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	SUBJECT	CITY COUNCIL BILL No 08-0076R – Prompt Payment Resolution

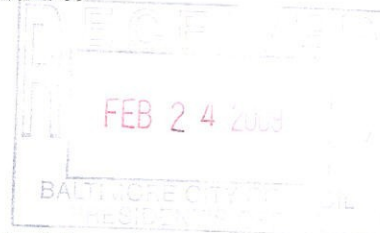
CITY of
BALTIMORE
MEMO



TO

DATE: 02/24/09

Honorable President and
Members of the City Council
C/O Karen Randle
Room 400, City Hall



Resolution 08-0076R requests the Baltimore City Bureau of Purchases and the Mayor's Office of Minority and Women-Owned Business Development to report to the City Council on the number of small and minority business and 2nd tier subcontractors that are currently contracted to deliver goods and services to City agencies; the average length of time between date of delivery of goods and services provided by small and minority businesses and other 2nd tier subcontractors and the date marking receipt of compensation for services rendered; and a comprehensive plan to revise current policies to ensure prompt payment to small and minority businesses and 2nd tier subcontractors.

The intent of this legislation appears to be to ensure that small, minority and 2nd tier subcontractors are paid promptly. The Bureau of Purchases, to which the resolution was directed, would like to take this opportunity to share with members of the Council how the accounts payable process in the City works with regard to both prime contractors and subcontractors and the limited role that the Bureau of Purchases and its CitiBuy software play with accounts payable.

Payments to Prime Contractors

City policy is clear that the City's goal is to process all vendor invoices within 30 days of receipt of a proper invoice. This standard applies to payments to all prime contractors; the City does not make payment directly to subcontractors.

Currently, invoices are sent by vendors (prime contractors only) to either the user agency directly or to the central Accounts Payable Unit within the Finance Department's Bureau of Accounting and Payroll Services (BAPS). When an invoice is sent to BAPS, Accounts Payable staff forward it to the user agency for certification of goods and services received and approval of the invoiced amount before the payment is processed. When an invoice is sent by the vendor to the user agency, it is up to the user agency to submit the invoice along with proper documentation to Accounts Payable for the payment to be processed.

The Accounts Payable Unit processes an average of 12,000 payments each month. As of September 2008, approximately 56% of invoices were paid within 45 business days. On average, once payment documentation is received by the Accounts Payable unit from the user agency, it takes about 8 calendar days for the payment to be released; the

Comments

balance of 37 days on average is the amount of time it takes for the invoice to be approved by the user agency and the proper documentation forwarded from the user agency to Accounts Payable so that the invoice can be processed.

Beginning with the implementation of the City's new financial system in March 2009, the Department of Finance plans to centralize the control of all invoice payments within the Accounts Payable Unit of BAPS with the goal of improving the turn-around time for payment of vendor invoices. Under the new process, vendors are directed to send all invoices to the Accounts Payable Unit in BAPS. Accounts Payable staff will scan the invoice. If the invoice is associated with a purchase order in CitiBuy, Accounts Payable staff will enter the invoice information into CitiBuy and electronically forward the information to the user agency so that the agency can confirm receipt of the goods or services. Agency CitiBuy users are being encouraged to confirm receipt of goods and services as soon as possible upon receipt so that the invoice, when received by Accounts Payable, can be processed immediately. If the invoice is not associated with a CitiBuy purchase order (for example, contracts let by the Department of Public Works or the Department of Transportation), the Accounts Payable staff will match the invoice data with the appropriate Expenditure Authorization and process the payment. This centralization of the Accounts Payable function is expected to significantly improve turn-around times for paying invoices.

Generally speaking, while the Bureau of Purchases recommends contracts for goods and services to the Board of Estimates for approval and issues purchase orders accordingly, the Bureau does not play a central role in processing payments to vendors after goods and services are received. As a financial control, it is required that agencies confirm receipt of goods and services in CitiBuy before a payment can be processed, but CitiBuy itself does not process the payment. The payments are processed by the Accounts Payable staff within the Bureau of Accounting and Payroll Services using the disbursements portion of the City's financial system. Payments to vendors under contract awards handled by the Department of Public Works and the Department of Transportation are not reflected in CitiBuy at all.

Information Regarding Subcontractors

While the resolution calls for the Administration to report to the City Council on the number of small and minority businesses and 2nd tier subcontractors that are currently contracted to deliver goods and services to City agencies, the Department of Finance does not have this information. When vendors respond to Bureau of Purchases solicitations, if there are goals for MBE or WBE participation, then the bidders include information regarding which MBE and WBE-certified subcontractors they plan to work with to fulfill the contract. However, that information is not stored in a manner that would enable the Department of Finance to report on the number or identity of those subcontractors currently in use. Further, since the City does not enter into agreements or make payment directly to subcontractors, the City has very little electronic information at its disposal to estimate the number of subcontractors currently in use. For the same reason, the City does not currently track data regarding the amount of time it takes for prime contractors to pay their subcontractors after receiving payment from the City. The section of City Code (Article 5, Subtitle 28) that authorizes the Minority and Women's

Business Enterprise program states that contractors subject to the MBE/WBE law should pay their subcontractors within 7 calendar days of receiving payment from the City.

The developer of the CitiBuy software is considering including in a future upgrade of its software the capacity for user clients like the City of Baltimore to use CitiBuy to help track the turnaround time on payments to subcontractors. This would be accomplished through email communication and confirmation with prime contractors and subcontractors that payments have been received. The Bureau of Purchases is studying the feasibility of implementing this system capacity, as it becomes available, within CitiBuy. It should be noted, though, that even if the Bureau of Purchases was able to achieve this capacity within CitiBuy at a future date, it would cover only those subcontractors on contracts awarded by the Bureau of Purchases and not necessarily cover contracts awarded by other agencies.

We hope that this response answers some of the Council's questions regarding payment to City contractors and subcontractors.