



City of Phoenix

Mission Statement

To improve the quality
of life in Phoenix
through efficient
delivery of outstanding
public services.

Project Team

Ross Tate
City Auditor

Aaron Cook
Deputy City Auditor

Suzanne Acosta-Jovanelly
Internal Auditor

Project Number

1230080

This report can be made
available in alternate
format upon request.

Human Services Department Business & Workforce Development Payment Processing

November 2, 2023

Report Highlights

Payment Processing

About one-third of the payments that we could trace from vendor payment requests to payment checks were paid more than 45 days after the request. In our sample, most payment delays were due to processing within the Human Services Department's Management Services Division.

***City Auditor Department
140 N 3rd Avenue Phoenix, AZ 85003
602-262-6641 (TTY use 7-1-1)***

Purpose

Our purpose was to review payment processing for Workforce Innovation and Opportunity Act (WIOA) expenses by the Human Services Department (HSD).

Background

The Phoenix Business and Workforce Development Board (Board) is a local workforce development board designated by the State of Arizona to carry out the purposes of the WIOA. The Board has a Memorandum of Understanding (MOU) with the City of Phoenix (City). The City has multiple roles:

- Administrative Entity – the City’s Community and Economic Development Department (CEDD) provides administrative oversight and functions of the Board.
- Fiscal Agent – the City’s Human Services Department (HSD) disburses grant funds for workforce development activities and performs accounting and funds management.

In its role as the Fiscal Agent, HSD uses the Business & Workforce Development Division (BWDD) to review payment requests. The Management Services Division (Fiscal) creates payments that are then processed by the Finance Department in the City’s financial system, SAP (see **Attachment A – Payment Processing Workflow**).

In December 2022, the Deputy Director of the BWDD left the City and sent a memo to the City Manager with concerns about how long payments to service providers were taking. In some instances, payments would take months and service providers were unhappy and threatening to no longer provide services. Per the Arizona Department of Economic Security WIOA Title I-B Policy Manual, HSD cannot require service providers to wait for payment until a participant successfully completes a training program or receives a credential.

In Calendar Year 2022, HSD received 2,012 invoices totaling nearly \$4.8 million.

We reviewed the timeliness of all payments as tracked by HSD and the City’s accounting system, SAP. We also tested a sample of late payments to identify the reasons for the delays.

Results

Significant payment delays occurred for about a third of all payments.

HSD uses multiple data sources to track payments:

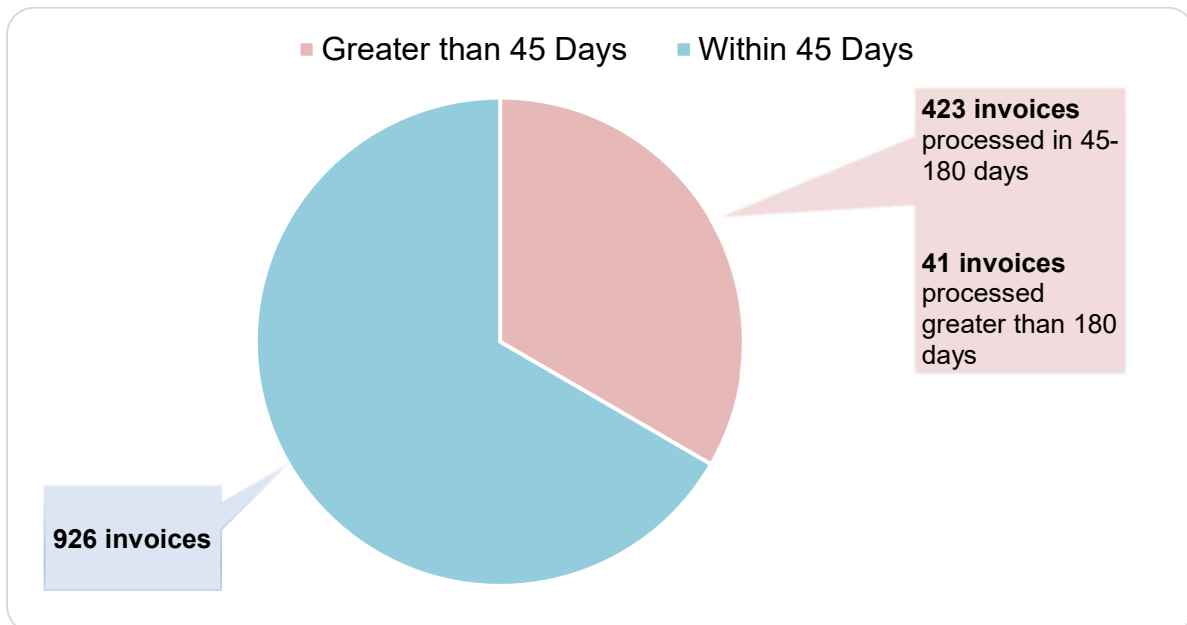
- Invoice Payment Tracker – used by BWDD to track payment requests as they are received.

- Voucher Data – used by Fiscal to track the approved spend amounts, vendor invoices received from BWDD, and payments processed by the Finance Department.

Of the 2,012 invoices received in calendar year 2022, only 1,664 were sufficiently tracked in the Invoice Payment Tracker and Fiscal Data for us to determine (1) the original date the payment request was submitted, (2) how long BWDD took to submit the request to Fiscal, and (3) how long Fiscal took to submit the request to Finance.

We then identified 1,394 transactions that were traceable to SAP vendor payment data, Of these transactions, 464 of 1,394 (33%) took more than 45 days to process the payment to the vendor.

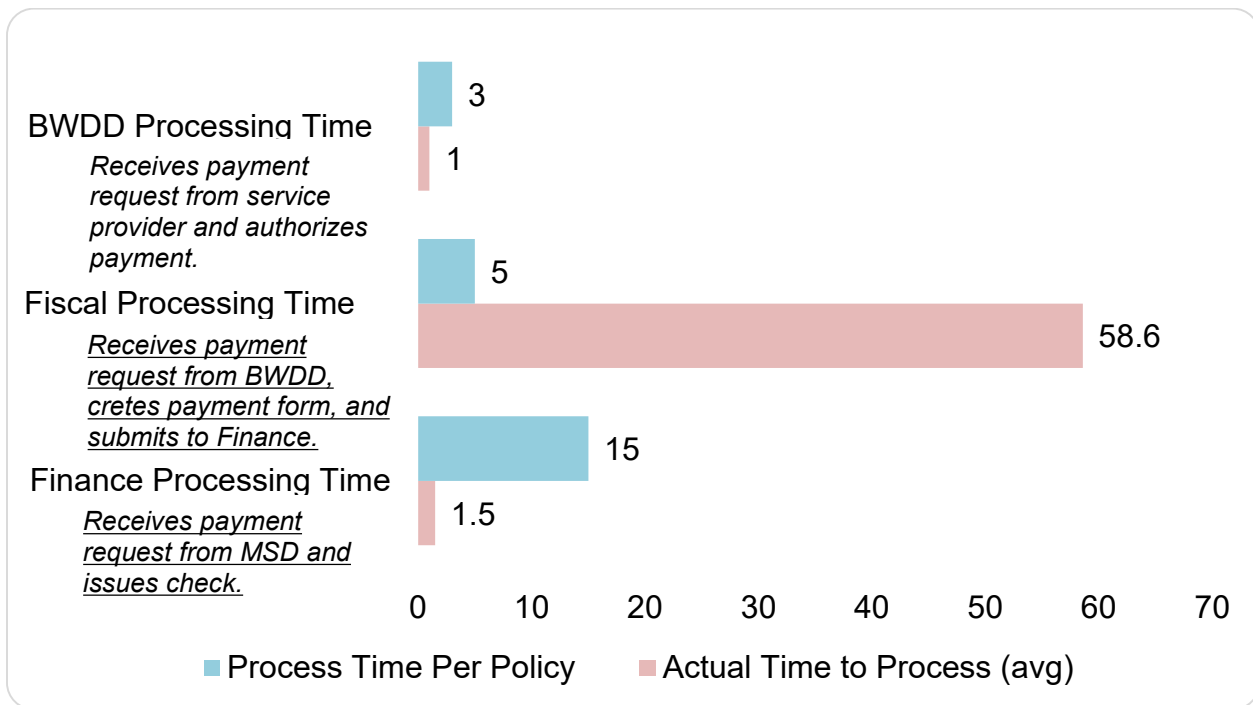
Timeliness of Payments



Most invoices were processed within the City's payment terms; however, a third of the payments were significantly delayed.

We selected a sample of 20 untimely transactions and calculated the average processing time for each of the functions that review, verify, and process invoices. Our sample indicated an overall average processing time of 75.5 days, with invoices being held in fiscal review for the majority of the time.

Average Processing Time (Days)



Fiscal Team took the longest time to process invoices.

Delays appear to be tied to Fiscal processing due to a misunderstanding in the timing of payments and payment terms provided to Finance.

In discussions with Fiscal staff, staff had understood that payments for training would not be processed until the training was completed. Additionally, the invoice template that HSD provides service providers stipulates that payment terms are for net 45 days, meaning Finance would not issue a check until 45 days from the initial payment request date, regardless of how quickly HSD submitted the payment control document to Finance. However, HSD policy and the guidelines from the Arizona Department of Economic Security stipulate that payments should not be delayed until training is complete. Payment terms can be adjusted with Finance by department request.

At the time of audit completion, Fiscal had updated the vendor payment authorization form to reflect the correct payment terms, and had updated the invoice review process so that payments were being processed in a timely manner.

Recommendation

- 1.1 Ensure that HSD Fiscal processes requests for payments immediately, and not based on the recipient completing training.

Department Responses to Recommendations

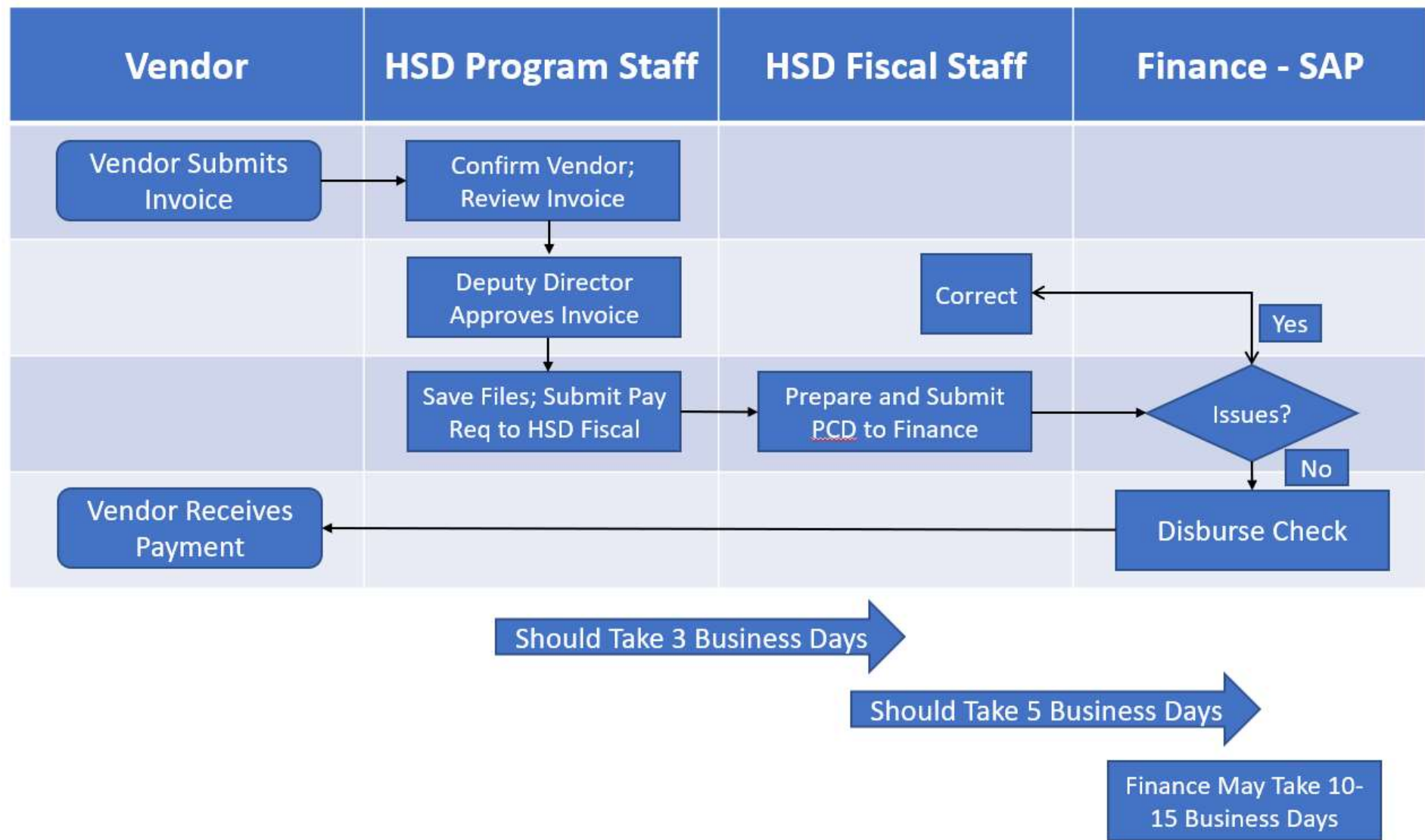
Rec. #1.1: Ensure that HSD Fiscal processes requests for payments immediately, and not based on the recipient completing training.

Response: A process has been implemented in coordination with program and fiscal staff. Invoices are first reviewed and approved by program staff and submitted to fiscal the liaison for payment processing upon receipt in accordance with the Arizona Department of Economic Security policy.

Target Date:
Completed

Explanation, Target Date > 90 Days: N/A

Attachment A – Payment Processing



Scope, Methods, and Standards

Scope

We reviewed WOIA payments for vendor requests in Calendar Year 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Environment
 - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.

Methods

We used the following methods to complete this audit:

- We interviewed program and fiscal staff in HSD.
- We evaluated transactions in the Invoice Payment Tracker Database, the Fiscal Database, and SAP.
- We tested a sample of late transactions to determine the reasons for delays.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of Invoice Tracker Data and Fiscal Data by (1) tracing transactions into the City's payment system (SAP), (2) reviewing existing information about the data and the system that produced it, and (3) interviewing agency officials knowledgeable about the data. We previously had validated the SAP data and found that data in the other systems was not consistently recorded but provided sufficient context for delays for the purposes of this audit.

Standards

We conducted this performance audit 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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.