

# CITYSPEAK

## Accounts Payable – Whose Job Is It Anyway?

Accounts Payable (A/P) is the responsibility of the Finance Department. With the exception of construction and certain consulting contracts (e.g. legal services, planning, etc.) that require special handling, **ALL A/P invoices (with a few exceptions) should go directly to the Finance Department** for payment. This invoicing process can only happen through compliance with the City's purchasing and encumbrance system for all purchases (above a certain dollar amount).

**Processing A/P invoices for payment is NOT the job of the City Manager, Human Resources, Public Works, or ANY other Department at City Hall or the Corporation Yard. It is the express and sole responsibility of the Finance Department.**

### Delayed Invoices Hurt Us All

Many City organizations take 60 days, 90 days, 120 days, or even longer, to pay vendors for goods sold or services rendered. This delay is a problem for several reasons:

1. It hurts small businesses that lack the capacity to carry tens of thousands of dollars on their books as delinquent unpaid invoices "unnecessarily." The City is often unnecessarily late in paying A/P invoices under the usual contractual "net 30" payment terms because City Departments "outside" of Finance want to be involved in approving invoices for payment when they have no business doing so.
2. It hurts the confidence of City Departments that complain that their Budget vs Actual reports are not useful because the numbers reported in these reports are months behind.
3. It creates inefficiency and duplication of work at City Hall. The Fire Department, the Police Department, and even Public Works sometimes will purchase QuickBooks or Peachtree accounting systems to track their spending despite a perfectly acceptable accounting system in place at City Hall in the Finance Department. Don't believe me? Call the Secretary at Fire or PD and ask. You may be surprised what you find. City Departments can't rely on "timely" Budget vs. Actual reports they get from the Finance Department as long as A/P invoices are two to four months late.

Before you start throwing tomatoes at me, **allow me to explain.** Treat this as an academic exercise if you will; we as public administrators have a duty to study municipal issues as part of our work ethic of continuous improvement.

As I will explain below, I KNOW why City Departments "outside" of the Finance Department feel they have to put their fingerprints on all A/P invoices: Those invoices get charged against their Department's budget. Departments think they can't manage their Budgets without being able to "see" every invoice that gets charged there.

## **But here's a newsflash: they don't!**

City Departments that need to “see and approve every A/P invoice” are like airplane pilots that need to “see in front of them” to fly the plane! Can you imagine what would happen to the efficiencies of air travel if airplanes could only fly on clear, sunny days? Ridiculous, right?

## **FLYING THE PLANE SOLELY WITH INSTRUMENTATION...**

Full disclosure: I am not a pilot. But I did learn the value of flying a plane “even when you can't see outside with your eyes where you're going” from my City Finance Director Steve Temple, who earned his pilot's license back in 1990. Steve taught me about **VFR** (Visual Flight Rules) and **IFR** (Instrument Flight Rules) and how you can still fly your plane to your destination, relying on your “instrumentation” to guide you. In a future CitySpeak, newsletter I'll tell you all about our flight in 1991, when Steve took me along to Sacramento to make a presentation before CDAC (California Debt Advisory Committee) because of IRS tax issues we were facing with some Multi-Family Housing Bonds. It was quite a trip!

Anyway, just like airplane pilots use their “instrumentation” (**IFR**) to fly their planes through the zero visibility of clouds and storms, City Departments must rely on their “instrumentation” to successfully run their operations. A City Department is using **IFR**, they **STOP RELYING ON THEIR EYES AND BEGIN RELYING ON THEIR IFR** instrumentation, when they allow the Finance Department to pay A/P invoices without the eyes of the City Department.

The IFR instrumentation that City Departments have is their City's Accounting / Budgeting system, their City's purchasing system, and the efficient technology of the “three-way match” processing of A/P invoices followed by Finance.

## **THE THREE-WAY MATCH: EFFICIENT TECHNOLOGY FOR A/P**

The three-way match is what allows Finance to process A/P invoices via IFR, without City Departments ever looking at the invoice. The problem is that most City Departments only want to fly VFR, thinking they have to “see” every single A/P invoice “before” Finance can pay it. This inefficient process is an underutilization of the City's IFR instrumentation already in place.

If all purchases (with certain exceptions) are processed by Departments through the purchasing system in Finance, all purchases will get “encumbered” in their Department's budget. Then, when the vendor from which the purchase was made generates an A/P invoice to the City, this invoice can go directly to the Finance Department without getting bogged down at somebody's inbox in a City Department outside of Finance.

## **THE DEVIL'S IN THE DETAILS...**

Why do I say this? Here is a real-life experience: I receive an invoice from XYZ Company on 02/10/17, dated 09/30/16. The City Manager calls me on 02/11/17 saying “John, Mr. XYZ Company President is on the line furious that his \$5,000 invoice is over 90 days “past due!” I say “Mr. City Manager, I understand but I just received the invoice; it's already scheduled for payment on the next A/P run.” Mr. City Manager replies “I don't care! XYZ Company is a small

business! They don't have the cash to carry a \$5,000 invoice for 120 days, pay him today!" To which I respond, "Mr. City Manager, this means I will have to direct my A/P staff to cut a 'special check,' breaking down our efficient A/P system." Mr. City Manager then replies "I don't care about the system; I just care about getting this vendor paid now. He's a friend of the Mayor."

Do you see why I say A/P is the responsibility of Finance? **Send invoices to Finance!**

By the way, I did not tell the City Manager the invoice was stamped "Received 10/03/16" by the Public Works Department (*names withheld to protect the innocent*). ☺

The above experience was not unique either. This was a City where 30% of vendor invoices were paid as "emergency" checks. **Changing the culture of this City organization to embrace an efficient A/P "system" was tough!** We'll talk more about the inefficiencies of emergency checks in a future CitySpeak newsletter.

## LET FINANCE DO THE A/P JOB...

We need City Departments to stop insisting on vendor invoices being sent to them. With very few exceptions discussed at the outset (like invoices from Attorneys, Consultants or Public Works projects), all invoices should be sent directly to the Finance Department for processing, not to City Departments.

An A/P invoice represents the City's "unpaid bills," a liability account on the City's balance sheet; *remember the last article regarding the balance sheet?* But it is Finance that bares ultimate responsibility for identifying the legal status of vendors, complying with IRS regulations, sending out IRS tax form 1099 to vendors at end of year, and of course, *performing the 3-way match* and writing the check to get vendors paid on time.

Therefore, any Department that hinders that responsibility is handicapping Finance, effectively tying its hands, preventing it from fulfilling its duties of an efficient A/P invoice system.

### **It is Finance that cuts the checks to pay vendor invoices, NOT City Departments!**

Some Cities have their reasons for wanting Departments outside of Finance involved in processing vendor invoices for payment. However, it is a best practice and more efficient to have Finance staff process all A/P invoices, using the "system" (IFR instrumentation) designed for the "timely" payment to vendors.

City Department staff should STOP wasting their time holding up A/P invoices. This time is much better spent assisting their Department Directors to provide excellent customer service within their own operations.

The budget account number for the purchase requisition should have already been coded in the Purchase Order (PO) if proper compliance with the City's purchasing procedures has been adhered to. And really, regardless of whether you have a Purchasing system or not, all purchases above a certain threshold should be encumbered in the budget.

*You can help Finance do its job with A/P by complying with the City's purchasing procedures.*

## COMPLY WITH PURCHASING PROCEDURES...

If you are a City Department other than Finance, when you work with vendors, you are doing so within a “purchasing” capacity, not in an A/P capacity. You can promise vendors that they’ll get their PO# on a certain date, but you cannot promise them a date of payment. The vendor accepted the City’s “net 30” payment terms *if invoice is presented in a timely manner to Finance for processing*, and if it is allowed to do its job, it will make good on that promise.

A/P is the last step in the purchasing “process,” not a process in itself. If there is a problem with A/P, there’s likely a problem with non-compliance pertaining to purchasing procedures. *I will elaborate on this specific issue in a future article of the CitySpeak newsletter.*

City Departments are responsible for submitting “requisitions” for purchase and for verifying the accurate “receipt” of items approved for purchase *for the 3-way match*. Again, only the Finance Department should be processing A/P invoices for payment.

So we must ask the question, if A/P is the responsibility of the Finance Department, why are so many City Departments still wasting their time doing the A/P job? As I said, there are several good, but inefficient, reasons why City Departments take it upon themselves to duplicate the work of the Finance Department and continue to perform the A/P job in their Department. *Unpacking this issue will take much much more than a newsletter...*

## SOLVING A/P ISSUE REQUIRES A CONTRACT...

I served as Finance Director for many City organizations. When I was hired as a new Finance Director, I would spend the first six months of my assignment persuading City Departments to stop wasting their valuable time performing the A/P job of processing vendor invoices. *Change was hard in 1990, and it still is in 2018, isn’t it?*

It was tough proving to City Departments that once they signed off on the “receiver” (packing slip) when they received their goods or services, they should be done dealing with that vendor as far as the A/P invoice was concerned. The receiver slip may take the form of a “packing slip” for purchased office supplies, a “work order” for HVAC work done on City facilities, or a weekly timesheet for temporary staffing services. Once a non-Finance Department signs off on any of these documents, proving the receipt of goods or services, non-Finance Departments simply send a copy of this to Finance so it can perform the **three-way match** (PO, receiver slip, and the vendor invoice). *The Department has done its job at that point.*

I promised City Departments that **if they followed purchasing procedures**, they could cease the A/P work being done in Finance, and stop their labor-intensive work of posting invoices to Excel, QuickBooks, or even Peachtree. They could allow Finance to use the City’s accounting software (IFR instrumentation) to track their budget. *In a future CitySpeak newsletter article, I will also discuss the inefficiencies of duplicate data entry by City Departments.*

In all cases, after six months (sometimes a year), I won the trust of most City Department staff that their vendor A/P invoices would get paid in a timely manner and charged to the correct Budget account, eliminating the duplication of the A/P job done by Finance. By **making a contract with City Departments regarding A/P**, and getting them to meet me half way, I

succeeded in improving the efficiencies of A/P invoice processing and more accurate Budget vs Actual reporting to City Departments.

The contract language was simple: If you follow our purchasing procedures, submit the requisition with budget account coding, then send the receiver documenting receipt of goods or services purchased, our A/P staff and I will make sure the vendor is paid on time. If I cannot achieve this to your satisfaction within 90 days, we'll go back to the old way of doing things.

In the end, I made a believer out of "most" of the Department staff.

So let our vendors send their invoices directly to Finance. Our IFR instrumentation works!

## COMPLY WITH VENDOR CONTRACT PAYMENT TERMS

In addition to helping Finance comply with purchasing policies and procedures, an efficient A/P system will allow your City organization to comply with contractual payment terms with vendors. Further, a municipality that pays its bills on time will keep vendors happy. It will also keep vendor complaint calls to the City Manager to a minimum.

Truly, adhering to these best practices in processing invoices for payment through A/P is a win-win endeavor; it will both build and maintain a strong vendor relationship for your municipality in the long term.

## AGREE TO DISAGREE...

I realize some of you reading this newsletter are still ready to chuck tomatoes at me; you still will not agree with my proposal. That doesn't surprise me, and I know there are likely many unique "exceptions" you feel compel you to keep demanding that A/P invoices are sent directly to your Department for approval. I faced the same response at Cities where I was the new Finance Director, and I'm sure many City Finance Directors face the same challenges today.

Change is hard and change takes time. As I said, it usually took me six months to a year to persuade Department staff they should *trust* Finance to do its A/P job, getting vendors paid in a timely way and accurately reporting on their budget numbers through the City's main accounting and budgeting system. It will take a lot more than just the Finance Director to bring about the change needed for A/P invoice processing. It will take the support of the City Manager's Office as well as a partnership with Department Directors and their staff. However, the Finance Director has primary responsibility to champion improvements in the City's purchasing, budgeting, and financial reporting system. There is so much more to this than one simple newsletter can expand upon. Don't worry, you'll be hearing more from me on this.

In the meantime, feel free to call me if you want to share your thoughts on A/P; I would love to talk to you! We can agree to disagree, but more importantly, we can share valuable feedback for improving the A/P invoice processing in our Cities.

## INTEREST RATES ARE CLIMBING...

Do you remember when your municipality was making 6.16% on your idle cash investments?

The LAIF earnings rate was 6.16% for 1<sup>st</sup> quarter of 2001. LAIF is rising but still at only 1.51% for the 1<sup>st</sup> quarter of 2018.

As most of you know, the Federal Reserve Bank (“the Fed”) has just raised interest rates again, this time to just below 2%. Within 12 to 18 months we will likely see additional rate hikes coming down from the Fed! This means that for small business vendors that had to carry delinquent A/P invoices was bad enough during the last 9 years of low interest rates. In a rising interest rate environment, the impact on small businesses who work with the City will be that much more difficult.

Of course municipalities with large cash reserves (fund balances) will be happy to see higher investment yields that can be used to fund their Budget, but this is oftentimes a double-edge sword as bond issuance costs and debt service rise in tandem with investment yields.

Please keep these points in mind as you work on following best practices in timely processing A/P vendor invoices for payment.

## MUNITEMPS IS HERE TO HELP...

MuniTemps is here for you, should you need temporary help to fill a staff vacancy in your Department, or to complete a special project, such as *streamlining Accounts Payable*. ☺

As President of **MuniTemps – Municipal Staffing Solutions**, I have served many Cities and Special Districts as Finance Director. I still serve as contract Finance Director for municipalities in transition. My team and I understand municipal organizations, the budget, the CAFR, A/P invoice processing improvements, and the many nuances of municipalities and their staffing needs.

I wish us all success as we work through the challenges and opportunities to improve the A/P invoice processing and the improvements in the purchasing process. Let us forge ahead with our successful partnerships with all City Departments!



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