



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 3, 2018

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

13 April 3, 2018

CELIA ZAVALA
ACTING EXECUTIVE OFFICER

Dear Supervisors:

**APPROVAL OF A NEW BOARD OF SUPERVISORS POLICY – METHOD OF
PAYMENT FOR COUNTY CONTRACTORS, VENDORS, AND OTHER PAYEES
(ALL DISTRICTS) (3 VOTES)**

SUBJECT

The Auditor-Controller (A-C) recommends approval of a new Board of Supervisors (Board) Policy that requires County contractors, vendors, and other payees to accept electronic payments for their services and commodities provided to County departments, and delegates authority to the A-C to establish guidelines and approve exemptions to the electronic payment mandate.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the attached Board Policy entitled Method of Payment for County Contractors, Vendors, and Other Payees.
2. Delegate authority to the A-C to establish guidelines and approve exemptions for payees that demonstrate a specific need for an alternative form of payment.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

In Fiscal Year 2016-17, the A-C issued 2.7 million non-payroll related payments valued at \$16.2 billion dollars. Approximately 2.1 million (78%) of the payments were issued via paper checks (warrants). Historically warrants have always been susceptible to theft and alteration, and in 2014, the County experienced an increased volume of stolen,

altered, and counterfeited warrants. The A-C has offered Automated Clearing House (ACH or direct deposit) as a disbursement option to vendors; however, many vendors were wary of mailing ACH applications with bank information and voided checks, and therefore chose to continue to receive warrants.

A recent upgrade to the County's financial system now offers vendors the opportunity to self-register for direct deposit through a secure website that guides them through the registration process (<https://directdeposit.lacounty.gov/>). All banking information is encrypted and the website is monitored for security vulnerabilities. The web-enabled registration system requires a unique vendor code and taxpayer identification number, interfaces directly with eCAPS, and allows vendors to upload voided checks to a secure website. Vendors who receive payments via direct deposit also receive electronic remittance advices delivered to e-mail accounts they designate during the registration process. As an added security feature, electronic notification of direct deposit applications is also sent to e-mail accounts registered with the Internal Services Department's (ISD) Vendor Self-Service portal.

Moving funds electronically is efficient and reduces the risk of fraud that results from stolen and altered warrants. The issuance of electronic payments eliminates postage, handling, and processing associated with mailing warrants, reduces time for reconciliations, and eliminates the need to reissue lost or stolen warrants.

For the past three years, the A-C has reached out to vendors who receive a high volume of payments to encourage them to accept electronic payments. These efforts have required many discussions with vendors and have only been marginally successful by increasing the dollar amount of payments issued via direct deposit by 25%. A Board Policy mandating the use of electronic payments is necessary for the County to realize meaningful participation and measurable savings.

We met with County stakeholders that included the Chief Executive Office, the Department of Consumer and Business Affairs' Local Small Business Enterprise team, County Counsel, ISD, and Treasurer and Tax-Collector (TTC). We also discussed our proposal with the County's Administrative Deputies and Contracts, Purchasing, and Fiscal Managers, and Small Business Commission. The stakeholders agree that an electronic payment program provides increased convenience, security, timeliness of payment delivery, and reduces costs and fraud risks.

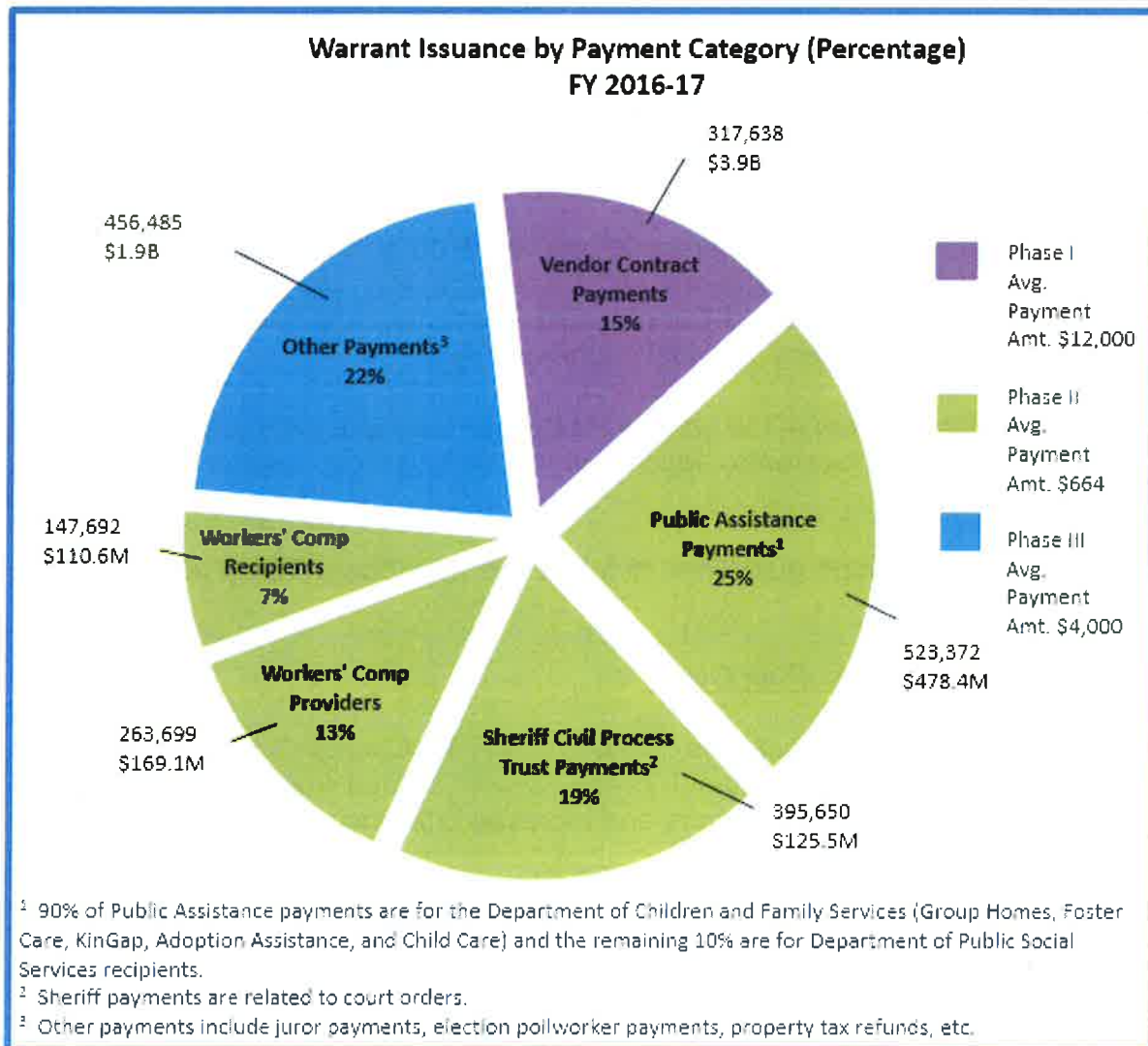
We researched and surveyed 18 agencies at the federal, State and local level to understand their successes and challenges. Eight out of 18 agencies require their vendors and payees to receive payments electronically as a legal mandate or policy. In the forefront, the U.S. Department of Treasury (Treasury) mandates direct deposit payments for all vendors and payees. The Treasury reports that 95% of federal payments are issued electronically as a result of a federal mandate, saving an estimated \$1 billion over the span of 10 years.

Additionally, agencies such as the States of Illinois, Massachusetts, Michigan, and Nevada, along with the County of San Bernardino, and the cities of San Francisco and New York, require vendors and payees to receive payments electronically. Further, the State of Illinois and City of New York charge a processing fee for those payees that elect to receive their payments via check. We noted that participation rates for agencies are between 60% and 70%, and all report cost savings, increased efficiencies, faster, and more secure payment issuances.

Electronic Payment Implementation Strategy

Exhibit 1 below is a breakdown of major categories of payments issued by the County. We developed a phase-in approach to expand the use of electronic payments effectively and efficiently.

Exhibit 1



Phase I

For Phase I, approximately 10,000 vendors that receive about 15% of the total warrants issued will be targeted to register to receive payments electronically by June 2019. These include all County contractors, vendors, and payees entering into new, renewed, and materially modified County contracts. This phase involves implementing the new Board Policy of "Method of Payment for County Contractors, Vendors, and Other Payees" (Attachment I) and adding standard language to the County's solicitations, contracts, awards, and purchase orders.

Phase II

Approximately 63% of the total warrants are related to payments to Workers' Compensation medical service providers and County employees, Sheriff civil process and trust payments, payments to group homes, foster care and child care providers, and adoption assistance recipients. This phase will require involvement and commitment from the impacted County departments to collaborate with the A-C to enroll their vendors and payees that receive repetitive, high-volume, high dollar payments in direct deposit.

Phase III

Approximately 21% of total warrants are one-time, small dollar amount payments related to jury services, election pollworkers, property tax refunds, etc. This phase will involve a collaborative effort with the affected County departments and the A-C to explore other possible electronic disbursement payment methods.

Even after the implementation of the new Board Policy, it is expected that the County will not completely eliminate warrants, which will continue to be needed for one-time payments.

Departments will be provided guidelines to follow the new Board Policy and electronic payment procedures.

Implementation of Strategic Plan Goals

Approval of the recommended action is consistent with the County's Strategic Plan Goal III.2.3 Realize Tomorrow's Government Today - Prioritize and Implement Technology Initiatives That Enhance Service Delivery and Increase Efficiency.

FISCAL IMPACT/FINANCING

The County spends approximately \$.67 in direct costs (e.g., warrant, envelope stock, postage, bank fees, and printing) to mail a warrant. Alternatively, an electronic payment costs only \$.03 in bank fees. Therefore, every warrant converted to an electronic payment saves the County \$.64. Additional labor and equipment costs can be achieved as the number of warrants are reduced in future years. Conservatively, the County can achieve savings of \$64,000 for every 100,000 warrants converted to electronic payment.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

California Government Code 29800 authorizes the A-C to issue payments for County obligations. The proposed Board Policy will allow the A-C to issue those payments more efficiently and effectively.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

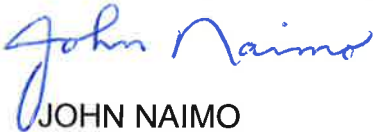
There will be no impact on current services.

CONCLUSION

Upon adoption of the Board, the A-C will begin working with departments to transition vendors and payees to receive electronic payments.

It is requested that two adopted copies of the action taken by the Board be forwarded to the A-C.

Respectively submitted,



JOHN NAIMO
Auditor-Controller

JN:AB:CC:np

Attachment

- c: Sachi A. Hamai, Chief Executive Officer
Celia Zavala, Acting Executive Officer, Board of Supervisors
Mary C. Wickham, County Counsel
Brian J. Stiger, Department of Consumer and Business Affairs
Scott Minnix, Internal Services Department
Joseph Kelly, Treasurer and Tax Collector
Audit Committee
Countywide Communications



Los Angeles County
BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
0.000	Method of Payment for County Contractors, Vendors, and Other Payees	00/00/00

PURPOSE

To ensure that Los Angeles County (County) payments are disbursed in the most appropriate, efficient, secure, and timely manner possible.

REFERENCE

[2016-2021 County of Los Angeles Strategic Plan, Strategy III.2.3 Prioritize and Implement Technology Initiatives That Enhance Service Delivery and Increase Efficiency](#)

POLICY

This Policy is applicable to all County contracts and agreements for services, supplies, equipment, and commodities.

It is the County's policy that payments to contractors, vendors, and other payees shall be issued in the most appropriate, efficient, secure, and timely form that is legally permissible and generally recognized and accepted as a standard for settling commercial transactions in the United States. The Auditor-Controller (A-C) has determined Electronic Fund Transfer (EFT) or direct deposit is the form of payment best suited to fulfill this policy, unless when legal or legitimate practical considerations require an alternate payment form.

All new, renewed, and amended County contracts and agreements shall include language stipulating that: (1) payments shall be issued in the most appropriate, efficient, secure, and timely form; (2) the default payment form shall be by EFT or direct deposit, unless the A-C determines an alternative payment form is appropriate; and (3) contractors, vendors, and other payees must furnish to the County, upon request, banking, identifying, electronic contact, and other information that is reasonably necessary to process the payments.

The A-C shall develop policies and procedures to ensure that County disbursements are made in accordance with this Policy.

Exceptions

Any provision of law, grant, or funding agreement requiring a specific form or method of payment other than EFT shall supersede this Policy with respect to those payments.

Contractors, vendors, or other payees may submit a written request for an exemption to this Policy. Such request must be based on specific legal, business or operational needs and explain why the payment method designated by the A-C is not feasible. The A-C, in consultation with the contracting department(s), shall decide whether to approve the exemption requests.

The following language shall be incorporated in substantially similar form in all solicitations, County contracts, renewals, and amendments:

Method of Payment and Required Information

The County may, at its sole discretion, determine the most appropriate, efficient, secure, and timely form of payment for any amounts due for goods and/or services provided under an agreement or contract with the County. Proposers/Contractors further agree that the default form of payment shall be Electronic Funds Transfer (EFT) or direct deposit, unless an alternative method of payment is deemed appropriate by the Auditor-Controller (A-C).

Upon contract award and at the request of the A-C and/or the contracting department, the Contractor shall provide the A-C with electronic banking and related information for the Contractor and/or any other payee that the Contractor designates to receive payment pursuant to this agreement or contract. Such electronic banking and related information includes, but is not limited to: bank account number and routing number, legal business name, valid taxpayer identification number or TIN, a working e-mail address capable of receiving remittance advices and other payment related correspondence, and any other information that the A-C determines is reasonably necessary to process the payment and comply with all accounting, record keeping, and tax reporting requirements.

Any provision of law, grant, or funding agreement requiring a specific form or method of payment other than EFT or direct deposit shall supersede this requirement with respect to those payments. Upon contract award or at any time during the duration of the agreement or contract, a contractor may submit a written request for an exemption to this requirement. Such request must be based on specific legal, business or operational needs and explain why the payment method designated by the A-C is not feasible and an alternative is necessary. The A-C, in consultation with the contracting department(s), shall decide whether to approve exemption requests.

RESPONSIBLE DEPARTMENT

Auditor-Controller

DATE ISSUED/SUNSET DATE

Issue Date: MONTH DAY, xxxx

Sunset Date: MONTH DAY, xxxx