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CONTROLLER

November 6, 2023

REF: CF 23-0085

Honorable Members of the City Council  
City of Los Angeles  
City Hall, Room 340  
Los Angeles, CA 90012

Attn: Budget, Finance, and Innovation Committee

**RE: CITY OF LOS ANGELES VENDOR INVOICE PAYMENT PROJECT  
REPORT**

**SUMMARY:**

At the request of the City Council (C.F. 23-0085), as initiated by Motion (Blumenfield-Raman), the Controller's Office, in consultation with the City Administrative Officer (CAO), and the Office of Finance (OOF), has prepared this report on the current processes of City departments relative to the payment of vendor invoices. The Budget, Finance, and Innovation Committee requested this report to outline current and best practices and consider options that could be implemented to achieve the goal of ensuring that all the City's vendor invoices are paid within 30 to 90 days of their respective due dates.

The City currently has approximately 7,084 active vendors. During Fiscal Year 2022-2023, a total of 100,713 vendor payments totaling approximately \$7.67B were issued citywide. Of the payments issued, over 90% of these payments were issued timely.

As explained further in the subsequent pages of this report, the Controller's Office arranged meetings with nine different City departments<sup>1</sup> to gain further information on where the current challenges lie within the departments that

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<sup>1</sup> The City departments that consented to and participated in interviews with us were LA. City Fire, Animal Services, L.A. Zoo, General Services Division, Personnel, Department on Disability, Department of Transportation, City Clerk, and Department of Public Works.

adversely impact their ability to issue vendor payments timely, and potential options to overhaul the City's processes in this area. These meetings revealed that differences in City department staff sizes, the extent of skilled fiscal staff within the departments, and staffing shortfalls were commonly cited by several departments. Based on available data (excluding proprietary departments), on average, the vacancy rate among employee groups responsible for processing invoice payments for the various City departments averaged 14.72%.<sup>2</sup>

Our team also met with our peer counterparts from the County of Los Angeles Auditor-Controller's Office (County A-C), to exchange information, learn how the County A-C's invoice processing protocols work, and gain an understanding regarding the tools and mechanisms that the County A-C team uses, to relay this information to the Council- in hopes of aiding the Council in assessing whether any practices utilized by the County A-C should be adopted by the City. Our team determined that some options for improving efficiencies could be achieved to a certain extent through increasing usage of the City's Vendor Self-Service portal, and through expanded supplemental fiscal training to the departmental staff charged with vendor invoice processing.

Notwithstanding better use of existing mechanisms, the Controller's Office ultimately believes that an overhaul of the City's systems and processes for handling invoices would prove most useful to address this issue. Our Office is participating in a citywide effort led by the Mayor's Office to implement her Executive Directive 4 which includes reforming vendor payment processes. While we realize that a task of such magnitude is beyond the scope of this report, our team has considered elements of a prospective new approach, which could include the following features:

- A centralized accounts payable system that includes the ability for external monitoring of pending invoices (outside of the originating department);
- The ability for vendors to submit their invoices online (with Controller's Office capability to monitor this database);
- Citywide implementation of electronic fund transfer payments (EFTs) as the primary method for paying vendors (currently, paper checks are the predominant method of payment, with electronic payment options available to vendors if preferred, following vendor account registration and their completion of the required steps);
- Establishment of dashboards reflecting discounts available to the City for making invoice payments early, with associated statistics on related cost savings, discounts missed, etc.;
- Adopting some of the technological tools currently in use by the Los Angeles County Auditor-Controller accounts payable team.

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<sup>2</sup> Summary of accounts payable staff from Financial Management System (FMS) records.

**BACKGROUND:**

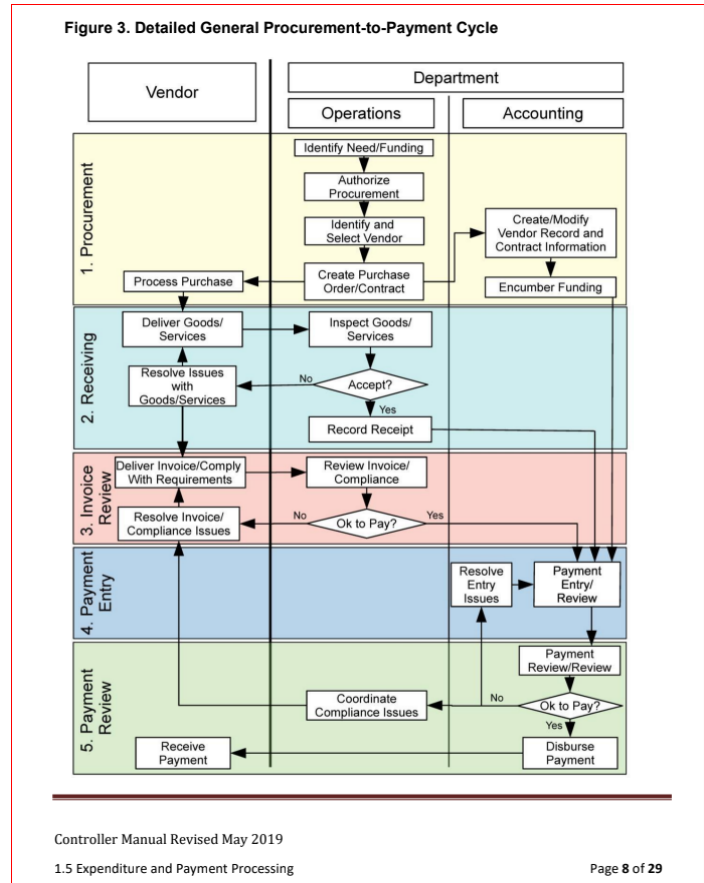
The City has a decentralized approach to vendor payments. They are received and reviewed by each department, usually prior to entering them into the City's Financial Management System (FMS) for payment processing. Each department has its own method of intake, with many different software applications employed to track those invoices and the steps the department takes to verify both the accuracy and validity of the invoice as well as confirming or reconfirming compliance with other regulatory requirements imposed by the City (Step 3 on Exhibit A describing the procurement cycle). Departments enter the invoices and required documentation and approvals into the FMS system (Step 4). Controller staff verify compliance with applicable standards prior to issuing either a check or initiating an Electronic Funds Transfer (Step 5.) The Controller's

Office standard for Step 5 is within 3 business days unless errors or missing documentation are flagged -- or unless expedited processing is requested in special circumstances.

Our interviews with City departments identified a number of issues that affected multiple departments, while other issues were more specific to individual departments. For instance, staffing shortages were cited by more than half of the departments interviewed [including a vacancy rate of 20% reported by the Bureau of Public Works, and a 35 to 40% vacancy rate estimated by General Services Division (GSD)]. High turnover in critical positions and insufficient available team members with skills and training in the City's fiscal processes were also issues highlighted by multiple departments.

An additional common challenge shared with us by several of the departments interviewed were payment delays rooted in either missing, expired, or otherwise incomplete City of Los Angeles Business Tax Registration Certificates (or related supporting documentation) required for vendors doing business with the City.

Moreover, 44% of departments reported payment delays caused by missing receiving documents, which are required to be entered into the City's Financial



Management System (FMS) prior to payments being issued- as part of the three-way match established for internal control purposes.

Other matters shared by departments which caused payment delays include incorrect invoices received from vendors (22%), as well as time lags resulting from approvals required from external departments, inadequate coordination within a department between departmental accounting staff and others, and the need to re-issue checks for payments processed improperly (11% of departments reported).

The Mayor's ED 4 initiative has also highlighted that departments are on their own for devising intake systems prior to entry into the citywide FMS system. This "missing link" combined with staff turn-over and lack of training contributes to delays in the first steps of processing.

**INFORMATION SHARED BY LOS ANGELES COUNTY AUDITOR-CONTROLLER:**

During our team's virtual meeting with our counterparts from the Los Angeles County Auditor-Controller's Office (County A-C), their County A-C cited the following three factors as their greatest impediments to issuing invoice payments to vendors timely:

1. The large volume of invoices they are required to process;
2. Inconsistent staffing to process invoices, which leads to backlogs; and
3. A need for the expanded use of technology to further improve processing times.

County A-C also elaborated further on some of the key components of their current invoice payment process, such as:

- The use of options and rules to tag designated invoices with priority codes that enable expedited payments to be issued on certain invoices. County A-C further
- explained that certain small business vendors, military veteran-owned businesses and others qualify to be identified as "Preference Vendors." According to County A-C, these vendor invoices have shorter processing times that are approximately one-half of the timeframes that other vendors operate under (with Preference Vendor processing times of 15 days, versus the typical Net 30 processing time that other County vendors operate under);
- The use of robotics to automate some of County A-C's payment processing (currently primarily used for utility bills that the County is required to pay). According to County A-C, implementation of this tool greatly reduced the time previously needed to review and process the County's utility payments;
- The use of centralized email boxes for vendors to communicate with the organization (to mitigate the types of delays caused by utilizing email

addresses for individual employees that transition to new roles without the vendor's knowledge).

**USE OF EXISTING TOOLS TO IMPROVE CITYWIDE PERFORMANCE:**

Presently, the City has a Vendor Self-Service Portal. Once vendors complete the registration process, a number of options are available to vendors that enable them to efficiently manage several aspects of the payment process. For example, within the Portal, vendors can submit invoices, track payments on their existing open invoices with City departments, and update their payment account information. This tool is free for vendors and is designed to allow vendors greater flexibility and transparency into their pending or prospective transactions with the City.

**ACKNOWLEDGEMENT OF RELATED CURRENT ACTIVITIES AND EFFORTS:**

The City's existing primary financial system, FMS, is slated for a significant upgrade in November 2023 and, in preparation for this upgrade, the Financial Management System team (FMS Unit) from the Controller's Office administered citywide training to the FMS user base of approximately 3,000 City employees, increasing the number of employees with up-to-date knowledge of the City's financial system. As noted, a separate effort is also underway within the Office of Mayor Bass (Executive Directive 4), which includes a working group tasked with actively assessing and evaluating improvements to the City's payment processes.

The Office of the City Administrative Officer (CAO) is also actively working on a pilot project (through its Office of Procurement) that it hopes will facilitate CAO making recommendations to the Council and Mayor's Office on standards, policies, processes, and technology relating to the City's procurement and contracting activities. This CAO project is being administered with cooperation from the Commission President from the Bureau of Public Works (BPW).

**RECOMMENDATIONS REGARDING POTENTIAL FUTURE STATE PROCESSES:**

The City's current processes for managing, tracking, and issuing payments, though well-intentioned and potentially very effective when initially implemented long ago, would be greatly aided by the implementation of new tools and a retooling of the related process flows.

In analyzing the underlying processes further, we believe that centralizing the submission, review, and monitoring of invoices citywide (by an experienced fiscal team well-versed in the City's processes) would improve efficiencies and reduce delays tied to staff shortages, lack of fiscal expertise, etc. While many details would have to be addressed, vesting ownership of this process within this group of specialists could help streamline the number of employees involved overall

between the point at which an invoice enters the system and reaches its final destination (i.e., the point of payment, to settle the balance owed to the vendor). To help visualize elements of this process, this could include simultaneous

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notifications to the centralized team as invoices are introduced into the system for processing, are approaching key deadlines for review, require resolution of discrepancies, have been cleared for payment, etc.

An additional option is the creation of a dedicated database for all vendors to submit their invoices through (with the ability of the Controller's Office to access and review this database in real time, to ensure appropriate checks and balances and fulfill other Charter-mandated responsibilities that rest with our Office in this area).

We also believe that an expanded and extended use of fiscal dashboards by City departments could increase opportunities for the City to avail itself of early-payment discounts. This not only represents tangible savings for the City, it also supports the objective of improving the City's timeliness in issuing vendor payments.

Further, some of the tools and practices shared by the County A-C are promising in terms of future possibilities for the City (including the use of robotics/A.I. technology to handle certain analytical tasks associated with reviewing and paying invoices, to speed up overall processing time).

As an aside, it should also be noted that this report primarily focused on vendor invoices and related payments that are reviewed or otherwise administered at various stages of processing by the Controller's Office (in collaboration with the departments originating these transactions). However, the breadth of the City's invoice processes overall extends into additional areas- including personal service agreements, grants, and commodities. Commodities are administered by

the City's General Services Department (GSD) in a centralized manner and the other items mentioned follow other distinctly-different processes than the vendor invoices referenced in this report (which are associated with service providers).

Respectfully submitted on behalf of the Office of the Controller.



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Chief Deputy Controller

cc: Leah Chu, City Administrative Officer  
Saul Romo, Office of Finance  
Petty Santos, Office of the City Clerk  
Ed Moreno, Office of the City Clerk