protocols regarding maintenance of the vendor master file.
Overview of supplier data management

A vendor database (also called a supplier database or vendor master file) is a standard element of accounts payable, employee reimbursement, and procurement processes. It typically contains all important information about entities and individuals that do business with and receive payments from an organization. A well-maintained vendor database supports an efficiently functioning AP department, promotes regulatory compliance, and decreases the possibility of fraudulent vendor payments. Keeping the vendor database up to date and error free is challenging as vendor information is in constant flux and AP is rarely notified of changes. However best practices can be implemented to minimize time consuming manual maintenance by staff and to prevent or catch creation of fraudulent vendors or duplicate invoices or payments to unscrupulous vendors early. Based on a review of AP supplier literature and best practices for vendor database management, vendor due diligence practices and useful data to track include the following:

Management of vendor database:

1. Establish naming conventions and coding standards for supplier names and addresses (e.g., exclude periods and commas in names; eliminate “the” in supplier names).
2. Access to the master vendor file should be restricted to only those employees designated to set up and maintain the vendor database. These individuals should not have the ability to enter invoices or make payments.
3. Keep records up to date and archive vendor records inactive for an established period of time (some sources recommend as little as 12 months, some as long as 5 years).
4. Use monitoring and auditing systems to detect criminal conduct by vendors, basing monitoring systems on the red flags of vendor schemes that pose the greatest risk.
5. Set procedures and controls for setting up new vendors and changing vendor records.

Vendor due diligence:

1. Review watchlists (e.g., the Specially Designated Nationals and Blocked Persons lists maintained by the Office of Foreign Assets Control) and politically exposed persons databases.
2. Conduct a corporate registry search.
3. Verify vendor’s insurance.
4. Verify any professional licenses.
5. Confirm physical addresses.
6. Perform site visits.
7. Test the reputation of the vendor and its key individuals.

Section 4: Vendor Database

- Conduct a media analysis
- Compare vendor addresses against employee addresses
- Conduct interviews/vendor questionnaire
- Require W-9 forms before paying vendors
- Review the vendor’s policies and procedures on fraud, governance, and compliance
- Review the vendor’s financial/banking information
- Develop a vendor due diligence checklist to facilitate the vendor due diligence process

Recommended data to maintain along with vendor data:

- Tax Identification Number (TIN)/ Social Security Number (SSN)
- North American Industry Classification System (NAICS) Code
- Insurance verification
- W-9
- Code of business conduct declarations to match internal code of conduct requirement
- Diversity information

Overview of internal controls

Los Angeles City Controller’s Accounting Manual Polices

Section 1.9.16 of the Los Angeles City Controller’s Accounting Manual, “Vendor/Customer (VCUST) Table Maintenance,” describes the policies for establishing and making changes to vendor information in FMS. FMS stands for Financial Management System and is the Controller’s integrated and automated government accounting system, comparable to POLA’s Oracle Enterprise Resource Planning system (ERP). The section also describes the Business Tax Ordinance requirement and data entry requirements specific to independent contractors.

Internal controls outlined in this section of the Controller’s manual include:

- To create a new vendor or request changes to vendor data, departments (in this case, POLA) enter a Vendor/Customer Creation (VCC) document or Vendor/Customer Modification document, which is electronically routed to the Controller for approval.
- The vendor must provide the department to whom it is providing goods or services (POLA) with a BTRC number, a required vendor field in FMS to effect vendor payment.
- When establishing or updating vendor files in FMS for independent contractors, such as attorneys, accountants and consultants, the following guidelines are to be followed by City departments to ensure payment:

---

3 Nine Best Practices Supplier Master File
Section 4: Vendor Database

- The 1099 reportable box must be checked.
- A Social Security number for individuals and sole proprietors must be provided.
- A federal Taxpayer Identification Number must be provided for businesses.
- A valid address must be entered.
- A completed W-9 form signed by the vendor must be provided.

The Controller’s FMS interfaces with and receives financial information from other City financial systems, including the revenue collection system called LATAAX. The LATAAX system transmits to FMS vendor name and Business Tax Registration Certificate (BTRC) information on a daily basis to enforce City policies that require most vendors to maintain an active BTRC (Section 1.1 of Controller’s Manual).

FMS also interfaces with the Port’s ERP system. Payment documents are transmitted daily to FMS from the ERP system for the processing of checks. After checks are processed, check information is transmitted back to the ERP system.

Los Angeles Municipal Code

Section 21.06, Article 1 of the LAMC requires a separate BTRC for all locations for businesses with multiple locations in the City of Los Angeles. A warehouse or distributing plant used in conjunction with a business in the City is not regarded as a separate business location. When business locations are outside of Los Angeles, only one registration certificate is required for each type of business for all locations.

Accounts Payables Procedures

The AP section does not have internal guidelines governing vendor data maintenance. The Controller’s manual is the primary source of regulations pertaining to vendor data maintenance. POLA’s internal policy document, “Payment Procedures,” focuses on the sequence of steps to process payments to a vendor, but does not comment on recordkeeping or internal controls for vendors. The section titled “Common Payment Pitfalls” outlines two criteria relevant to vendor data maintenance, below.

- Missing Taxpayer Identification Number and BTRC Number are both flagged as “common payment pitfalls.”
- If a vendor changes names, no staff action can be taken until a letter is received from the vendor indicating a name change has occurred.

POLA’s Vendor Database

In the case of the Port, the vendor database, housed in ERP, is limited to contact and status information. POLA Accounts Payable staff refers to the vendor data to facilitate the payment of invoices, using the data primarily to determine vendor legitimacy. The vendor database fields include the following:

- Vendor Number
- Vendor Name
- Privacy
- Vendor Status
- Vendor Site Code
- Address 1
Section 4: Vendor Database

- Address 2
- Address 3
- City
- State
- Zip Code
- Site Status
- BTRC #

Key staff activities to determine legitimacy of existing vendors

The vendor database should be one of the key controls on POLA’s invoice processing. As a means of ensuring vendor legitimacy, AP staff cannot process an invoice to a supplier unless:

- The vendor is registered in the vendor database in ERP,
- The vendor has an up-to-date federal Tax Identification Number (TIN),
- The vendor has up-to-date business insurance on record with the POLA Office of Risk Management,
- The vendor has a City Business Tax Registration Certificate (BTRC) issued by the City’s Office of Finance.

Process to add a new vendor

Although AP’s written policies and procedures do not include any reference or instructions for use of the vendor database, based on conversations with staff, the requirements with respect to vendor data flow are shown in Exhibit 4.1. For new vendors, a completed Request for New Supplier Form is submitted by end-user divisions to AP along with approved invoices so that the vendor can be added to the vendor database by AP. New vendors must also comply with the requirements shown in Exhibit 4.1.
# Exhibit 4.1: Vendor verification steps for new and existing suppliers

<table>
<thead>
<tr>
<th>Item</th>
<th>AP Requirement</th>
<th>If requirement not met</th>
<th>Format</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Supplier</td>
<td><strong>1. New Supplier Form</strong></td>
<td>Must be complete</td>
<td>New Supplier Form is sent back to the end user</td>
</tr>
<tr>
<td><strong>All Suppliers: New or Existing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. <strong>City Business Tax Registration Certificate (BTRC)</strong></td>
<td>BTRC number on agreement must match database, invoice, AND the LA Office of Finance website</td>
<td>Cannot proceed with payment / AP staff enters correct BTRC number obtained from City website into ERP database</td>
<td>Paper/ERP/Web</td>
</tr>
<tr>
<td>2. <strong>W-9/Tax identification number (TIN)</strong></td>
<td>AP staff confirms that TIN on agreement matches W-9 form provided by vendor. TIN is recorded in ERP by AP staff (not in supplier tab), W-9 hard copy retained on file</td>
<td>Ask end-user division to provide completed W-9 form from the Supplier / Check with division for discrepancy</td>
<td>Paper/ERP</td>
</tr>
<tr>
<td>3. <strong>Vendor address</strong></td>
<td>Address in agreement and on invoice must match address in database</td>
<td>If address on agreement does not match database, new Vendor record added/address is updated in ERP by AP staff.</td>
<td>Paper/ERP</td>
</tr>
<tr>
<td>4. <strong>Insurance</strong></td>
<td>POLA Office of Risk Mgmt. must verbally confirm vendor has up to date insurance (insurance status is not recorded in ERP).</td>
<td>Cannot proceed with payment</td>
<td>Verbal</td>
</tr>
</tbody>
</table>

The three controls on vendor legitimacy at POLA are a Tax Identification Number (TIN), a Business Tax Registration Certificate (BTRC), and business insurance. These are weak controls that are surmountable. A key element of vendor management involves ensuring the legitimacy of all vendors and mitigating the risk of shell companies, companies set up for fraud, with no physical presence and generating no independent economic value. It is relatively easy to start a business, so it is relatively easy to establish a shell company. Current AP vendor due diligence amounts to confirming that the vendor has followed the legal requirement to operate a business but takes no further steps to confirm the legitimacy or performance record of those business activities. Outlined below in Exhibit 4.2 are the details an entity must provide in order to obtain a TIN, BTRC, and insurance—the three verification AP performs.
## Exhibit 4.2: Requirements to obtain a TIN, BTRC, and business insurance

<table>
<thead>
<tr>
<th><strong>Employer/Tax Identification Number (EIN/TIN)</strong></th>
<th><strong>Business Tax Registration Certificate (BTRC)</strong></th>
<th><strong>General Liability Business Insurance (in addition to the details listed for TIN and BTRC)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal structure</td>
<td>EIN/SSN</td>
<td>Number of employees</td>
</tr>
<tr>
<td>Legal Business Name</td>
<td>A description of business activities</td>
<td>Estimate of the business's revenue for the upcoming year</td>
</tr>
<tr>
<td>Owner information including Social Security Number</td>
<td>Legal business name</td>
<td>Location details such as whether business is run from a home and whether currently have Homeowner’s Insurance or Commercial Property Insurance covering the workplace</td>
</tr>
<tr>
<td>Business Location</td>
<td>Business type and structure</td>
<td>Details about what kinds of risks the business might be exposed to (e.g., handling dangerous chemicals, performing onsite installations for clients, etc.)</td>
</tr>
<tr>
<td>Business start date</td>
<td></td>
<td>Insurance history (i.e., whether you’ve had to make any claims, been rejected for coverage, etc.)</td>
</tr>
<tr>
<td>Business primary mailing address</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business contact information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax Number (if registered for a seller's permit with the State of California)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As far as vendor controls, a TIN, BTRC, and business insurance are not difficult to obtain for an entity committed to defrauding the Port. The only additional control internal to POLA, the New Supplier Form, shown below in Exhibit 4.3, adds no additional details about the supplier.

Exhibit 4.3: New Supplier Form

AP section management reports that they closely review “high risk vendors.” They define high risk vendors generally as vendors that have had transaction processing or documentation problems in the past or vendors supplying particularly complex goods, such as advanced engineering equipment suppliers. There is no clearly stated definition or threshold for “high risk” and such vendors are not identified through systematic profiling and analysis of the vendor database, such as those with recent changes in address, those with repeated payments of the same amount, those with recent slight name changes, or those with payments of equal amounts just under certain approval thresholds. Rather, such vendors are identified by staff based on past experience.

Analysis of Vendor Database administrative policies and access controls

AP does not have guidelines governing vendor database administration and there is insufficient segregation of duties between staff who can edit vendor records and staff who approve payments.
Three AP section staff members have authority to make changes - add, edit, and delete - vendor records. One of these staff also has the ability to enter invoices and approve payments. Best practice is to maintain a segregation of duties between those staff that manage the vendor records and those staff that process payments.

Limiting access rights to the vendor records reduces the risk of employees adding fraudulent vendors or changing existing vendor data. Similarly, barring employees with vendor editing authority from processing or approving payments reduces the risk of employees processing fraudulent payments. The self-written job responsibilities for each position with vendor record access are below. Duties that should be segregated from vendor editing controls are italicized in **bold**.
Section 4: Vendor Database

Exhibit 4.4: Staff with Vendor Record Editing Authority

<table>
<thead>
<tr>
<th>Position</th>
<th>Responsibilities</th>
</tr>
</thead>
</table>
| Accounting Records Supervisor II | - Supervises 5 Accounting Clerks, 1 Accounting Records Supervisor and 1 Administrative Clerk  
- Processes payments for Wires, ACH, Board Orders, Resolutions, and Refunds  
- Communicates with end-user divisions and external customers regarding any issues or concerns  
- Runs Payment Voucher Report  
- Reviews and approves payments in FMS  
- Runs FMS Inbound Warfile Status Report  
- Closes AP at the end of the month  
- Handles 1099s for our vendors |
| Accounting Records Supervisor I | - Supervises one Accounting Clerk  
- Sets up new suppliers (vendors), Agreements, Construction Contracts, IDO’s in ERP  
- Reviews and creates Suppliers in ERP  
- Communicates with end-user divisions via e-mail if additional documents are needed before setting up new suppliers in ERP (new supplier form, W-9’s, or BTRC’s)  
- Provide new IDO numbers to divisions as requested  
- Keep track of IDO log.  
- Converts requisitions to purchase orders in ERP |
| Accounting Clerk          | - Converts Requisitions to Purchase Orders in ERP. This includes AFE’s, IDO’s, AG’s, AGE’s, BO’s, RESO’s, TL, SVC, and CON.  
- Creates Purchase Order for Petty Cash  
- Reviews and creates Suppliers in ERP  
- Communicates with end-user divisions via e-mail if additional documents are needed before setting up new suppliers in ERP (new supplier form, W-9’s, or BTRC’s)  
- Assigns AFE #’s and keep track of log.  
- Review and update Supplier information (address change, BTRC#, name change, etc.)  
- Provide IDO #’s and extend Agreement dates and amounts when senior staff is out of the office. |

Source: AP staff self-written job descriptions submitted to Audit team by request, received August 2017

POLA AP is not maintaining the proper segregation of duties. One position with authority to approve payments should not have the authority to make changes to the vendor database

**Database change authorization and verification**

The process outlined above is only partially documented and inconsistently adhered to, so it is not possible to confirm that vendor verification is occurring before payments are approved
Changes to the vendor database, which can occur for legitimate or fraudulent purposes, are not adequately recorded, reviewed by independent staff, and reported to management. As a result, the addition of new vendors or changes to existing vendors is not adequately validated. Changes to the database, both new supplier additions and edits to existing vendor records, should be recorded and reviewed by supervisory or independent staff such as employees from outside the AP unit, then summarized and regularly reported to management.

Documenting and review of changes by non-AP section staff and AP management are important controls as they can help deter the establishment of fraudulent vendors by employees and can increase the likelihood that fraud is detected. ERP maintains records of which staff most recently updated a vendor file, so it is possible to see which staff changed an address, for example. In the event that staff colluded to direct a payment to a fictitious vendor, there would be a trail indicating which staff entered the fictitious address. Although useful, a trail is not a control. Review of changes by non-AP section staff would enhance controls as they would be reviewed by staff that has no role in approving or processing vendor payments.

Business Tax Registration Certificates (BTRCs)

The audit team was unable to verify if BTRCs or other required information has been validated by AP staff to ensure vendor legitimacy because, as mentioned above, any AP staff checks of vendor BTRCs registered with the City Office of Finance are not recorded. Without documentation that requirements have been met, it is easier for staff to enable fraudulent payments.

The City’s Office of Finance acts as a control on fictitious BTRC numbers, but it is not clear that BTRCs are verified by AP staff for all POLA vendors. A vendor’s BTRC number is required to be on all invoices, per AP procedures, but this requirement is not followed by all vendors. The BTRC number is not required on the New Supplier form, so the only consistent source outside of ERP for the BTRC number is the City’s Office of Finance Listing of Active Businesses (“Business Registry”). An AP staff member with access privileges could conceivably say they verified the BTRC number with the Office of Finance, but record a fictitious BTRC number in ERP. Nowhere is it documented that the BTRC was verified and it is not possible to see that it matches the LA Active Business Listing without visiting the website.

Out of 56 vendor invoices sampled for this audit, we found 10 included a screenshot of the vendor’s BTRC webpage on the Office of LA Finance website. Such documentation of BTRC verification was not mentioned by POLA staff in explaining their procedures. While the screenshots serve as documentation that staff did verify the number, it does not appear to be standard procedure as 46 of the 56 sample transactions we reviewed, or 82 percent, did not have such a screenshot.

A more automated process, with a live link to LA Office of Finance BTRC data—a connection that displays current BTRC status in ERP—rather than a static number copied and typed into ERP by AP section staff would save time, ensure consistent formatting, and provide a control that could not be falsified by staff.  

W-9/TINs

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4 According to AP staff, the Controller’s Office has automated electronic TIN verification for other City departments. To date this step has not been successfully automated for the Port, but is reportedly under review.
Section 4: Vendor Database

Hard copies of W-9s are filed in an AP Accounting Clerk’s workspace, but there is no field in ERP to indicate that staff has verified these documents. The Taxpayer Identification Numbers (TINs) are not consistently written on invoices, despite the requirement that TIN be displayed on the invoice.

Insurance

There is no evidence in ERP that staff has verified that vendors’ insurance is up to date before they are paid. As explained to the audit team, AP staff initial the face of the invoice to signify verification of insurance. All invoices have signatures from staff indicating payment approval, but some have initials in addition to a signature, and some have a stamp that spells out “Insurance Verification” and leaves a space for a checkmark. Only five (or 8 percent) of the 56 invoices sampled had this stamp AND the space checked off. Given the multiple ways that staff indicates that insurance has been verified, it is difficult to assess whether insurance verification is consistently performed and recorded. AP should consider standardizing this.

The vendor database contains up to 7,826 vendor records not used or paid by POLA since FY 2013-14 or earlier, making the records cumbersome and providing unnecessary opportunities for fraudulent vendor payments

The vendor database is not periodically purged to remove inactive vendors and payees. A routinized purging would make it easier for AP staff to work with the database and would reduce the number of vendor identities that can potentially be used for fraudulent purposes. Only 2,309 or 23 percent of all vendor records in the database, actually received payment during the three year audit review period of FYs 2014-15 through 2016-17. The remaining 7,826 vendor records in the database should likely have been classified as inactive after a set amount of time, such as one year, for vendor management and internal control purposes. The AP section does not have a time-based definition of “Active” vendors to ensure that vendors are periodically removed after they are inactive for a certain period of time.

Exhibit 4.5 shows the relatively small number of vendor records that have been used and received payment since FY 2015 relative to the 10,135 in the vendor database. Approximately 62% of the vendor records do not have a transaction on the Controller’s disbursement report, which dates back to FY2012. This may, in part, be due to clerical discrepancies in vendor name formatting between the vendor database and the Controller’s Disbursement report.

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5 Payees are non-vendors that received payments from such as employees for reimbursement.
6 Disbursements were compared to the vendor database based on vendor name, due to nonstandard naming conventions it is possible that a larger number of vendor records received payment more recently under a different name variation.
Exhibit 4.5: Most recent transactions shows only 2,309 (23%) vendor records have been active, FYs 2014-15 through 2016-17

![Vendor record not used over time](chart.png)

Source: ERP vendor extract provided by AP staff, October 2017 and Controller’s disbursement report (echeckbook) downloaded from ControlPanel LA, [https://lacity.spending.socrata.com/#/year/2016/explore/0/-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name](https://lacity.spending.socrata.com/#/year/2016/explore/0/-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name), September 2017

Data from ERP’s predecessor system was migrated to ERP in October of 2012. Migrated data records constitute approximately 6,959 or 69% of the vendor records in the vendor database (estimate based on legacy software Vendor Site Codes). Many of these vendors may not have been used since the software migration. The total number of vendor records appears smaller than the figure cited above as this is based on vendor name, which consolidates all vendor records with multiple address.

**Non-standard BTRCs**

As discussed above, one of the key controls employed by AP staff to verify the legitimacy of vendors before they are paid is to confirm vendors’ Business Tax Registration Certificates (BTRCs) with the City’s Office of Finance records. However, as shown in Exhibit 4.6, we found that 1,571 of the 10,135 do not have BTRCs recorded in the database at all and another 1,757 do not have standard BTRC codes that could be verified against Office of Finance records. Exhibit 4.6 also shows the high proportion of vendors and payees that are inactive, with only 2,309 actually receiving payment during the audit review period, although this likely understates the total number of vendors that received payment due to naming and formatting inconsistencies. Total payments disbursed during the three year audit review period come to $ 1,234,059,307.
Source: ERP vendor extract provided by AP staff, October 2017 and Controller’s disbursement report (echeckbook) downloaded from ControlPanel LA, [https://lacity.spending.socrata.com/#/year/2016/explore/0-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name](https://lacity.spending.socrata.com/#/year/2016/explore/0-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name), September 2017

Exhibit 4.6: BTRC and activity status of all vendor records, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th>BTRC</th>
<th>Vendors with Standard BTRC</th>
<th>Vendors with Non-standard BTRC</th>
<th>Vendors with no BTRC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2015</td>
<td>282</td>
<td>116</td>
<td>1</td>
<td>399</td>
</tr>
<tr>
<td>FY 2016</td>
<td>418</td>
<td>97</td>
<td>3</td>
<td>518</td>
</tr>
<tr>
<td>FY 2017</td>
<td>1,229</td>
<td>163</td>
<td>0</td>
<td>1,392</td>
</tr>
<tr>
<td>All FY15-17</td>
<td>1,929</td>
<td>376</td>
<td>4</td>
<td>2,309</td>
</tr>
<tr>
<td>Disbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vendor record not used</td>
<td>4,878</td>
<td>1,381</td>
<td>1,567</td>
<td>7,826</td>
</tr>
<tr>
<td>Total</td>
<td>6,807</td>
<td>1,757</td>
<td>1,571</td>
<td>10,135</td>
</tr>
</tbody>
</table>

Source: ERP vendor extract provided by AP staff, October 2017 and Controller’s disbursement report (echeckbook) downloaded from ControlPanel LA, [https://lacity.spending.socrata.com/#/year/2016/explore/0-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name](https://lacity.spending.socrata.com/#/year/2016/explore/0-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name), September 2017

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**Legend:**
- ▲ Missing BTRC
- ✘ Non-standard BTRC
- □ Standard BTRC

Source: ERP vendor extract provided by AP staff, October 2017 and Controller’s disbursement report (echeckbook) downloaded from ControlPanel LA, [https://lacity.spending.socrata.com/#/year/2016/explore/0-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name](https://lacity.spending.socrata.com/#/year/2016/explore/0-/department_name/HARBOR/0-barChart/fund_name/HARBOR+REVENUE/1-/account_name), September 2017
Non-standard and missing BTRC codes mean that the vendor or payee cannot be confirmed as a legitimate business. In many cases, this can be appropriate as there are certain classes of payees and vendors that are not standard businesses such as POLA employees entitled to reimbursement and financial institutions that are exempt from the City’s business taxes. For payee classes such as those, the City Controller has created non-standard codes to be used in lieu of standard BTRC codes in the ERP system. These codes are presented in Exhibit 4.7.

Exhibit 4.7: Controller Defined Codes for the BTRC field

<table>
<thead>
<tr>
<th>Controller-defined “BTRCs” for Special Types of Vendors</th>
<th>Example</th>
<th>BTRC#</th>
<th>Number with Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Third Party Vendors</td>
<td>United Arab Agencies, Inc.</td>
<td>3333333333</td>
<td>1</td>
</tr>
<tr>
<td>b. One Time Payment</td>
<td>Green Marine Management Corp.</td>
<td>4444444444</td>
<td>155</td>
</tr>
<tr>
<td>c. Nonemployee Reimbursement</td>
<td>(Individuals)</td>
<td>5555555555</td>
<td>7</td>
</tr>
<tr>
<td>d. Youth Stipends / Police Reserve Officer</td>
<td>University of California Regents</td>
<td>6666666666</td>
<td>125</td>
</tr>
<tr>
<td>f. Liability Claims, Settlement Judgment</td>
<td>(Individuals)</td>
<td>7777777777</td>
<td>76</td>
</tr>
<tr>
<td>g. Garnishment Vendors</td>
<td>NA</td>
<td>8888888888</td>
<td>0</td>
</tr>
<tr>
<td>h. Miscellaneous Vendors – Port Employees</td>
<td>(Individuals)</td>
<td>9999999999</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total Unique Vendors</strong></td>
<td></td>
<td></td>
<td><strong>376</strong></td>
</tr>
</tbody>
</table>

Source: Provided by AP staff, February 2018

Prior to the Controller establishing these codes, other non-standard codes (e. g., “123456789”) were reportedly entered and used by AP staff for these type of payees with non-standard combinations of letters and numbers that do not match the BTRC structure. Many of these vendors are believed to be from records carried over from ERP’s predecessor system and are therefore likely to be mostly inactive and should be removed from the database.

Controller-defined codes are entered in to ERP by the same AP staff that enters new vendor information but, as with standard vendors, the information entered is not reviewed or approved by staff independent of the AP unit. Many of these are also inactive and should be removed.

The Controller-defined BTRC codes, listed in Exhibit 4.8 above, were also found to be not consistently adhered to. For example, records with a BTRC of “999999999” should denote POLA employees, but the following businesses in the vendor database have employee codes. There are a total of 53 such
examples, including the following four. None of these 53 vendors received disbursements during the audit period:

- The Law Office of Jorge I. Hernandez
- The Bank Of New York
- Moxie Media
- General Steamship Corporation.

Seventeen vendors with “One Time Purchase” BTRC codes appear on the Controller’s disbursement report with multiple invoice numbers (median of 3 invoices), one as many as 60 times. Besides the vendors being paid multiple times, it is not clear why vendors recorded as one-time payees are exempt from the BTRC requirement. There are two ways employees may be recorded in the BTRC field: either with the word “EMPLOYEE” or with the Controller code “9999999999”.

Besides the fact that so many of the payees and vendors with non-standard BTRC codes should be removed because they are inactive, it also poses a risk to have so many vendors and payees with non-standard BTRC codes because they could more easily be reactivated and approved or payment for fraudulent purposes.

Many vendors’ BTRCs in POLA’s records were not found in City Office of Finance Business Registry records

As discussed above, one of the chief controls used by AP to validate a vendor’s legitimacy is confirming that the vendor has a valid BTRC registered with the City’s Office of Finance. However, as also pointed out above, records are not kept of when or if AP staff confirms a vendor’s BTRC in Office of Finance records so it is not possible to determine if the control is being utilized and is effective.

We conducted an electronic comparison of all 1,929 active vendors who have standard BTRC codes in the vendor database and received one or more payments between FYs 2014-15 and 2016-17 against codes in the Active Business Registry maintained by the Office of Finance. We found that 153 of those vendors, or 7.9 percent, did not have a matching BTRC code in the Business Registry. We also found that four vendors paid during the audit review period did not have a BTRC code recorded in the vendor database at all. Together, payments to these vendors amounted to $3.56 million over the three year audit review period ($1,266 to vendors with no BTRC record in the vendor database and $3.56 million to vendors for whom we could not find a matching BTRC record in the City’s Business Registry).

With BTRC codes for 153 vendors in the POLA vendor database not appearing in the Office of Finance’s Business Registry, the effectiveness of the vendor database management system and related staff verification procedures are brought into question.

It could be that the vendors for whom we could not find a matching BTRC code in the City Business Registry do in fact have a valid BTRC but because the BTRC codes are not recorded in a consistent manner in the two databases, they cannot be matched electronically. It could also be that those vendors for whom a matching BTRC code was not found in the Business Registry had a valid BTRC at the time they were paid, but have since gone out of business or are no longer conducting business in the City and therefore no longer have an active BTRC. Unfortunately, with AP’s current procedures it is not possible
Section 4: Vendor Database

to determine if that is the case because AP staff does not make a record of when or if they verified a vendor’s BTRC in Office of Finance records. Finally, it is also possible that the vendors did not have valid BTRCs, or were never verified if they did, and that they could thus be fraudulent vendors.

The BTRC field is inconsistently formatted. For businesses with multiple locations, the Los Angeles Municipal Code requires a separate BTRC for all locations. A warehouse or distributing plant used in conjunction with a business in the City is not regarded as a separate business location. When business locations are outside of the City of Los Angeles, only one registration certificate is required for each type of business for all locations.

In the City’s Listing of Active Businesses, the BTRC format is consistently “aaaaaaaaaa-bbbb-c” where the 10 “a” digits are identical for a business with multiple locations and the b and c digits identify the location. For example, if ABC Parking has 50 locations in the city of Los Angeles, its BTRC number for its location on Centinela Avenue might be 0000078201-0003-1 and its location on Exposition Boulevard 0000078201-0001-2. The base number is the same.

In some cases AP staff appears to have captured the full BTRC number, but in a small number of cases the vendor database only records the first part of the BTRC. For example, we found 25 vendor records, or two percent, of 1,002 vendors that had multiple locations in the City of Los Angeles AND only the first 10 digits of their BTRC (e.g., “aaaaaaaaaa”) recorded in the database. Without the extension “bbbb-c” there is no way to know that POLA staff verified the correct business location. It’s possible that these are warehouse locations, but it’s also possible that POLA staff may be confirming only that the larger business has an up-to-date BTRC instead of confirming that the particular business location in question is in good standing. This only applies for businesses within the City of Los Angeles. According to AP staff they know which location to refer to base on the invoice address, but it is not clear that the appropriate extra string of digits is recorded in the vendor database. This potentially creates an opportunity for fraud where an employee adds an address to a valid business using that business’s first ten digits of the BTRC.

To the extent the BTRC codes not found in the City’s Business Registry is due to data entry inconsistencies, it implies the AP staff process of confirming that vendors have active BTRCs is unnecessarily inefficient, requiring staff to search through the Office of Finance database using various filters such as shortened versions of the BTRC code, vendor name or address, and others. We found that some BTRC numbers or codes in the vendor database included hyphenated extensions, others did not; some numbers were 10 digits in length, others were not.

We acknowledge that the number of BTRCs in the City’s Business Registry could be higher than what we found. However, the inability of the audit team to reconcile data entry differences points to the broader lack of data standardization and the inability for an independent review and confirmation of vendor legitimacy without a tedious manual process. The ability for POLA management to monitor and control vendor legitimacy is weakened because there are no naming conventions or field validation controls in place for entering vendor data in the vendor database.

Vendor records with blank BTRC codes and those with non-standard BTRC fields are mostly from legacy Vendor Site Codes, suggesting these are the result of the legacy system that preceded ERP or that they are outdated records and do not reflect current data entry practices. The Vendor Site Code field is populated by two types of entries: either an alphanumeric code or an address fragment. The records containing alphanumeric codes were imported from the financial system that predates ERP. Current
practice is to use this field to differentiate among a vendor’s multiple addresses. In order to identify which address to use, the relevant city name is entered as the site code or the word ‘REMIT’ if the correct address is the same as the supplier’s primary location. According to AP staff, the field is predominantly used by the POLA end-user division when entering a requisition into ERP: when searching for a vendor they can search by site.

Non-numeric entries in lieu of standard BTRC numbers include entries such as “Employee” and “one time purchase” and are rare. Moreover these largely consist of reimbursements within POLA to individual employees. Both cases show up on the Controller’s disbursement report for the period from FY 2014-15 to FY 2016-17 amounting to $150,033. These records appear to be largely the result of legacy data and poor data management rather than weak payment controls.

**Duplicate records**

Among Vendors with an “Active” status, the database contains duplicate vendor records, where Vendor Number, Name, Address, and BTRC are identical. Four hundred and forty six such records were identified as having multiple matching records for the purposes of this analysis. In cases where vendors have multiple addresses, a new record is created for the vendor for each site so, by design, there are many records with duplicate vendor names. For verifying vendor legitimacy, AP staff report that they select among records with duplicate vendor names by referring to the vendor record that matches the invoice address for a given transaction. This may function on a per invoice basis, but it is inefficient and makes reporting or analysis difficult.

A small number of vendors with a Status of “Active” are also listed as “Inactive” with the same name and address. Among the duplicate records identified, several instances (eight unique vendors) were found where the Vendor Site Status field was “Active” in one record and “Inactive” in another despite the records containing the same name and address information.

**Sample vendor legitimacy test**

We reviewed a random sample of 100 vendors among vendors that were added since the ERP migration and excluding individuals who may be vendors but are not easily searchable. Our web-based search resulted in:

- one business had a dissolved or suspended business license in the State of California
- three vendors had no public business record whatsoever
- sixteen business addresses did not have a physical address or location in the City; 15 were post office boxes

One of the closed businesses was in the Controller’s disbursement report, but the disbursement was dated 2012, so the business can be assumed to have been operational at the time. Fifteen out of the 16 instances where address could not be confirmed were P.O. Box address. This is not to imply that these businesses were fraudulent, but addresses associated with fraud are often mail drop addresses or P.O. boxes. Prioritizing certain address formats for a periodic check may help as an internal control to identify possibly fraudulent vendors.
Exhibit 4.8: Sample Results: business locations that could not be confirmed

<table>
<thead>
<tr>
<th>Sample Results</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannot confirm address/address outdated</td>
<td>16</td>
</tr>
<tr>
<td>Cannot confirm business exists*</td>
<td>3</td>
</tr>
<tr>
<td>Business license suspended</td>
<td>1</td>
</tr>
</tbody>
</table>
| **Total**                              | **20**

Note: sample size = 100

*Not in LA Active business list, not in state business registry, in two cases a website is available

POLA staff is constrained in their ability to manage business name changes. The internal AP Procedures note that “If a vendor changes names, a letter must be received from the vendor and a Point Of Contact change must be processed. No action will be taken until the letter is received from the vendor indicating a name change has occurred.” It may be the case that vendors who have changed names did not submit letters notifying the Port of the change.

As vendor due diligence should include a validation of vendor addresses against employee addresses to ensure that fraudulent vendor payments have not been redirected to an employee, the audit team compared active and inactive employee addresses with the vendor database and did not find any employee addresses in the vendor database. It should be noted that the address database was provided to the audit team by AP staff so this did not constitute an independent review of employee addresses in the payroll system.

**Recommendations**

POLA management should direct the Director of Accounting to:

4.1 In conjunction with the Contracts and Purchasing division, establish formal, written vendor data management procedures for approval by senior POLA management to:

   i. Restrict authority to add/edit/deactivate vendor records to employees that do not have the ability to enter or approve invoices,

   ii. standardize vendor data entry with validation-controlled naming conventions,

   iii. require that a non-AP section staff such as an employee from another Accounting division unit review, approve, and document all new vendor additions and changes to existing vendor records,

   iv. document all AP section staff vendor verifications and changes,

   v. mandate AP section staff conduct more robust vendor verifications (consider conducting interviews of new suppliers, investigating key individuals of small suppliers, requiring a physical address, etc.).
vi. automatically deactivate idle vendors after one year of no activity.

4.2 Direct AP section staff to clean up duplicate and legacy records in the vendor database in order to facilitate data analysis and establish a schedule for regular data scrubbing.

4.3 Work with the City Office to Finance to automate City Business Tax Registration Certificate (BTRC) verification process by determining if the Office of Finance’s LATAK system can transmit vendor name and BTRC information to ERP on a daily basis so that staff can verify existing businesses automatically within ERP, eliminating the need for manual verifications and further documentation.

4.4 Establish routine vendor fraud detection reporting or spot checks by management, with potential monthly reports to summarize:

i. Vendors by invoice volume activity and invoice amount,

ii. Vendor year to year analysis,

iii. Number of cancelled checks by vendor as a share of the total number of checks for each vendor,

iv. Above average payments by vendor,

v. Vendor/employee cross-check to compare Tax IDs to Social Security Numbers AND compare vendor addresses against employee addresses,

vi. Vendors with mail drop addresses,

vii. Vendors using long inactive addresses,
5. **AP Section Staffing**

- In a comparison with three other west coast ports and two other City proprietary departments, we found that the Port of Los Angeles Accounts Payable section (AP section) is incurring higher costs per AP transaction than comparison agencies. While POLA does not have the highest volume of AP transactions of the surveyed agencies, it does have higher costs per transaction because it has comparatively more staff positions than the peer agencies.

- Median cost per AP transaction processed was $66.93 for POLA’s AP division compared to $22.27 for the five surveyed agencies for the three-year period between FYs 2014-15 and 2016-17. The average number of invoices processed per position at POLA’s AP section was 2,139 for the three-year period whereas the average for the five surveyed agencies was 4,443. Finally, the AP section’s seven full-time positions assigned to processing standard payments processed a median of 14,719 transactions each year for the three-year period between FYs 2014-15 and 2016-17 whereas the median in the five other agencies was 29,214.

- Decentralization of elements of the AP process since the implementation of ERP and a lack of full automation of the processes are factors that may be contributing to the higher level of staffing and higher costs of POLA’s AP function compared to the other agencies surveyed.

POLA’s Accounts Payable section is staffed by ten positions, all overseen by the Chief Accounting Officer, who also oversees the Payroll and Accounts Receivable sections. Permanent staff is supplemented by part-time student workers. A retired Accounts Payable (AP) section employee was also retained as a consultant for the division on a temporary basis while this audit was in process.

The AP section processed an average of 14,973 payment transactions per year between FYs 2014-15 and 2016-17. The number of transactions decreased every year during the three-year audit review period, from 15,840 in FY 2014-15 to 14,361 in FY 2016-17, a decrease of 9.3 percent.

**Overview of Benchmarking Survey**

Based on a survey of accounts payables offices in three comparable ports\(^1\) and two peer proprietary departments in the City of Los Angeles, we compared accounts payable processing costs to assess POLA’s Accounts Payable section’s cost-efficiency, labor productivity and activity speed. We received an organizational chart, the total number of transactions processed, and a detailed budget for the accounts payable and/or accounting division, by fiscal year, from each of the following benchmark agencies.

1. Port of Seattle
2. Port of Oakland
3. Los Angeles Department of Water and Power (LADWP)
4. Port of Long Beach

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\(1\) Three additional ports, San Francisco, San Diego, and Portland were originally included, but omitted from the final analysis for various reasons: The Port of San Francisco is a significantly smaller agency and does not require a standalone Accounts Payable unit; The Port of San Diego operates a decentralized Accounts Payable model that is not easily comparable; and the Port of Portland never returned the survey request.
5. Los Angeles World Airports (LAWA)

Paired with public salary data and job descriptions, we assessed processing costs per invoice, staffing per invoice, and staff distributions.

Processing costs per invoice were derived from the budgeted operating expenses for each jurisdiction by fiscal year. The line items included in the costs are Salaries and Benefits and non-personnel costs which, depending on the organization, can include materials and supplies, workers compensation expenses, outside services, and other operating expenses.

For POLA and LADWP, where a separate detailed budget for the accounts payable function was not available, we applied the proportion of accounting section staff that performed accounts payable functions as reported by staff of those agencies to the actual non-personnel operating expenses for the full accounting division to approximate the share of the budget spent on their accounts payable sections. The ports of Seattle, Oakland, and Long Beach and LAWA provided detailed budgets for AP or their own estimates of the share of the broader accounting division budget attributable to AP functions.

Staffing to invoice ratios were determined based on staffing and organizational charts provided by the peer agencies. These included respondent estimates to account for staff who do not work full time on AP functions. For example, if the agency informed us that their AP branch included eight staff but only three were dedicated full time, two worked on AP functions roughly 50% of the time, and the remainder only 25% of the time, we set the staffing at 4.75 FTE (3 + 2(.5)+ 3(.25)).

All functions performed by POLA’s AP staff were also reported by the surveyed jurisdictions, except for the Port of Long Beach which does not process employee Pcard transactions and payments. In all other jurisdictions, Pcard payments are processed by the accounts payable sections, but the size of the program varies. At the ports of Seattle and Oakland, Pcard processing and auditing activities are limited to one consolidated monthly transaction; as such the program accounts for an insubstantial share of staff time.

At LAWA and LADWP, staff is involved in Pcard accounting on a more routine basis, but in an unquantified amount. Rather than account for the amount of staff time dedicated to the P-card program at each agency, we kept the staff levels and transaction volumes as submitted, acknowledging that the LADWP and LAWA staffing numbers would be slightly higher due to staff time spent on Pcard processing. Therefore, we omitted the POLA staff that performs Executive and P-card processing functions although payments to the P-card financial institution are included in the total invoice count. Another item that may inflate the number of POLA invoices is employee expense reimbursements (petty cash) and interdepartmental transfers that are included in the total invoice count for POLA. Expense reimbursements and transfers are presumed to be included in comparable port transactions as well.

For staffing distributions, we referred to publicly available salary data and job descriptions in order to categorize all positions at each agency into five levels of hierarchy: entry level, journey-level non-supervisory, supervisory, managerial, and director. We determined whether positions included supervisory duties from the job descriptions where possible and referred to salary ranges to determine comparable job classifications where job descriptions were unavailable.
POLA’s AP transaction volume compared to surveyed agencies

Exhibit 5.1 below shows the number of invoices processed\(^2\) per year averaged across the past three fiscal years. Among the ports, the Port of Seattle had the highest average number of transactions averaging 32,786 over the three year period reviewed, the Port of Oakland was second with 20,702. For both the Port of Seattle and the Port of Oakland, transaction volume includes transactions for those jurisdictions’ airports, Seattle-Tacoma International Airport and Oakland International Airport, respectively. As reported by Port of Seattle staff, an estimated 20% of transactions for the Port of Seattle are attributed to the seaport. The Port of LA had an average of 14,973 transactions during the three year period, the third highest in the group. The Port of Long Beach had the lowest average number of transactions at 11,625. LAWA was similar in transaction volume to the ports and LADWP was an outlier, with an average of 115,514 transactions per year. Note that the Port of Long Beach did not provide an estimate of FY 2016-17 transaction volume, so the Port of Long Beach average is for FYs 2014-15 and 2015-16 only.

While transaction volumes are not always directly comparable across the agencies surveyed as operations at each agency can differ we conclude that this proportional analysis, which considers the number and makeup of staff utilized to process accounts payable transactions, is directly comparable.

Exhibit 5.1: Average transaction volume (FY 2015-17)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Los Angeles</td>
<td>14,973</td>
</tr>
<tr>
<td>Port of Seattle</td>
<td>32,876</td>
</tr>
<tr>
<td>Port of Oakland</td>
<td>20,703</td>
</tr>
<tr>
<td>LADWP</td>
<td>115,514</td>
</tr>
<tr>
<td>Port of Long Beach*</td>
<td>11,625</td>
</tr>
<tr>
<td>LAWA</td>
<td>24,500</td>
</tr>
</tbody>
</table>

\(^*\)Only FYs 2014-15 and 2015-16 are included
Source: AP staff at each surveyed agency, October 2017

\(^2\) What is referred to as invoices was sometimes referred to as vouchers, payments, and accounting lines. For POLA the total number of invoices is derived from unique ERP invoices based on the field “Invoice Creation Date”.

Harvey M. Rose Associates, LLC
Benchmarking Survey Results – Costs and Staffing per Invoice

Of the five surveyed agencies, POLA’s processing costs, driven largely by its staffing level per invoice processed, is the second highest.

Among the ports, POLA incurs the highest processing costs per invoice compared to the surveyed jurisdictions that provided data for all three years. While LAWA had higher costs in FY 2016-17, data was not available from that agency for the other two years, FYs 2014-15 and 2015-16, for comparison. Processing costs at POLA ranged from approximately 2.4 to 3 times higher than the median cost of the surveyed jurisdictions each fiscal year. The benchmark ports are all within range of each other, with costs per invoice ranging from $19.22 to $30.92 for the three fiscal years compared. Notably LADWP is also within that range, with average costs ranging from $19.22 to $22.02, while LAWA incurred the highest average cost per invoice among the set for the one year for which they provided data, at $106.09 in FY 2016-17.

The year over year cost increases at POLA range from -2% to 30% each fiscal year, compared to an average yearly increase of 3-25% at peer ports. Note that the Port of Long Beach did not provide an estimate of FY 2016-17 transaction volume so the chart is missing that data for the Port of Long Beach.

Exhibit 5.2: Processing costs per transaction: surveyed jurisdictions and POLA, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th></th>
<th>Port of Seattle</th>
<th>Port of Oakland</th>
<th>LADWP</th>
<th>Port of Long Beach</th>
<th>LAWA</th>
<th>Median</th>
<th>POLA</th>
<th>Difference: POLA vs. Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014-15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>$799,187</td>
<td>$506,722</td>
<td>$2,272,662</td>
<td>$218,464</td>
<td></td>
<td></td>
<td></td>
<td>$828,396</td>
</tr>
<tr>
<td># Invoices</td>
<td>33,300</td>
<td>20,997</td>
<td>118,265</td>
<td>11,196</td>
<td>NA</td>
<td>$21.76</td>
<td>$52.30</td>
<td>+140.4%</td>
</tr>
<tr>
<td>Cost/invoice</td>
<td>$24.00</td>
<td>$24.13</td>
<td>$19.22</td>
<td>$19.51</td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2015-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>$783,077</td>
<td>$611,364</td>
<td>$2,296,071</td>
<td>$250,000</td>
<td></td>
<td></td>
<td></td>
<td>$1,002,278</td>
</tr>
<tr>
<td># Invoices</td>
<td>32,900</td>
<td>20,340</td>
<td>117,472</td>
<td>12,053</td>
<td>NA</td>
<td>$22.27</td>
<td>14,719</td>
<td>+205.7%</td>
</tr>
<tr>
<td>Cost/invoice</td>
<td>$23.80</td>
<td>$30.06</td>
<td>$19.55</td>
<td>$20.74</td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2016-17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>$799,951</td>
<td>$642,273</td>
<td>$2,440,095</td>
<td>$140,573</td>
<td>$2,493,225</td>
<td>$961,127</td>
<td>14,361</td>
<td>+140.8%</td>
</tr>
<tr>
<td># Invoices</td>
<td>32,427</td>
<td>20,771</td>
<td>110,805</td>
<td>NA</td>
<td>23,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost/invoice</td>
<td>$24.67</td>
<td>$30.92</td>
<td>$22.02</td>
<td>NA</td>
<td>$106.09</td>
<td>$27.80</td>
<td>$66.93</td>
<td>+140.8%</td>
</tr>
</tbody>
</table>
The expense driving the high costs at POLA is personnel expenses, total salaries and benefits, which is tied to the number of AP positions. Salaries and benefits are relatively high at LADWP as well, but the volume of transactions is significantly higher, meriting the higher staffing levels. Note that total processing costs are pro-rated in the case of POLA and LADWP – in both cases the operating expenses capture the entire accounting division’s expenses; the prorated figure is based on the share of division staff that performs AP functions, thus approximating processing costs for AP only. In POLA’s case, 24 percent of the Accounting Division’s budget is estimated to encompass AP. In the case of LADWP, 53 percent of the Disbursement division’s budget encompasses AP.

Personnel expenses ranged from 86-91 percent of POLA AP’s total processing costs during the three year review period, compared to 87 to 94 percent for the surveyed agencies. AP costs for the ports of Seattle and Oakland are also predominantly (93-99 percent) personnel expenses, whereas personnel expenses at the peer agencies in Los Angeles, LADWP and LAWA, constitute 67-80% of total AP process costs. POLA’s non-personnel expenses ranged from nine to 14 percent of total expenses during the three year review period.
Section 5: AP Section Staffing

Exhibit 5.3: Detailed processing costs per invoice, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th>Location</th>
<th>Fiscal Year</th>
<th>Personnel Expenses</th>
<th>Non Personnel Expenses</th>
<th>Total Process Costs</th>
<th>Total Number of Invoices</th>
<th>Total Cost per Invoice Processed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>FY 15</td>
<td>$742,143</td>
<td>$57,045</td>
<td>$799,187</td>
<td>33,300</td>
<td>$24.00</td>
</tr>
<tr>
<td></td>
<td>FY 16</td>
<td>$733,639</td>
<td>$49,438</td>
<td>$783,077</td>
<td>32,900</td>
<td>$23.80</td>
</tr>
<tr>
<td></td>
<td>FY 17</td>
<td>$750,246</td>
<td>$49,705</td>
<td>$799,951</td>
<td>32,427</td>
<td>$24.67</td>
</tr>
<tr>
<td></td>
<td>FY 16</td>
<td>$607,854</td>
<td>$3,511</td>
<td>$611,364</td>
<td>20,340</td>
<td>$30.06</td>
</tr>
<tr>
<td></td>
<td>FY 17</td>
<td>$640,552</td>
<td>$1,721</td>
<td>$642,273</td>
<td>20,771</td>
<td>$30.92</td>
</tr>
<tr>
<td>LADWP</td>
<td>FY 15</td>
<td>$1,821,363</td>
<td>$451,299</td>
<td>$2,272,662</td>
<td>118,265</td>
<td>$19.22</td>
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<td></td>
<td>FY 16</td>
<td>$1,545,963</td>
<td>$750,108</td>
<td>$2,296,071</td>
<td>117,472</td>
<td>$19.55</td>
</tr>
<tr>
<td></td>
<td>FY 17</td>
<td>$1,952,637</td>
<td>$487,458</td>
<td>$2,440,095</td>
<td>110,805</td>
<td>$22.02</td>
</tr>
<tr>
<td>LAWA</td>
<td>FY 15</td>
<td>$1,853,100</td>
<td>$640,125</td>
<td>$2,493,225</td>
<td>24,000</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>FY 16</td>
<td>$1,853,100</td>
<td>$640,125</td>
<td>$2,493,225</td>
<td>26,000</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>FY 17</td>
<td>$1,853,100</td>
<td>$640,125</td>
<td>$2,493,225</td>
<td>23,500</td>
<td>$106.09</td>
</tr>
<tr>
<td>Median</td>
<td>FY 15</td>
<td>$743,143</td>
<td>$57,045</td>
<td>$799,187</td>
<td>15,840</td>
<td>$24.00</td>
</tr>
<tr>
<td></td>
<td>FY 16</td>
<td>$733,639</td>
<td>$49,438</td>
<td>$783,077</td>
<td>14,719</td>
<td>$23.80</td>
</tr>
<tr>
<td></td>
<td>FY 17</td>
<td>$1,301,673</td>
<td>$268,582</td>
<td>$1,620,023</td>
<td>14,361</td>
<td>$27.80</td>
</tr>
<tr>
<td>POLA</td>
<td>FY 15</td>
<td>$750,755</td>
<td>$77,642</td>
<td>$828,396</td>
<td>15,840</td>
<td>$52.30</td>
</tr>
<tr>
<td></td>
<td>FY 16</td>
<td>$866,592</td>
<td>$135,686</td>
<td>$1,002,278</td>
<td>14,719</td>
<td>$68.09</td>
</tr>
<tr>
<td></td>
<td>FY 17</td>
<td>$865,644</td>
<td>$95,483</td>
<td>$961,127</td>
<td>14,361</td>
<td>$66.93</td>
</tr>
</tbody>
</table>

Source: AP staff at each surveyed agency, October 2017

Note: The Port of Long Beach did not provide budget detail and are thus not included in Exhibit 5.3.

**Compared to the five surveyed agencies, POLA is the second most heavily staffed relative to invoices processed.**

For the purposes of quantifying staff time spent on AP, this analysis counts the below seven positions for POLA’s AP section. Three positions formally under AP are excluded: 1) a Senior Accountant position that is responsible for the travel and purchasing card (Pcard) programs, 2) an Accounting Records Supervisor I, and 3) an Accounting Clerk, the latter two of whose time is spent predominantly on purchasing activities rather than traditional AP activities. Student workers were also not counted in this staffing analysis.
Exhibit 5.4: POLA AP positions included in comparative analysis

- Principal Accountant I (managerial)
- Accounting Records Supervisor II (supervisory)
- Accounting Clerk II (journey)
- Accounting Clerk II (journey)
- Accounting Clerk II (journey)
- Accounting Clerk II (journey)
- Accounting Clerk II (journey)

As with processing costs, POLA and LAWA are the most heavily staffed agencies. LAWA staff processes the smallest number of invoices, 1,531 per FTE on average, and POLA staff process an average 2,139 invoices per FTE. POLA staff processed approximately half the 4,443 median number of invoices processed per FTE at the peer agencies. The ports of Seattle, Long Beach, and Oakland and LADWP are within a range of 4,227 to 5,448 invoices per FTE. In all cases, staff levels are presumed to be consistent over the three-year study period. What drives the fluctuation is changing transaction volume each year. Overstaffing is an inefficient and burdensome use of Port resources. If the section were to staff at the survey median, with staff processing 4,443 invoices per FTE, it could reduce its headcount by 3.7 FTE.

Exhibit 5.5: Invoices per FTE, FYs 2014-15 through 2016-17

<table>
<thead>
<tr>
<th></th>
<th>Seattle</th>
<th>Oakland</th>
<th>LADWP</th>
<th>Long Beach</th>
<th>LAWA</th>
<th>Median</th>
<th>POLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total AP</td>
<td>7</td>
<td>3.8</td>
<td>26</td>
<td>2.75</td>
<td>16</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>3-Yr Average Number of Invoices</td>
<td>32,876</td>
<td>20,703</td>
<td>115,514</td>
<td>11,625</td>
<td>24,500</td>
<td>24,500</td>
<td>14,973</td>
</tr>
<tr>
<td>Average Invoices per FTE</td>
<td>4,697</td>
<td>5,448</td>
<td>4,443</td>
<td>4,227</td>
<td>1,531</td>
<td>4,443</td>
<td>2,139</td>
</tr>
</tbody>
</table>
Section 5: AP Section Staffing

Benchmarking Survey Results – Staff Distribution

POLA AP supervisors have slightly fewer staff to supervise than surveyed peer agencies

At all surveyed agencies and at POLA, the largest number of positions was either in entry level classifications or journey level non-supervisory classifications. The ratio of POLA staff with supervisory functions relative to the number of supervised staff is one supervisor for every 2.5 line staff positions, just below the median of 1-to-3. In other words, POLA supervisors oversee slightly fewer staff than the median at the peer agencies. The ports of Seattle and Oakland each have more supervising staff per line staff position than POLA. Supervisors in the other three comparable agencies oversee more staff, with an average ratio of one supervisor to every 4.3 line staff positions.

Excessive supervisory staffing can create communication problems, as the shorter the organizational distance between staff, the quicker a message can be conveyed and the less likely the message is to be misunderstood. Longer communication times can delay decision making; and excessive supervisory staff can increase costs since supervisory positions come with higher salaries.

Source: AP staff at each surveyed agency, October 2017
Note: Only 7 POLA AP section positions are included since 3 were determined to be not comparable to the survey jurisdictions
Section 5: AP Section Staffing

Exhibit 5.6: Positions included in analysis by jurisdiction

<table>
<thead>
<tr>
<th>Agency</th>
<th>Positions Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port of Seattle</td>
<td>Sr. Manager Disbursements, Accounts Payable Lead, Accounts Payable Supervisor, Senior Accountant, Accounts Payable Specialist (3)</td>
</tr>
<tr>
<td>Port of Long Beach</td>
<td>Accounting Manager, Accounting Technician (2.5)</td>
</tr>
<tr>
<td>Port of Oakland</td>
<td>Senior Accountant, Senior Clerk (2.2), Supervising Accountant (.2), Port Controller (.2), Staff Accountant II (.2)</td>
</tr>
<tr>
<td>LAWA</td>
<td>Fiscal Systems Specialist II, Sr Accountant I, Sr Accountant II, Accounting Clerk (10), Accountant II (3)</td>
</tr>
<tr>
<td>LADWP</td>
<td>Utility Accountant B, Principal Clerk Utility A (2), Principal Clerk Utility B, Senior Clerk Typist (21), Senior Utility Accountant A (.5), Principal Utility Accountant (.5)</td>
</tr>
<tr>
<td>POLA</td>
<td>Principal Accountant I, Accounting Records Supervisor II, Accounting Clerk II (5)</td>
</tr>
</tbody>
</table>

Exhibit 5.7: Spans of control for accounts payable supervisors, POLA and five peer agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Supervisory</th>
<th>Non-Supervisory</th>
<th>Ratio: # positions every supervisor oversees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>3</td>
<td>4</td>
<td>1.3</td>
</tr>
<tr>
<td>Long Beach</td>
<td>1</td>
<td>3</td>
<td>3.0</td>
</tr>
<tr>
<td>Oakland</td>
<td>1.6</td>
<td>2.2</td>
<td>1.4</td>
</tr>
<tr>
<td>LAWA</td>
<td>3</td>
<td>13</td>
<td>4.3</td>
</tr>
<tr>
<td>LADWP</td>
<td>4</td>
<td>22</td>
<td>5.5</td>
</tr>
<tr>
<td>Median</td>
<td>3</td>
<td>4</td>
<td>3.0</td>
</tr>
<tr>
<td>POLA</td>
<td>2</td>
<td>5</td>
<td>2.5</td>
</tr>
</tbody>
</table>
During the rollout of ERP, some AP processes were decentralized to POLA’s end-user divisions. The increased number of AP tasks performed by end-user divisions and commensurate decreased workload for AP staff may drive the apparently excessive staffing. Although not reflected in the invoice numbers it is possible that current staffing may reflect legacy levels from a time when each transaction required more AP section staff time.

We observed that many of AP’s processes are manual, with time required for sending and hand-stamping hard copy documents between AP and other POLA end-user divisions. Some end-user divisions that we interviewed expressed uncertainty about what documents they are supposed to provide in hard-copy and what processes can be performed on ERP. In some cases, end-user divisions are sending hard copy documents that AP staff need to log in and review and it may not be necessary for such documents to be transmitted in this way. Inefficient manual processes may also be adding to the higher staffing levels and costs of the AP section relative to other jurisdictions surveyed.

**Recommendations:**

POLA management should direct the Director of Accounting to:

5.1 Prepare an analysis for the Chief Financial Officer of how current processes could be streamlined through automation and other means to reduce AP staffing levels over time.

5.2 Develop a long-term plan for streamlining AP processes and lowering the staffing level and cost per transaction of accounts payable as AP section attrition occurs.

5.3 Report AP transaction costs and productivity measures each year to the Chief Financial Officer.