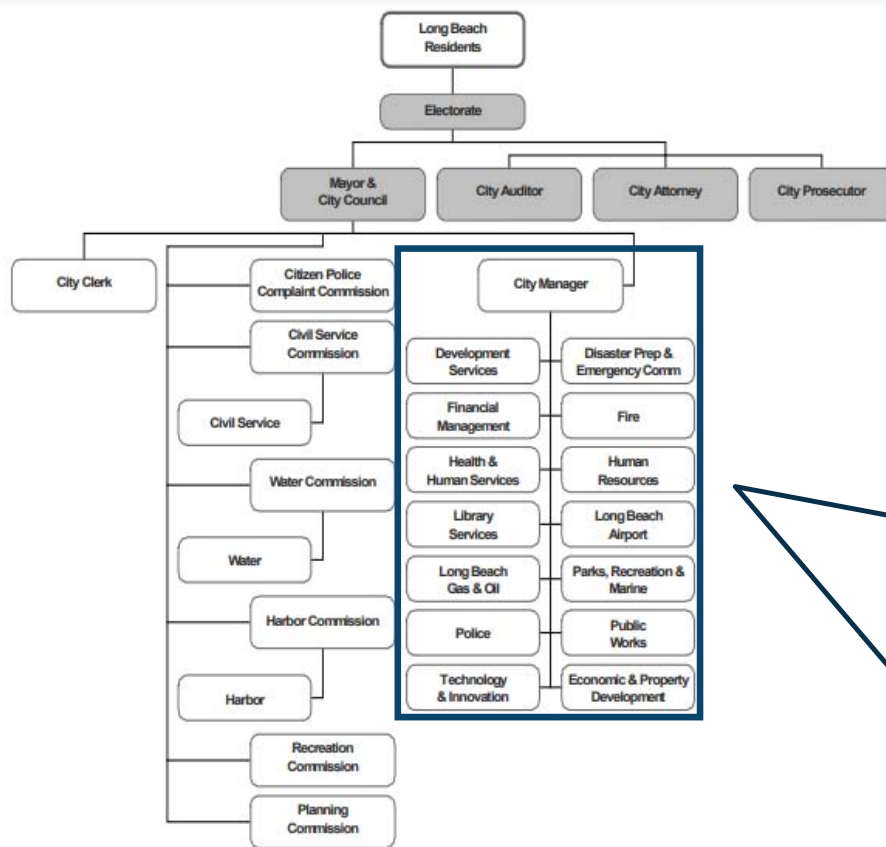




# **Presentation to Ethics Commission on Financial Management Procurement and Accounts Payable/ Payment Processes**

**July 13, 2022**

# Introduction - City Manager (CM) vs. Non-CM Departments



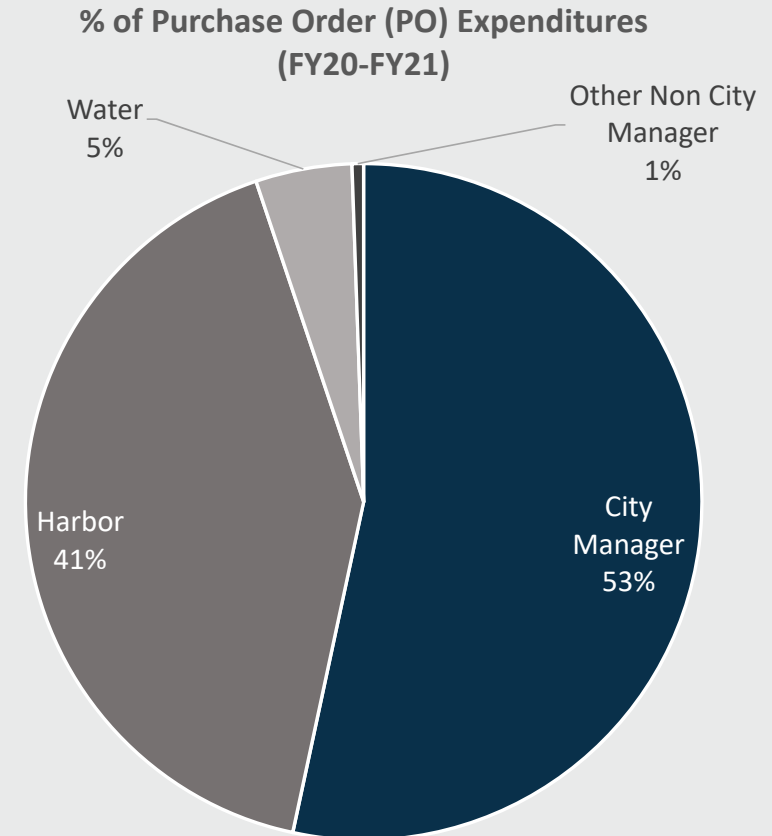
- Procedures and controls apply to all CM departments.
- Non-CM departments are encouraged to follow them; compliance is at their discretion.
- FM provides Procurement training, review, and consulting to non-CM departments.
- City has adopted Accounts Payable (AP) policies that apply Citywide.
- Harbor and Water have their own finance functions.

# Introduction – City Manager (CM) vs. Non-CM Departments

## Spending against Purchase Orders as an indicator of scale

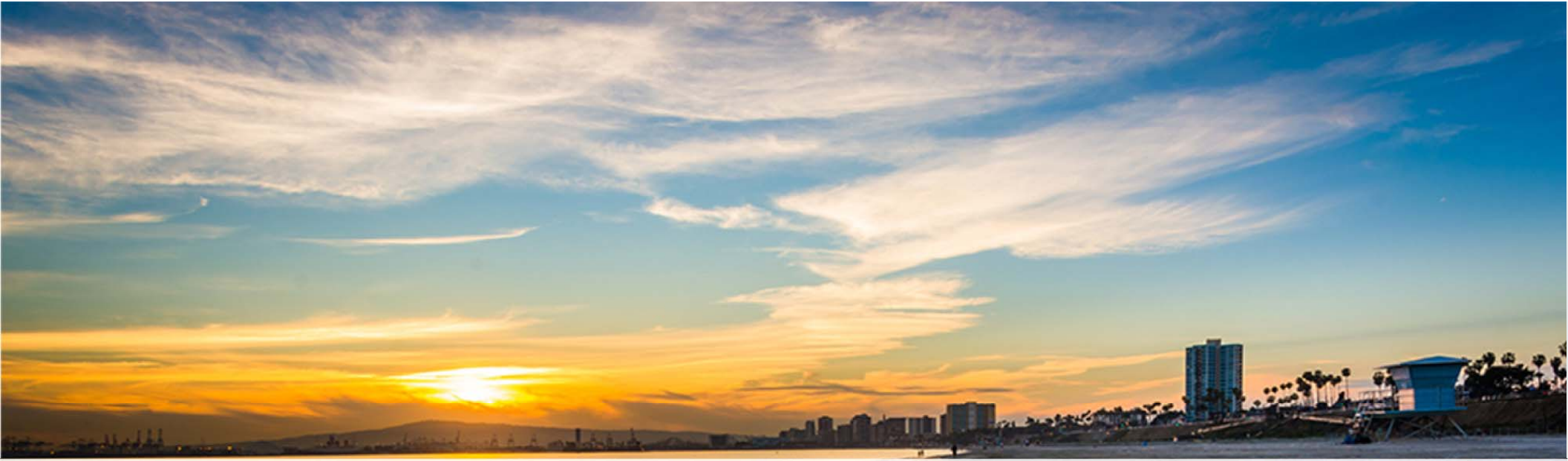
A Purchase Order is a written offer to a supplier stating the terms and conditions on which the City shall purchase goods or services.

- CM Departments: 53% of PO expenditures.
- Harbor and Water: 46%, and have their own finance functions.
- Other non-CM Departments: 1%.



# Introduction – Standard Procedures and Controls

- Annual financial audit performed by KPMG (includes expressing an opinion on the effectiveness of internal controls)
- Various additional independent financial audits every year from various regulatory agencies and audit firms
- Solid procedures and effective controls in place via various Administrative Regulations (AR), Financial Policies and Procedures (FPP), operating procedures, training materials, and the functions of our financial system (Munis)
- Procedures and controls annually evaluated and improved as needed
- Partly decentralized for procurement and accounts payable processes
- Tasks and responsibilities are divided between Departments and Central Financial Management (FM)
- Departments have a critical ownership role over their contracts and payments, with support and oversight from FM



# Purchasing Process

**Michelle Wilson, Purchasing Agent**

# Procurement controls increase with the value of the purchase

Purchase Type	\$ Value	Approval Level <sup>1</sup>	Available Procurement Methods
<b>Micro-Purchase</b>	\$1-\$1,000	Department Director	<ul style="list-style-type: none"> <li>• Staff Reimbursement</li> </ul>
	\$1-\$2,500		<ul style="list-style-type: none"> <li>• P-Card<sup>2</sup></li> <li>• Purchase Order (PO) with 1+ quote on Vendor Selection Form (VSF)</li> </ul>
<b>Small Purchase</b>	\$2,501-\$25,000	Department Director	<ul style="list-style-type: none"> <li>• PO with 3+ quotes on VSF</li> </ul>
<b>Formal Purchase</b>	\$25,001-\$200,000	City Manager <sup>3</sup>	<ul style="list-style-type: none"> <li>• Solicitation:                             <ul style="list-style-type: none"> <li>• Invitation to Bid (ITB)</li> <li>• Request for Proposals (RFP)</li> <li>• Request for Qualifications (RFQ)</li> </ul> </li> <li>• Cooperative Procurement, Emergency Procurement, or Exception to Policy (i.e., Sole Source) detailed and justified on VSF</li> </ul>
	>\$200,000	City Council	

1. Certain circumstances may require additional approvals. City Council approval is required for conformed contracts.

2. Some P-Cards have been granted emergency authority to increase transaction limits.

3. Specifics of approval may vary based on number of responses and protests received.

# Procurements ≤\$25,000

**All procurements less than or equal to \$25,000 require an informal yet documented process, with quotes to compare competitive prices in the marketplace.**

- Department staff request quotes from a minimum of 3 vendors (in writing, by email, by internet search, or over the phone or in person. Staff can also use the new Long Beach Buys system for quotes under \$25K.
- Quotes are reviewed through Departmental chain of command to ensure staff have done their due diligence when selecting a vendor, and ultimately, the Department Head is responsible for the process being in place and compliance met.
- Quotes are for like items and within the City's fiscal year.
- Staff are encouraged to be looking for local vendors for quotes.

# Procurements >\$25,000

All procurements over \$25,000 require a competitive solicitation, or an appropriate and approved exception to policy. Purchasing reviews all purchases over \$25k and verifies the compliant selection process was followed.

## COMPETITIVE SOLICITATION PROCESS:

### ▪ Requisition

- Department identifies that the procurement requires a competitive solicitation Process and initiates the drafting of the solicitation documents and enters in LB Buys.
- Purchasing reviews all purchases over \$25k and verifies the selection process.
- Competitive solicitation process includes traditional best practices as well as additional City of Long Beach specific controls, including reviews and approvals of the solicitation document by Purchasing, City Attorney and Risk Management.

### ▪ Solicitation

- Reviews and approvals of the solicitation document by Purchasing, City Attorney and Risk Management.
- All types are posted publicly, and utilize a consistent and transparent process.
- Procurements are advertised by email to community and business organizations, as well as in print and social media.



# Procurements >\$25,000

- All communication is channeled through the assigned Buyer in the Purchasing Division of FM. Department does not have access to Proposers. Proposals are kept confidential until all submittals are received.
  - Questions and answers are made public to all prospective Proposers at the same time, before proposals or bids are due.
  - Bidders attest that: “No City employee whose position in the City enables him/her to influence the award of the Contract or any competing Contract, and no spouse or economic dependent of such employee is or shall be employed in any capacity by the Bidder herein, or does or shall have any direct or indirect financial interest in a potential resulting Contract.”
- **Evaluation and Award**
- Invitations to Bid: awarded to lowest price responsible bidder.
  - Requests for Proposal: Evaluation based on published evaluation criteria, awarded by Committee (minimum of 3), committee signs conflict of interest disclosure all members are disclosed to Purchasing.
  - Award decision is reviewed by Department and Purchasing.
  - Notice of Intent to Award is posted publicly with procedure for protests.

# Procurements >\$25,000

- **Approval and Contracting**

- Multiple layers of effective approval:
  - Department;
  - Purchasing and City Manager (if over \$25K);
  - City Attorney (if over \$95K);
  - City Council (if over \$200K, or if over \$100K and less than 3 responses were received or protest was submitted to the City).
- Purchasing verifies all applicable forms (Bonds, non-collusion, etc.).
- With an RFP, Proforma Agreement is signed by Vendor to reaffirm all terms and conditions, and in Bid, the vendor executes the Bid agreement and reaffirms all terms and conditions.
- Final awards are public information, posted within the bidding software system.
- Final awards >\$200K when approved by City Council, allow for public comment, and are noticed publicly.

# Exceptions to Policy

- All exceptions to policy are required to have documented justification, and to have that available in the financial system.
- Each one is reviewed at each threshold as follows:

Amount	Dept. Dir.	Purchasing	City Manager	City Attorney	City Council
Less than or equal to \$25,000	X				
Greater than \$25,000, but less than or equal to \$100,000	X	X	X		
Over \$100,000	X	X	X	X	X

All purchase order documents over \$25,000 are reviewed independently by the Purchasing Division and therefore the backup for all exceptions is reviewed by Purchasing in a separate process.

# Exceptions to Policy

CITY OF LONG BEACH  
**VENDOR SELECTION FORM**

**DEPARTMENT INFORMATION**  
 REQUISITION NUMBER: \_\_\_\_\_ DEPARTMENT NAME: \_\_\_\_\_  
 REQUESTOR: \_\_\_\_\_ PHONE: \_\_\_\_\_

**VENDOR INFORMATION**  
 NAME: \_\_\_\_\_ VENDOR #: \_\_\_\_\_  
 DBA: \_\_\_\_\_ CONTACT: \_\_\_\_\_  
 ADDRESS: \_\_\_\_\_ EMAIL: \_\_\_\_\_  
 PHONE: \_\_\_\_\_ FAX: \_\_\_\_\_

**MUNIS USER DEFINED FIELDS (UDFs)**  
 PROCUREMENT PROCESS TYPE: PLEASE SELECT ONE  
 CHANGE ORDER REASON (IF APPLICABLE): \_\_\_\_\_  
 INSURANCE:  Yes  No INSURANCE REASON (IF APPLICABLE): \_\_\_\_\_  
 LABOR COMPLIANCE:  Yes  No TI EQUIPMENT:  Yes  No HOMELAND SECURITY GRANT:  Yes  No  
 FUNDING SOURCE: \_\_\_\_\_

**DESCRIPTION OF PURCHASE**  
 DESCRIPTION / JUSTIFICATION FOR PURCHASE / TIMING CONSIDERATIONS / SERVICE LEVEL IMPACT IF NOT APPROVED

(Continued)

Page 1 of 2

Vendor information, Procurement process, dollar amount, and other information.

Description of the purchase

Quotes for purchases ≤ \$25,000

CITY OF LONG BEACH  
**VENDOR SELECTION FORM**

**EXCEPTION TO POLICY REQUEST**  Yes  No

**AN EXCEPTION IS REQUESTED BECAUSE:**  
 Explain why the purchase cannot be made using a competitive process in accordance with the City of Long Beach's standard purchasing procedures. Attach additional page(s) if needed.

**ACCOUNTING INFORMATION**  
 ACCOUNT STRING: \_\_\_\_\_ AMOUNT: \_\_\_\_\_  
 ACCOUNT STRING: \_\_\_\_\_ AMOUNT: \_\_\_\_\_  
 ACCOUNT STRING: \_\_\_\_\_ AMOUNT: \_\_\_\_\_

**QUOTES RECEIVED - Attach backup documentation in TCM**

METHOD	BUSINESS NAME	NAME OF PERSON PROVIDING QUOTE	BUSINESS ADDRESS, PHONE, FAX, OR EMAIL	AMOUNT QUOTED

**DEPARTMENT DIRECTOR APPROVAL (IF APPLICABLE)**  
 PRINT DIRECTOR NAME: \_\_\_\_\_ DIRECTOR SIGNATURE: \_\_\_\_\_ DATE: \_\_\_\_\_

Page 2 of 2

Justification for request for exception to policy

Department Head approval for all exceptions



# Accounts Payable/Payment Process

**Claudia Buenrostro, Accounting Management Officer**

# Vendor Maintenance

## Financial Policies & Procedures (FPP) 4-6

- Applicable to all City departments, City elected offices and other independent offices and departments.
- Citywide guidance for vendor maintenance.
- Defines vendor types and required documentation.
- Policies for updating W-9 for Internal Revenue Service (IRS) reporting requirements.

# Vendor Types

- Department submits vendor add form, W-9 (if applicable), and email request to A/P Division in FM.
- To ensure separation of duties, department cannot create vendors independently.
- To validate vendor identity, department obtains supporting documentation.

Vendor Type	Description	W-9 required?
Standard	Will have multiple transactions and most likely multiple payments during the year.	Yes
One-time Payment	Will have payments less than \$600 annually and paid on a one-time basis.	No
Administrative	Employees of the City	No
Program Participants	Direct recipients of grant funding. Tax treatment depends on benefit received (determined by department).	Qualifying Participant: Yes Non-qualifying Participant: No

# Vendor Addition Process- Summary

Process	Procedural Steps	Responsible	Control
<b>Vendor IRS validation</b>	Vendor Taxpayer Identification Number (TIN) verified through the Internal Revenue Service (IRS).	Financial Management Accounting	<ul style="list-style-type: none"> <li>• Confirm vendor identity.</li> </ul>
<b>Vendor SAM.gov validation</b>	Vendor record is reviewed on SAM.gov for debarment or suspension.	Financial Management Accounting	<ul style="list-style-type: none"> <li>• Confirm vendor is in good standing with the federal government.</li> </ul>
<b>Vendor entry in Munis</b>	Vendor is entered into Munis (financial system) by an Accounts Payable Technician.	Financial Management Accounting	<ul style="list-style-type: none"> <li>• To ensure segregation of duties, the person setting up a vendor in Munis is not someone from the Department requesting the vendor set up.</li> </ul>
<b>Vendor approval in Munis</b>	Vendor record is routed in Munis for review and approval to the Accounting Management Officer.	Financial Management Accounting	<ul style="list-style-type: none"> <li>• Ensure a manager is reviewing and approving the vendor record as established in the financial system (required documents are attached, TIN matches the W-9, address is valid, etc.).</li> </ul>
<b>Vendor set up is completed</b>	Informing the Department the vendor is set up and can be used for processing vendor invoices.	Financial Management Accounting	N/A



# Vendor Addition Process- Summary (cont'd)

Process	Procedural Steps	Responsible	Control
<b>Vendor EFT set-up</b>	The Accounts Payable Technician validates and enters the bank information from the Electronic Funds Transfer (EFT) authorization request form.	Financial Management Accounting	<ul style="list-style-type: none"> <li>EFT vendor requests are independently validated by the Accounts Payable Technician.</li> <li>EFT requests are set up with a prenote for the first payment subsequent to the request in order to validate the accuracy of the vendor bank information.</li> </ul>
<b>Financial Audit</b>	An annual financial audit is performed by external auditors in which vendor management controls are tested.	External auditors	<ul style="list-style-type: none"> <li>An annual audit by a third party is performed that includes testing of vendor record maintenance in Munis.</li> </ul>

# Vendor Invoice/Payment Process

## Decentralized A/P Process

- The City has a decentralized A/P process which gives Departments the lead role in initiating the processing of their invoices. Departments receive invoices directly from the vendor and can enter in Munis upon review and authorization for invoice payment.
- Receiving department confirms that goods/services were satisfactorily received.

The approvals below represent all Citywide payments except for the Harbor and Water Departments, which have separate Finance functions for invoice processing and approving.

Payment Type	Dept. Manager or above	FM Accounting	City Auditor
Standard Payment	X	X	
One-time and Direct Payments (in accordance with AR23-1)	X	X	
Wires	X	X	X

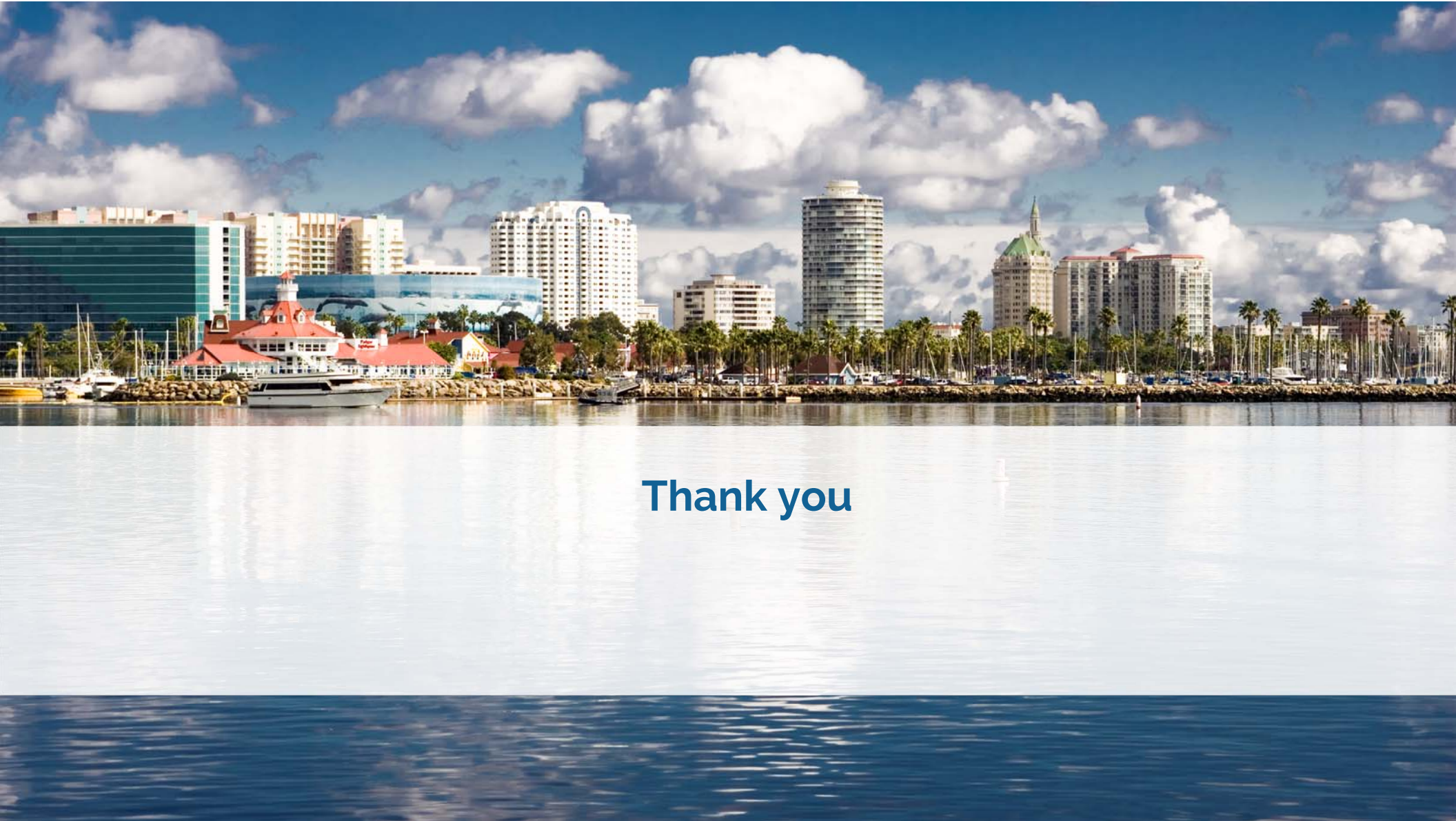
Note: Prior to the City Auditor printing a check, the City Auditor performs some level of review of A/P invoices, but is not in the Munis approval workflow. This may result in need of additional documentation from the Department.

# Vendor Invoice/Payment Process- Summary

Process	Procedural Steps	Responsible	Control
<b>Vendor invoice entry</b>	Invoice is entered into Munis for payment processing.	Department	<ul style="list-style-type: none"> <li>To ensure separation of duties, A/P does not enter invoices on behalf of Departments</li> </ul>
	Invoice is routed for review and approval to Department approver(s). Financial Management requires at least one approver in Munis and it must be a Manager.	Department	<ul style="list-style-type: none"> <li>Confirm that goods and/or services were provided by the vendor, verify invoice information is accurate, and ensure at least one department manager on the list of authorized approvers provides a wet signature or email approval for payment.</li> </ul>
<b>Vendor invoice approval</b>	Invoice is routed to Financial Management (Accounting) for review and approval (depending on type of payment, there may be additional approvals by City Attorney and City Manager). If it is a wire payment, City Auditor approval is required.	Financial Management Accounting	<ul style="list-style-type: none"> <li>Validation that an invoice is attached, invoice information is accurately reflected in Munis (amount due, vendor address, invoice number, etc.), that appropriate department personnel approved the invoice for payment, there is a valid g/l account code, sales tax amount is accurate, etc.</li> <li>For wire payments, a wire packet is prepared and attached to Munis for approval by City Treasurer and City Auditor offices.</li> </ul>
<b>Vendor invoices approved for payment are validated</b>	Invoices approved for payment through the Munis workflow are posted, and validation of invoices and amounts is performed.	Financial Management Accounting	<ul style="list-style-type: none"> <li>Invoice is posted to the general ledger in Munis by FM (separate from the department that initiated the transaction).</li> </ul>

# Vendor Invoice/Payment Process- Summary (cont'd)

Process	Procedural Steps	Responsible	Control
<b>Vendor checks are printed</b>	Final review of approved invoices and check run is generated.	City Auditor	<ul style="list-style-type: none"> <li>Auditor's office completes a review of invoices to be paid and generates the check run, delivers the checks to the mailroom.</li> </ul>
<b>Vendor check distribution</b>	Checks are sealed, stamped and mailed.	Technology & Innovation Department (TID)	<ul style="list-style-type: none"> <li>TID takes custody of the checks and prepares for mailing.</li> </ul>
<b>Financial Audit</b>	An annual financial audit is performed by external auditors in which vendor invoice/payment controls are tested.	External auditors	<ul style="list-style-type: none"> <li>An annual audit by a third party is performed that includes examination of vendor invoice/payment processing in Munis.</li> </ul>



Thank you