FORM GEN. 160 (Rev. 6-80)

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: October 29, 2018

TO: Honorable Members of the City Council

FROM: Ron Galperin
Los Angeles City Controller

SUBJECT: NEW ELECTRONIC PAYMENT OPTION FOR CITY VENDORS

As part of the City's ongoing efforts to improve business processes and better support the vendors with whom we do business, the Controller, Office of Finance, General Services Department (GSD), and the Information Technology Agency (ITA) have been working to improve the City's procurement process. These projects have included Supply Management System (SMS) replacement, accounts payable enhancements streamlining the Automated Clearing House (ACH) and wire processes, and the Vendor Self-Service module.

Now, our offices are ready to begin offering a new payment option to our vendors: E-payables. Through the City's purchasing card partner, US Bank, and in partnership with Visa, vendors who sign up for this option will be notified of payments by email, which will contain an individualized link where they can go claim their payment. The payment will then be immediately transferred to their bank account. These e-payments will be easier to process than paper checks, are less vulnerable to fraud than paper checks, and most importantly, will be available just one day after the City approves the payment.

The City will also benefit from this new payment option in the form of rebates provided by the bank on each payment. Depending time and frequency of paying US Bank, the City will receive between 1.10% and 1.85% of the total amount paid per e-payable. Assuming a phased roll-out and conservative estimates of vendor participation, we estimate that the total rebate for the first year of full operation would be between $1.0 million and $1.5 million, potentially increasing in future years as the program expands. Additional staff will be required to reconcile payment reports, process cancellations, and fund future maintenance and upgrades. Up to 25 percent of this rebate will be required to cover the cost of new staff and future maintenance and improvements. However, the balance of the rebate proceeds will be recorded as additional General Fund revenue.

This new program, which will improve the payment process for vendors and generate additional revenue for the City, has been developed in cooperation between the Controller, Office of Finance, GSD, and the ITA with no additional budgeted resources.

Currently, all of the required systems modifications and processes have been built and thoroughly tested, and we are ready to proceed with implementation. However, below are the next steps that are necessary for implementation:

- Establish the necessary accounting mechanisms (new funds and accounts);
- Authorize one additional position in the Controller's Office to reconcile payments on a daily and monthly basis, as well as assisting departments with payment issues and cancellations;
- Begin vendor outreach; and
- Train City staff.

As the City of Los Angeles seeks to be a good partner to the companies that supply us with needed supplies and services, continuous improvement is crucial. E-payables represent another step forward in making our business model as modern and business-friendly as possible.

The Payment Process

For City departments, this new payment type will be processed the same way as any other payment type. Vendors which are signed up for e-payables will be paid by e-payable for all payments, unless they specifically request an individual transaction to be handled differently. Once the payment is approved in Financial Management System (FMS), the department's responsibilities will be complete.

On a daily basis, a file will be automatically sent to US Bank containing all the e-payables payments approved during the previous day. US Bank will record that payment information, and generate the emails to vendors notifying them of their available payments.

On a daily basis, US Bank will send the City a list of all payments claimed by vendors during that day. The Controller's Office will reconcile this list to the payment information in FMS, and approve the accounting document to move the money from the General Demand Fund to a new E-Payables Disbursement Fund. Once the money is in the E-Payables Disbursement Fund, it is recorded as a liability due to US Bank. At the end of the month, US Bank will send a billing statement detailing all payments made during the month, and the Controller's Office will reconcile that bill to FMS records. The Office of Finance will then confirm cash availability and process the payment to US Bank from the E-Payables Disbursement Fund.

Links sent to vendors are valid for 45 days, and US Bank will send multiple reminder emails to vendors who have not claimed their payments prior to expiration. If payments are not claimed within 45 days, the expired payment information will be sent back to the Controller's Office, who will then forward that information to departments for further action.

If a department needs to cancel a payment prior to the 45 day expiration, they will initiate the payment cancellation in FMS, and the Controller's Office will query the US Bank system to confirm the payment is still unclaimed. If it is still unclaimed, the Controller's Office will cancel the payment in the US Bank system and approve the cancellation in FMS. If the payment has already been claimed by the vendor, the Controller's Office will reject the cancellation in FMS and notify the department for further action.

On an annual basis, US Bank will calculate all of the rebate monies due back to the City based on the program rules and payment terms, and remit that amount. These funds will be deposited in a new E-Payables Rebate Fund. Up to 25 percent of the rebate monies received each year, estimated to be between $250,000 and $375,000 for the first full year, will be allocated to an account dedicated to reimbursing the Controller's Office for the cost of reconciling the various payment reports, processing payment cancellations, and providing resources for future accounts payable systems maintenance, upgrades, and improvements needed by the Controller's Office and the Office of Finance. The balance of the rebate monies, estimated to be between $750,000 and $1.25 million for the first full year, will then be transferred to the General Fund.

Vendor Outreach and Enrollment

The outreach campaign for this new program will be a combination of City communications and direct communications from Visa, which will lead the outreach and enrollment effort for the program.

Once Council has approved the needed accounting actions, the Controller's Office and GSD will send notification to City vendors (GSD to commodities vendors and Controller to all others) that the City will be offering e-payables as a payment option. This will focus on the benefits to vendors of the new program and the City's interest in moving vendors away from hard-copy checks. Soon after that initial communication, vendors will receive a letter directly from Visa detailing how the program works and the steps required for vendors to sign up.

As Visa begins enrolling vendors, US Bank will establish the necessary bank connections, and begin notifying the City of the vendors that are ready to begin receiving payments. After some initial live testing of the overall process, the Controller's Office will process the vendor payment changes in FMS and the program will be live.

RECOMMENDATIONS

That the Council:

1. Authorize the Controller to establish a new fiduciary fund, titled "E-Payables Disbursement Fund," for the purpose of recording payments which have been made to vendors but for which payment has not yet been made to US Bank.

2. Authorize the Controller to establish a new Balance Sheet Account within the new E-Payables Disbursement Fund and transfer monies from the General Demand Fund into the new account upon notification from US Bank of completed payments.

3. Authorize the Controller to establish a second new fund, titled E-Payables Rebate Fund, for the purpose of depositing e-payables rebate funds and providing resources for payment reconciliation, department and vendor support, and future maintenance and improvements to the e-payables process and systems.

4. Authorize the Controller to deposit e-payables rebate funds from US Bank into the new E-Payables Rebate Fund and:

    a. Deposit up to 25 percent of total rebates received into a new account titled "E-Payables Processing and Maintenance;" and
    b. Transfer the balance of available rebate funds to the General Fund.

5. Authorize one resolution authority for a Senior Accountant I, Class Code 1523-1, in the Controller's Office to perform payment reconciliations, provide support to vendors and departments, and process payment cancellations when necessary.