

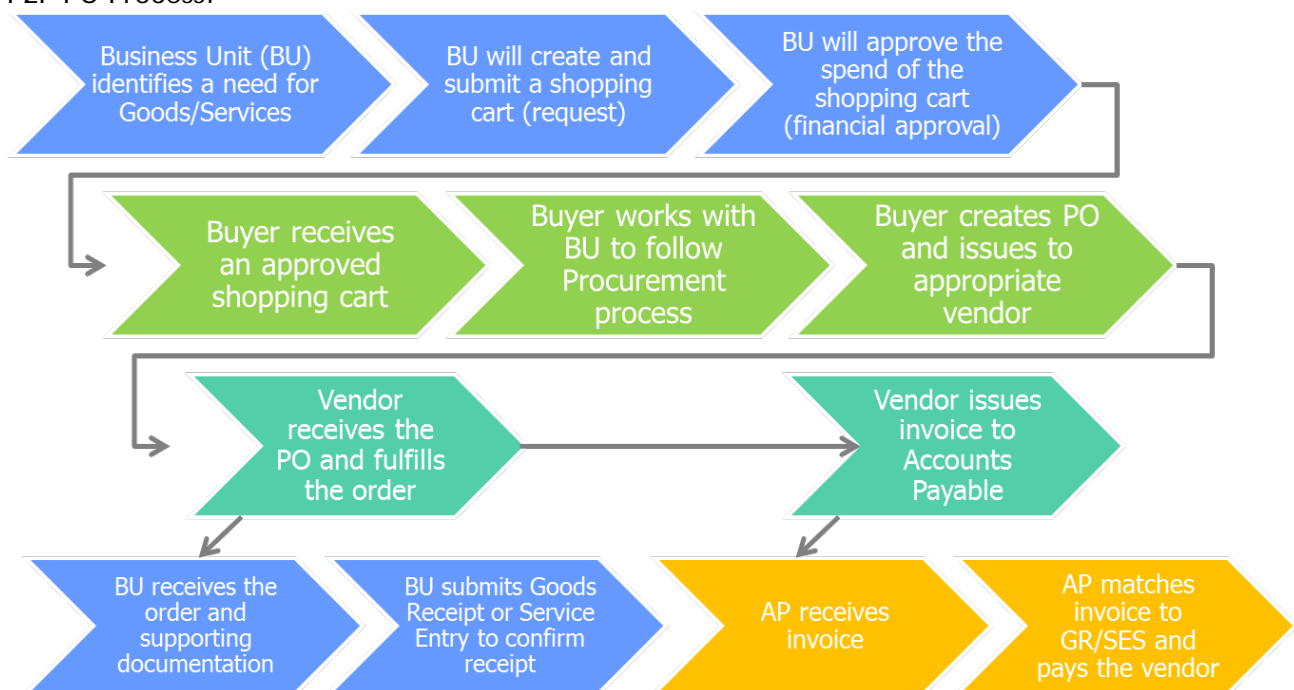
April 22, 2015

Procure-to-Pay (P2P) Audit

Background

The City awarded approximately \$127 million worth of contracts in 2014 to support the diverse services provided to its citizens¹. The primary goal of the City's procurement efforts is to maximize the value of goods and services received for the money spent, while ensuring that the best interests of its citizens are met.

P2P PO Process:



P2P was first implemented at the City in 2010 and went live in 2011 to streamline the procurement and payables processes, identify efficiencies and cost saving opportunities, and to provide better information to assist with department planning. Objectives of the project were to introduce a more efficient, cost-effective and transparent procurement model for the City supported through a centralized department as a shared service. The implementation of the project was met with mixed success.

In 2014, FSG launched the P2P Performance Improvement Project to enhance business processes, effectiveness, efficiency and process improvements. As per the project charter this includes items such as:

¹ City of Vancouver - Annual Procurement Report 2014

- 1) Low level of business understanding of P2P and why/how it works the way it does
- 2) Confusion regarding standard process for approvals, submission of documentation, etc.
- 3) Excessive processing of documentation and process redundancy
- 4) Acceptance and workflow of incomplete invoices
- 5) SAP System is not user-friendly and difficult to navigate
- 6) Significant number of exceptions/work-around processes
- 7) Inconsistent use of procurement mechanisms across the business

The improvement project has made some advancements and is currently in progress.

Scope

Our audit objectives were to evaluate the internal controls and business processes of P2P. Specifically:

- Ensure the P2P process is meeting its objectives
- Identify potential internal control weaknesses
- Ensure unauthorized purchases are tracked and justified
- Ensure emergency purchases are appropriate
- Ensure metrics are tracked and communicated
- Identify potential Segregation of Duties concerns
- Ensure vendor due diligence is exercised

Conclusion

The Internal Audit team found that improvements have been made to P2P processes but continued focus is required to reduce the invoice queue, track vendor performance and strengthen procurement procedures. Management is aware of the concerns and is proactively working on the issues.

The more significant findings and recommendations are:

- **Improve timeliness of invoice queue processing:** The invoice queue as of March 2015 is trending up and consists of 4,800 invoices waiting for processing by the Accounts Payable department (AP). The Financial Services Group (FSG) is working on improvements and is tracking metrics to identify efficiencies. Improvements are required to ensure that:
 - The invoice queue is reduced to a manageable and sustainable level;
 - Invoices are paid in a timely manner and are matched with the GR reports on a timely basis; and
 - Current improvement initiatives are implemented.

- **Improve processes related to vendor checks and vendor performance tracking and strengthen conflict of interest assurance:** We reviewed contracts from 2014 and found that while proper bidding procedures were followed improvements are needed. Criteria need to be established on when vendor checks are conducted and vendor performance should be captured in an organized fashion. Furthermore, procurement staff should receive an annual reminder regarding the conflict of interest policy.