

**Performance Audit 22-09:  
Timeliness of Vendor Payments**

**December 2023**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

Lisa Culver, CFE





# **OFFICE OF INTERNAL AUDIT**

## **Stan Sewell, City Auditor**

December 15, 2023

To: Mayor Kelly  
City Council Members

Subject: Timeliness of Vendor Payments Audit (#22-09)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of Accounts Payable's vendor payment process. Our audit found the majority of invoices were paid within 30 days of the invoice date. However, policies and procedures have not been updated to reflect the new procedures developed for the transition to Oracle Cloud in 2021. Our audit also identified noncompliance with standard accounting practices and inefficient processes that contributed to late payments. In order to address the noted areas for improvement, we recommended actions to update policies, perform periodic reviews of support documentation, and increase the use of Oracle's dashboard function.

We thank the management and staff of the Finance Department along with city-wide department requestors for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Audit Committee Members  
Jermaine Freeman, Chief of Staff  
Ryan Ewalt, Chief Operating Officer  
Julia Bursch, Deputy Chief Operating Officer  
Vickie Haley, Chief Financial Officer  
Brain Smart, Manager of Financial Operations  
Jim Arnette, Tennessee Local Government Audit [jim.arnette@cot.tn.gov](mailto:jim.arnette@cot.tn.gov)

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2022 Audit Agenda. The objective of this audit was to determine if:

- The Accounts Payable payment process ensures invoices are paid in an efficient manner.

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## BACKGROUND

The Accounts Payable Division is responsible for disbursing funds promptly, efficiently and in accordance with the Municipal Purchasing Laws and City policies. Accounts Payable staff consists of a supervisor and five support staff. They process payments based upon confirmation of a proper receipt submitted by the staff of city departments. Their objective is that all legitimate payments be made within 30 calendar days of the date of the invoice.

### Vendor Payment Process

As depicted in the accounts payable flowchart in Appendix C, the process to pay invoices depends upon the way the supplier submits the invoice to the City. Suppliers email or mail the invoice to Accounts Payable, email or mail the invoice to the requisitioning department, or upload the invoice via the supplier portal. If not submitted via the supplier portal, the invoice is scanned and uploaded into Oracle with OCR technology or the invoice is uploaded and manually entered into Oracle by Accounts Payable personnel.

Prior to approval for payment, the department requestor must document the receipt of goods/services by creating an Oracle receipt. Once the invoice and receipt are created, the system auto-matches the purchase order, invoice lines and receipt. Oracle uses the purchase order number and dollar amount to match the receipt to the invoice. If the match results in an error<sup>1</sup>, the invoice is placed on hold. Holds must be cleared before the process can proceed. After the three-way match succeeds, Oracle will automatically initiate the approval and payment workflow.

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<sup>1</sup> Several errors or hold types exist such as 1) Amount billed exceeds amount received; 2) Billed quantity exceeds received quantity; 3) Allocation generates an invalid account; 4) Total of invoice lines does not equal invoice amount; 5) Total of invoice distributions does not equal invoice amount.

### Statistical Information

Exhibit 1: Payment Aging Report – January 1 to July 31, 2023

Aging	Invoice		Invoice Amount	Invoice	
	Count	% of Total		amount	% of total
0-30	18,744	79.67%	157,685,148	78.64%	
31-45	1,492	6.34%	15,465,516	7.71%	
46-60	845	3.59%	12,709,903	6.34%	
61-90	1,009	4.29%	5,703,837	2.84%	
91-120	452	1.92%	3,150,424	1.57%	
>120	986	4.19%	5,797,664	2.89%	
Grand Total	23,528		200,512,493		

Source: Oracle Financial

The data above shows the City’s rate of on-time payments is almost 80%. Our audit concentrated on late payments to identify any inefficiencies in the process.

## FINDINGS AND RECOMMENDATIONS

### Process changes needed to improve timeliness of vendor payments.

Finance’s goal is to pay within 30 calendar days of the date of the invoice. We identified several factors in the current process that caused late payment of invoices. Delays identified include invoices submitted to the department but not to Accounts Payable, receipts not timely added, and the underutilization of Oracle’s dashboard.

### Invoices are not submitted to Accounts Payable as required by contract terms.

Currently, invoices are submitted to the City via email to the receiving department, via the supplier portal, or via email/mail to Accounts Payable. Our sample of 71 invoices included 42 (or 59%) sent directly to the receiving department, 9 (or 13%) uploaded through the supplier portal, 4 (or 6%) uploaded by Amazon<sup>2</sup>, and 16 (or 23%) sent directly to Accounts Payable.

We noted longer payment delays when the invoices were not sent directly to Accounts Payable. We used data from the sample invoices to determine the average days to complete each step in the payment process. The Gantt Charts (Exhibits 2 and 3) depict the compiled data.

<sup>2</sup> For informational purposes only. These invoices are not included in the average process time in Exhibits 1 and 2.

Some steps in the process don't require the previous step to be completed and therefore, may overlap in time.

As shown in Exhibits 2 and 3 below, the average payment process increased by five days when invoices were submitted to the department (57 days) rather than Accounts Payable (52 days).

Exhibit 2: Invoices sent to Accounts Payable

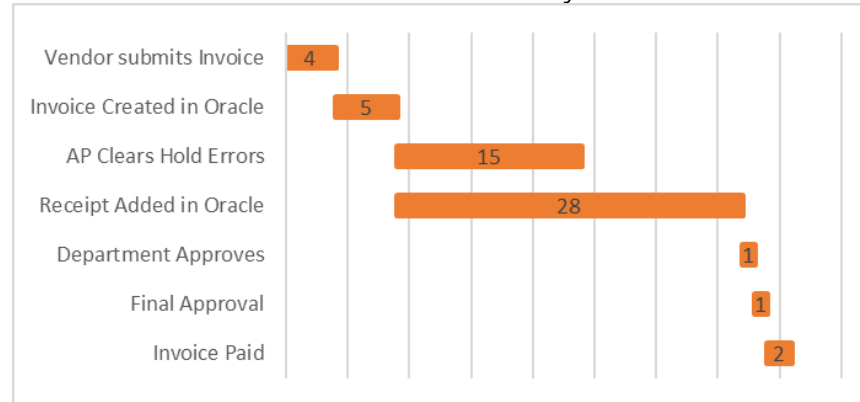
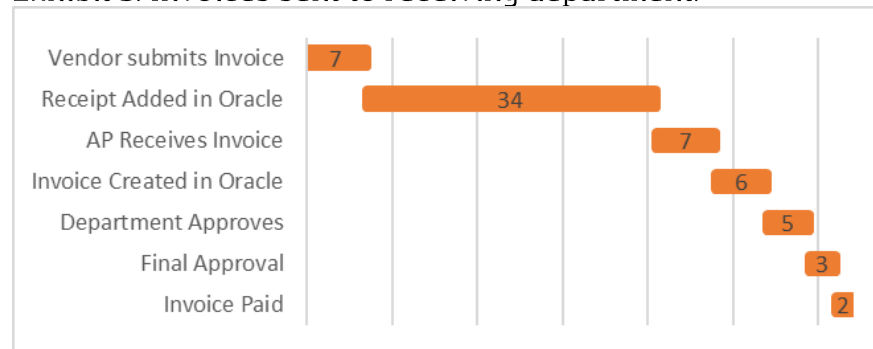


Exhibit 3: Invoices sent to receiving department.



As shown in Exhibit 3, Accounts Payable does not receive the invoice until the department provides a notification email that includes a copy of the invoice and the Oracle receipt number. On average, the notification was not sent until seven days after the receipt was created. If the invoice was sent directly to Accounts Payable, the supplier would have received payment immediately upon the department's completion of the receipt in Oracle.

The City's *Purchasing Order Standard Terms and Conditions* require vendors to submit invoices to Accounts Payable. To improve efficiency, Finance has given the suppliers the option to submit invoices via the supplier portal.

**Recommendation 1:**

We recommend Finance, with the assistance of Purchasing, notify all suppliers to submit invoices directly to Accounts Payable or via the supplier portal.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** March 31, 2024*

***Priority Level:** 1*

**Recommendation 2:**

We recommend Finance notify the City departments that all invoices must be submitted directly to Accounts Payable or via the supplier portal.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** March 31, 2024*

***Priority Level:** 1*

**Department delays in adding Oracle receipts.**

As discussed in the previous finding, the receiving departments took an average of 34 days<sup>3</sup> to create the receipt and an additional seven days to notify Accounts Payable, which accounts for 72% of the total process time.

Once an invoice is created in Oracle, the system sends an email notification to the requisitioner that a receipt is needed to validate and pay the invoice. As stated in the previous finding, the invoices are not immediately created in Oracle upon receipt.

We noted other reasons that contributed to the delay in receipting. There is a delay in some departments because the staff receiving the goods/services are not responsible for adding the receipt in Oracle. In addition, some service providers do not give any documentation other than the invoice; therefore, the department cannot add the receipt until the invoice is received.

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<sup>3</sup> Measured from the date the invoice was received by the department. In general, the department should have a knowledge of the receipt of goods/services and should record a receipt in Oracle prior to (and without the need of) receiving an invoice.

GAO's<sup>4</sup> Standards for Internal Control in the Federal Government, Section 12.04 states "management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities." The current payment policy does not have a timeliness requirement for entering receipts into Oracle.

### **Recommendation 3:**

We recommend Finance update *Finance Policies and Procedures Payments* to include a requirement that City departments create an Oracle receipt upon receipt of goods/services but no longer than five working days.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** June 30, 2024*

***Priority Level:** 2*

### **Oracle payment system is not fully utilized.**

We noted several other practices that decrease efficiency, such as using email rather than relying on the built-in Oracle dashboard notification function and manual data-entry of invoices by Accounts Payable.

Currently, the payable's dashboard includes all hold errors and cannot be filtered by requisitioner; however, it does have the capability to filter by the column labeled "assigned to". Using this field to assign invoices based on the hold type would eliminate the time Accounts Payable spends notifying the departments and/or the Purchasing Division when invoices have hold errors.

Another time-consuming practice is the process of waiting for the receiving department to provide the invoice. As previously shown, invoices sent to departments rather than Accounts Payable increases the number of days to process the payment. In addition, the practice of manually adding the invoices provided by the department is more time-consuming than imaging.

GAO's Standards for Internal Control in the Federal Government Section 12.05 states "management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks." To increase the percentage of invoices paid timely, the

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<sup>4</sup> U.S. Government Accountability Office



departments need real time access when invoices have holds that only the department can correct.

With the current process, management loses the ability to use the Oracle dashboard to oversee and mitigate the delays caused by the department's failure to initiate purchase orders prior to contracting with vendors and to timely add Oracle receipts.

#### **Recommendation 4:**

We recommend Finance utilize available functions in Oracle, such as imaging invoices and dashboard notifications.

***Auditee Response:** Finance will follow up with AST/Oracle on exploring the functionality behind the "assigned to" option in the payables dashboard. We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** June 30, 2024*

***Priority Level:** 2*

#### **Recommendation 5:**

We recommend Finance work with Department of Technology Services or Oracle representatives to determine if and how department requestors AP dashboards could reflect holds only related to their procurements.

***Auditee Response:** We are going to explore the available functionalities with the payables dashboard. We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** June 30, 2024*

***Priority Level:** 2*

#### **Recommendation 6:**

We recommend Finance identify Oracle hold types and develop procedures to ensure holds are timely resolved by the appropriate personnel.

***Auditee Response:** We are going to explore the available functionalities with the payables dashboard. We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** June 30, 2024*

***Priority Level:** 2*

**Noncompliance  
with policies and  
procedures.**

We selected a sample of 75 invoices and reviewed the support documentation, including the Oracle receipts, and found noncompliance with policies as follows:

- Thirty-nine (or 52%) of the receipts reviewed lacked the required signature by the employee who received the items.
- Nine invoices (or 12%) were missing the required attachments to the invoice and/or receipt.
- Twenty-two (or 29%) of the invoices reviewed did not have a purchase order created prior to making the purchase<sup>5</sup>.

*The Finance Policies and Procedures Payment* policy requires the department to attach support documentation to the Oracle receipt, such as a packing slip or delivery ticket, which indicates the employee's acknowledgment that the items/services were received. A signed and dated receipt is confirmation to Finance that the department has certified the goods or services that have been received. In addition, Section III of the policy requires an original invoice.

Per discussions with Accounts Payable, the policy has no requirements for a periodic review of support documentation. This lack of oversight increases the risk of paying for goods/services that were not received.

**Recommendation 7:**

We recommend Finance perform periodic audits of invoice and receipt documentation.

*Auditee Response: We concur with the audit finding and recommendation.*

*Estimated Implementation Date: June 30, 2024*

*Priority Level: 2*

**Recommendation 8:**

We recommend Finance provide notification of policy violations to department heads.

*Auditee Response: We concur with the audit finding and recommendation.*

*Estimated Implementation Date: June 30, 2024*

*Priority Level: 2*

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<sup>5</sup> *The Finance Policies and Procedures Payment* states a requisition should be prepared and approved prior to committing the City to a purchase. Further, City Code Section 2-564 and the *Purchasing Manual* Section 1.13 states an employee shall be personally responsible for any purchase made without proper authorization.

**Payment Policies  
are Outdated.**

Our review found an updated policy manual would improve consistency in data entry and efficiency in payment processing. For instance, Accounts Payable staff are not consistent when inputting the invoice date in the system. We found Accounts Payable uses the department approval date on construction invoices, the first day of the month for utility-type statements and the date as listed on the invoice for other types of invoices. This practice skews the performance indicators for late payments.

Finance implemented a new cloud version of Oracle in July 2021. With the implementation, training was provided to users and Accounts Payable has weekly meetings with the departments. However, *Finance's Policies and Procedures Payments* policy still reflects procedures from 2017 that don't document current practices.

The *Internal Control Manual for Local Government Entities and Other Audited Entities in Tennessee* states management should implement control activities through policies and procedures. If there is a significant change in an entity's process, management reviews this process in a timely manner and updates policies, procedures, and related control activities for continued relevance and effectiveness.

**Recommendation 9:**

We recommend Finance revise the payment policy to document current procedures. The policies should be uploaded to the Landing and an email sent out to all requestors to inform them of the updates.

*Auditee Response: We concur with the audit finding and recommendation.*

*Estimated Implementation Date: June 30, 2024*

*Priority Level: 2*

**Recommendation 10:**

We recommend Finance establish a written procedure to ensure consistency of data-entry.

*Auditee Response: We concur with the audit finding and recommendation.*

*Estimated Implementation Date: June 30, 2024*

*Priority Level: 2*

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## APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers City invoices paid from January 1, 2023, to July 31, 2023. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Finance Department. Original records as well as copies were used as evidence and verified through physical examination.

To obtain the population of paid invoices for the audit period, the auditor combined Oracle Invoice Register (1/1/23 to 6/30/23) with Payment Register (1/1/23 to 7/31/23). The combined file was sorted and only invoices with a source code of B2B, Image, manual invoice entry or ISP were used as the population. Other source codes were omitted such as payroll payments and refunds. The final file with invoices from the four source codes was analyzed by comparing the invoice date to payment date to show how many days it took to pay. The sample was chosen by identifying invoices with over 30 days to pay.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, and an expected error rate of 10 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on data maintained in Oracle Fusion. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives. In addition, interviews were conducted with Finance, Purchasing, Department of Technology Services, AST staff and various City department requestors to gain an understanding of the Oracle payment process.

We conducted this performance audit from September 2022 to November 3, 2023, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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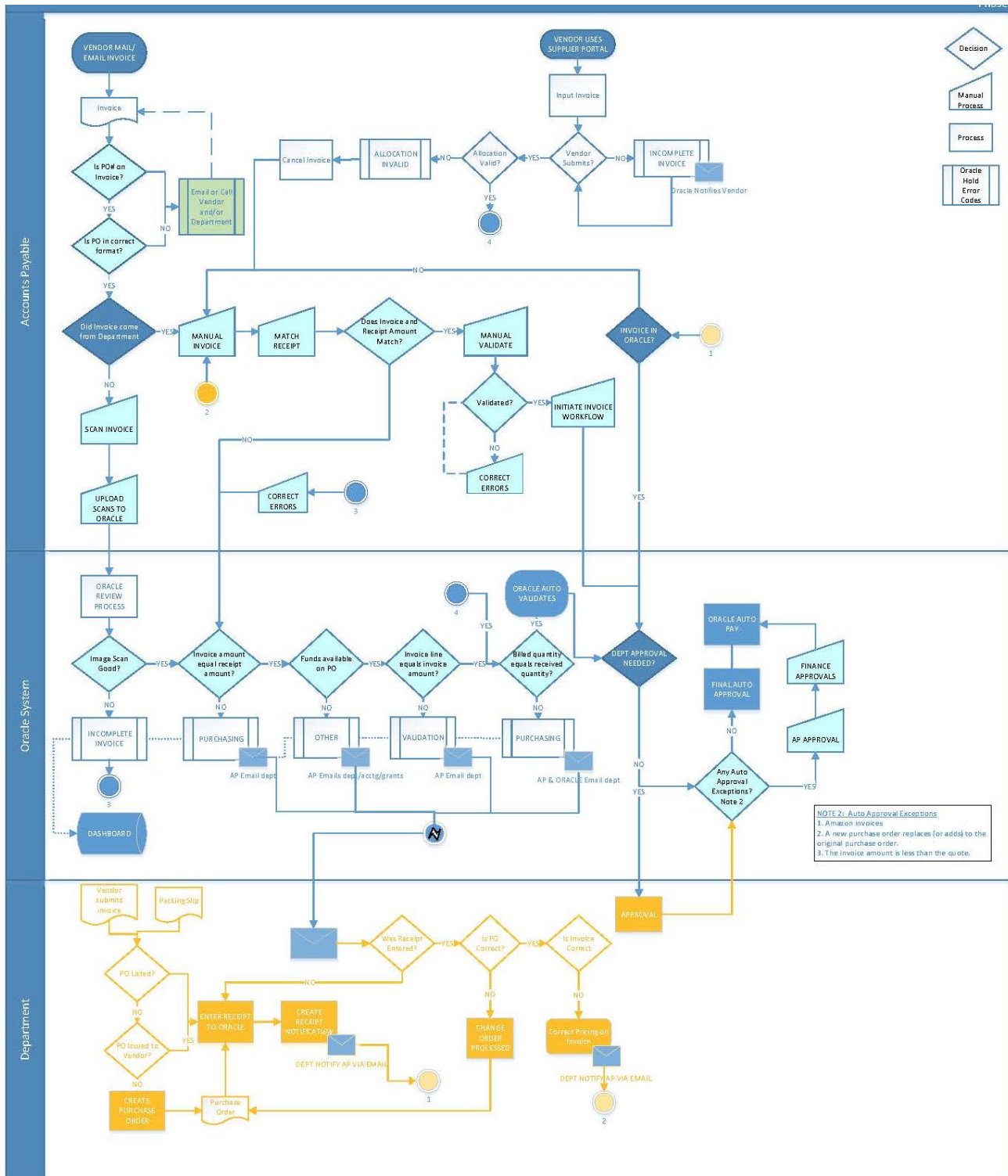
## APPENDIX B: PRIORITY LEVEL DEFINITIONS

Priority 1: Critical control weakness exists that exposes the City to a high degree of risk. Noncompliance with federal, state, or local law, regulation, statute, charter or ordinance will always be considered a priority 1.

Priority 2: Control weakness exists that exposes the City to a moderate degree of risk.

Priority 3: The opportunity for improved efficiency or reduced exposure to risk exists.

# APPENDIX C: VENDOR PAYMENT PROCESS FLOWCHART



### **City of Chattanooga Fraud, Waste, and Abuse Hotline**

Internal Audit's Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

Internal Audit contracts with a hotline vendor, The Network, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:  
[www.chattanooga.gov/internal-audit](http://www.chattanooga.gov/internal-audit)