

# V.4. Payment Term Management



**Vérificateur général**  
de la Ville de Montréal



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## LIST OF ACRONYMS

CSEM	Commission des services électriques de Montréal	SPVM	Service de police de la Ville de Montréal
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## V.4. PAYMENT TERM MANAGEMENT

### 1. INTRODUCTION

In August 2006, following a municipal reorganization, the Ville de Montréal (the city) adopted its first procurement policy, with improvement of economic efficiency as one of the underlying principles. Five years later, in September 2011, the executive committee adopted a revised procurement policy as well as a new business model for procurement aimed mainly at generating savings.

The value of goods and services acquired as well as work carried out by the city exceeds a billion dollars annually. In 2011, for example, the purchases made by the city were valued at \$1,884,807,786.<sup>1</sup>

From the purchases made, the services required and the work contracted out by the city result a considerable number of transactions, trade agreements and contracts with various suppliers, making of the city a highly valued partner holding an important purchasing power.

According to the data retrieved from the SIMON system,<sup>2</sup> there were approximately 41,700 active suppliers registered in the supplier file in October 2011. If we subtract internal suppliers and employees from this number, we get an estimated total of 31,422 external suppliers. Year after year, business units place a large number of purchase orders with these suppliers to obtain goods and services. In 2011, they issued 143,646<sup>3</sup> purchase orders. This number does not include other transactions completed without a purchase order due to their value or nature. Whether purchases were made with or without purchase orders, there was still an average of over 30,000 invoices handled every month following reception of goods and services.

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<sup>1</sup> Source: Purchase statistics from purchase orders received by the Direction de l'approvisionnement.

<sup>2</sup> Ville de Montréal integrated management system.

<sup>3</sup> Source: Purchase statistics from purchase orders received by the Direction de l'approvisionnement.

In this context, the city can profit from its prominent position as a buyer to generate savings, and also when it comes to paying its suppliers. Payment term management is a logical part of financial resource optimization because effective management of payment terms can contribute to optimizing outflows by allowing the city to save money through discounts and avoid losing money due to penalty fees. In addition, strict compliance with payment terms allows the city to benefit from extensions from suppliers while limiting the number of complaints that may negatively affect the city's image as a client.

The involvement of several responsibility centres (in central departments and boroughs) complicates the invoice processing and payment process, leading to potential delays that could result in the loss of purchase discounts granted by suppliers.

Given that a new procurement policy has just been approved and that the business model associated with it stipulates that the city must review its goods and services purchasing practices to fully benefit from its purchasing power and realize savings, we feel that it is appropriate to examine payment term management in order to be in a strong position.

## **2. AUDIT SCOPE**

The purpose of our audit was to evaluate the extent to which payment term management allows the city to save through discounts. We examined the time it took to record, verify and pay invoices as well as controls over the recording of payment terms. We also looked at the existence of objectives and management reports, the distribution of cheques after they are issued as well as strategies put in place to obtain discounts when payments are made.

Our audit, which was begun in fall 2011, dealt mainly with the first 11 months of the 2011 fiscal year. While our work was focused on the Service des finances, we were particularly interested in analyzing invoice payment times for which discount terms were available. For our analysis, we selected invoices related to goods and services bought by seven business units:

- Service de sécurité incendie de Montréal
- Service de l'eau
- Direction des immeubles
- Direction du matériel roulant et des ateliers
- Montréal-Nord borough
- Anjou borough
- Verdun borough

Our audit also dealt with invoices with an “immediate” payment term.

### **3. FINDINGS, RECOMMENDATIONS AND ACTION PLANS**

Payment terms result from general terms binding a supplier (seller) to its client (buyer) for intercompany credit represented by time allowed for payment. Payment terms may be freely determined at the supplier’s discretion or negotiated by the co-contractors. They facilitate cash flow through set payment terms, which, when adhered to, enable the client to benefit from discounts or avoid late payment fees.

City suppliers must select the payment terms of their choice when they register in the supplier file as it is a mandatory field. A list containing 41 different payment terms has been compiled over time in the SIMON supplier file:

- 28 discount payment terms
- 1 “immediate” payment term
- 12 payment terms with no discount

Out of a collection of close to 367,143 invoices paid during the first 11 months of 2011, we also broke down the use of these 41 different payment terms (see appendix 4.1). Examination of this collection shows the following distribution of invoices:

- 16,867 invoices (4.6%) with discount payment terms
- 127,714 invoices (34.8%) with the “immediate” payment term
- 222,562 invoices (60.6%) with no discount payment terms

Such results show not only that the proportion of invoices with discount is low (4.6%), but also that they were not systematically paid in time to benefit from the discounts (see appendix 4.1). In fact, the sum of discounts obtained, \$52,806, represents only 35% of the maximum amount of discounts possible (\$151,947). This amount was obtained by applying the various discount rates on the total amount of the invoices for which suppliers had offered discount payment terms, i.e., \$8,485,528. These invoices represent less than 1% of the value of purchases made in 2011.

Furthermore, these results show that a significant portion of invoices paid, i.e., 34.8% of the total, were registered with the “immediate” payment term. At first sight, it would seem that with such a payment term, these invoices should be paid as soon as they are received without any incentive compensation.

Lastly, more than half of the invoices paid (60.6%) have no discount payment terms and therefore do not provide any savings in this respect.

To evaluate what measures the city takes to realize savings through discounts, we first examined payment term management using invoices with discount payment terms. While this group of invoices represents a small portion of the total purchases, based on the results presented, the procedures in place did not enable the city to benefit from the discounts offered by suppliers. Our audit will therefore highlight the problems surrounding such a situation. It goes without say that these problems are also likely to apply to payment term management of invoices with no discount payment terms. Subsequently, we took a closer look at the invoices registered with an “immediate” payment term. We also looked at the existence of management objectives and reports as well as the practices for remitting cheques to recipients. In addition, we explored possible improvements so the city could not only maximize the discounts to which it is entitled, but also be in a position to negotiate discount payment terms with other suppliers.

### 3.1. PAYMENT TIMES FOR INVOICES WITH DISCOUNTS

#### 3.1.A. Background and Findings

The purpose of payment term management is to ensure that suppliers are paid within the allotted time period and that the appropriate steps are taken to benefit from discounts offered for making a payment within a shorter period. For example, a payment term of “2/10, net 30” means that in order to obtain a 2% discount, the invoice must be paid within a maximum of 10 days from the invoice date. If the invoice is paid after this period, the discount is lost.

By definition, payment term is the number of days between the date the invoice is produced by the supplier and the date of the cheque. The average payment time for all invoices in the first 10 months of 2011 (all payment terms combined) was 42.7 days,<sup>4</sup> so we compared this period with the average payment times for each of the 28 discount payment terms. The figures in Table 1 show that the average payment time for invoices with discount payment terms (36.6 days) is shorter than the payment period for all of the invoices in the first 10 months (42.7 days).

However, average payment times largely exceed the maximum periods allowed by suppliers (e.g., net 30 days) for most of the payment terms (19/28 or 68%), making it impossible for the city to benefit from discounts. In fact, the city is even exposing itself to penalties. For 5 payment terms out of the 28 (18%), the average payment times did not exceed the maximum term allowed by the suppliers, but they did exceed the period within which a discount could be obtained (e.g., 2% for payment within 15 days). For 4 payment terms out of the 28 (16%), calculation of the average payment times did not provide us with any evidence that payments had been made in time to receive a discount.

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<sup>4</sup> Source: Statistical report on payment terms produced by the Division de la vérification et du paiement des factures of the Service des finances.

**Table 1—Average Payment Times for  
Discount Payment Terms  
(First 11 Months of 2011)**

<b>Index</b>	<b>Discount payment terms</b>	<b>Average payment time (days)</b>
T1	0.5% 10 days, net 30 days	35.3
T2	1% 10 days, net 30 days	34.6
T3	1% the 10th of the following month, net the 20th of the following month	28.4
T4	1% 15 days, net 30 days	35.5
T5	1% the 15th of the following month, net 30 days	42.0
T6	1% 20 days, net 30 days	34.6
T7	1% 30 days, net 30 days	40.4
T8	1% the 15th of the following month	44.5
T9	1.25% 10 days, net 30 days	41.8
T10	1.5% 10 days, net 30 days	80.2
T11	10% 30 days, net 30 days	47.1
T12	2% 10 days, 1% 15 days, net 30 days	24.1
T13	2% 10 days, net 30 days	42.5
T14	2% 10 days, net 90 days	91.0
T15	2% 15 days, net 30 days	37.1
T16	2% 30 days, net 31 days	36.9
T17	2% 30 days, net 45 days	34.8
T18	2% 30 days, net 60 days	36.6
T19	2% 5 days, net 30 days	26.0
T20	2% the 10th of the following month, net 30 days	36.6
T21	2% the 15th of the following month	41.0
T22	2% the 15th of the following month, net 30 days	39.2
T23	2% the 20th of the following month	36.2
T24	2.2% 30 days, net 30 days	180.0
T25	3% 15 days, net 30 days	20.5
T26	3% on reception, 2% 10 days, 1% 15 days, net 30 days	47.2
T27	5% 10 days, net 30 days	62.8
T28	7% the 20th of the following month	81.0
<b>Average payment time for discount payment terms</b>		<b>36.6</b>

To help interpret this overview of average payment times, we wanted to determine the portion of invoices for which a discount was obtained relative to those for which one had not been obtained. Our audit revealed that, out of a total of 16,867 invoices with discount payment terms, 46% (7,812) had been paid within the discount period.

Conversely, 54% (9,055) did not enable the city to benefit from a discount because they were not processed within the discount period.

Given these results, we decided to take a closer look at the actual payment times. This involved an initial review of how invoices were processed for payment. The following administrative frameworks govern invoice processing:

- [TRANSLATION] Directive on task division – Procurement, receiving and payment activities, approved by the city manager (administrative framework C-RF-SFIN-D-11-003, last updated on December 7, 2011)
- [TRANSLATION] Procedure for receiving goods and services, approved by the assistant to the senior manager of the Service des finances (administrative framework C-RF-SF-P-09-005, effective October 2009)
- [TRANSLATION] Procedure for decentralized invoice entry, approved by the manager of the Division de la comptabilité et du contrôle financier of the Service des finances (administrative framework C-RF-SFIN-P-11-002, last updated on December 6, 2011)
- [TRANSLATION] Directive on processing invoices and issuing cheques, draft administrative framework whose effective date was set for January 1, 2006.

On reading these frameworks and the documents on the Service des finances intranet, we noted that invoice processing can be quite different depending on whether the invoice has a purchase order or not, which is likely to have an impact on the payment time. Once invoices are entered in SIMON, whether they have a purchase order or not, the system calculates payments times. However, in every case, it is the Service des finances that consolidates all payments.

For **invoices with a purchase order**, requesting business units have previously entered the purchase orders and delivery of goods and services in SIMON. The draft directive on invoice handling and cheque issuing provides that any invoice associated with a purchase order entered in SIMON must subsequently be sent to the Service des finances, according to the instructions given by the requesting unit when the order is placed. The Division de la vérification et du paiement des factures processes invoices as follows:

- Receipt of invoice.
- Distribution of invoices to office clerks for batch entry.
- Input of invoices in SIMON (date, quantities, prices, etc.).
- Matching of invoices with purchase orders and reception slips previously entered by the requesting business unit.
- Validation of invoices, making them eligible for payment.

The automatic matching of the purchase order, delivery receipt and invoice is necessary to allow the cheque to be issued. When there is information missing, the system places a hold on the invoice and no payment is possible. To resolve these holds, an alert indicating the existence of and reason for the hold is sent to the requesting business unit.

For example, a hold may be placed for these reasons:

- The quantity invoiced is higher than the quantity received.
- The quantity invoiced exceeds the quantity ordered.
- All the components of the purchase order have already been billed.

The invoice is released by the system once the business unit has corrected the discrepancy that created the hold, thereby making payment possible.

With regard to the **invoices without a purchase order**, these are associated with the types of payments and maximum amounts described in Table 2.

**Table 2—Invoices without Purchase Orders:  
Types of Payments and Maximum Amounts**

Type of payment	Maximum amount
<b>External suppliers</b> <ul style="list-style-type: none"> <li>• Purchase of goods and services</li> <li>• Artists</li> <li>• Work ticket correction</li> <li>• Election expenses, allowances, research costs</li> <li>• Lawsuits</li> <li>• Public utilities: electricity, telephone, Gaz Métro, etc.</li> </ul>	\$1,000 \$5,000 None None None None
<b>External suppliers – Limited access</b> <ul style="list-style-type: none"> <li>• Snow removal workers – boroughs of the former suburban municipalities</li> <li>• Biodôme, Botanical Garden, Insectarium</li> <li>• Books for municipal libraries</li> </ul>	\$25,000 \$10,000 None
<b>Expense reimbursements</b> <ul style="list-style-type: none"> <li>• Official expenses</li> <li>• Travel expenses</li> <li>• Petty cash</li> <li>• Reimbursement of employees' expenses</li> </ul>	\$15,000 \$50,000 \$5,000 \$1,000
<b>External payees</b> <ul style="list-style-type: none"> <li>• Subsidies or financial contributions</li> </ul>	None

Source: [TRANSLATION] *Procedure on the receiving of goods and services*, effective October 2009.

These invoices are processed by the requesting business units (boroughs and central departments) according to the payment request procedure as follows:

- Receipt of invoice.
- Distribution of invoice to the unit.
- Preparation of payment request form.
- Matching of payment request to the related invoice and reception slip.
- Approbation of manager in charge.
- Verification of payment request, invoice and delivery slip by financial resources personnel.
- Input of invoices batch into the [TRANSLATION] “decentralized invoice entry” module.
- Electronic approval by authorized manager.

Once the payment request is processed, the request is automatically transferred to the accounts payable unit of the Service des finances, which will ultimately issue the cheque by the deadline indicated in the payment terms on the invoice.

Considering that invoice processing differs depending on whether there is a purchase order or not, we looked at the average payment terms for each of these processes, for each discount payment term.

Among the 16,867 invoices with discount payment terms, we found that invoices with a purchase order represented 94% of the total number, while those without a purchase order represented only 6% (see Table 3). The results of this comparison also revealed that the average payment term was longer for invoices with a purchase order, i.e., 36.9 days, compared to an average payment term of 33.1 days for invoices without a purchase order.

However, although invoices without a purchase order seem to be processed and paid faster, the maximum payment time and discount period established by the supplier was respected for only one payment term out of the 19 (5%). For 4 payment terms out of 19 (21%), the suppliers' maximum payment term was respected but the payment was made after the discount period. For most payment terms (11/19 or 58%), the city did not comply with the suppliers' maximum payment term (e.g., net 30 days) or the discount period (e.g., 10 days, 15 days). Lastly, for 3 payment terms out of 19 (16%), the calculation of the average payment term did not provide us with any evidence that payments were made within the discount period.

**Table 3—Average Payment Times for Discounted Invoices  
with or without Purchase Orders  
(First 11 Months of 2011)**

Index	Payment term with discount	Invoices with purchase orders		Invoices without purchase orders	
		Average payment time (days)	Number of invoices	Average payment time (days)	Number of invoices
T1	0.5% 10 days, net 30 days	35.3	3	0.0	0
T2	1% 10 days, net 30 days	35.1	729	27.8	61
T3	1%, the 10th of the following month, net the 20th of the following month	28.4	35	0.0	0
T4	1% 15 days, net 30 days	35.5	284	0.0	0
T5	1% the 15th of the following month, net 30 days	38.7	60	55.3	15
T6	1% 20 days, net 30 days	34.6	484	47.5	2
T7	1% 30 days, net 30 days	41.2	38	30.3	3
T8	1% the 15th of the following month	44.4	255	49.7	4
T9	1.25% 10 days, net 30 days	41.8	181	0.0	0
T10	1.5% 10 days, net 30 days	84.2	4	64.0	1
T11	10% 30 days, net 30 days	44.9	9	67.0	1
T12	2% 10 days, 1% 15 days, net 30 days	24.1	1,972	37.0	1
T13	2% 10 days, net 30 days	44.5	1,263	25.8	149
T14	2% 10 days, net 90 days	91.0	1	0.0	0
T15	2% 15 days, net 30 days	37.7	2,032	31.0	189
T16	2% 30 days, net 31 days	33.1	39	42.9	24
T17	2% 30 days, net 45 days	34.8	1,863	35.0	51
T18	2% 30 days, net 60 days	45.0	19	28.6	12
T19	2% 5 days, net 30 days	26.0	1	0.0	0
T20	2% the 10th of the following month, net 30 days	36.8	1 613	34.2	188
T21	2% the 15th of the following month	41.1	3,487	37.0	88
T22	2% the 15th of the following month, net 30 days	39.2	678	37.6	8
T23	2% the 20 of the following month	36.6	663	35.0	233
T24	2.2% 30 days, net 30 days	180.0	2	0.0	0
T25	3% 15 days, net 30 days	20.5	12	0.0	0
T26	3% on reception, 2% 10 days, 1% 15 days, net 30 days	46.7	103	96.0	1
T27	5% 10 days, net 30 days	72.2	4	25.0	1
T28	7% the 20 of the following month	81.0	1	0.0	0
<b>Average payment time for discount payment terms</b>		<b>36.9</b>	<b>15,835 (94%)</b>	<b>33.1</b>	<b>1,032 (6%)</b>

In light of these results, we decided to take a closer look at the actual payment times on a sample of 28 invoices from seven business units. For one of the business units, we looked at four invoices without a purchase order, and for each of the six other units, we reviewed four invoices with a purchase order. Our sample also included seven invoices

for which the city obtained a discount—1 invoice for each business unit—and 21 invoices for which the city did not obtain a discount. The invoices in our sample were divided as shown in Table 4, based on the actual payment times, i.e., the difference between the date of the invoice and the payment date.

**Table 4—Actual Payment Times for the 28 Invoices in Our Sample  
(First 11 Months of 2011)**

Payment time (days)	Number of invoices for which a discount was obtained		Number of invoices for which a discount was not obtained	
	With purchase order	Without purchase order	With purchase order	Without purchase order
0 to 10	1			
11 to 20	1			
21 to 30	1	1	6	1
31 to 40	2		2	1
41 to 50	1		4	1
51 to 60			1	
61 to 70			1	
71 to 80			3	
81 to 90			1	
<b>Total number of invoices</b>	<b>6</b>	<b>1</b>	<b>18</b>	<b>3</b>

Actual payment terms were analyzed by comparing different dates: invoice date, date invoice was received, date invoice was entered in the system, hold date, release date and cheque date. This analysis allowed us to calculate the term between invoice reception, entry, hold and release and payment. In the sections that follow, we will detail our observations from the tests performed for the 28 invoices selected (see Appendix 4.2).

### RECEPTION TIME

Reception time is the difference between the date on the invoice and the date it is received by the business unit. We began by looking at these periods to assess to what extent they were due to the city and to the supplier.

Our audit revealed the following results:

- 19 of the 28 invoices (68%) displayed no evidence of the date on which they were received.
- 9 of the 28 invoices (32%) showed the date they were received:
  - Among those for which the city was not able to obtain a discount:
    - 3 invoices displayed a stamped date corresponding to a reception time of more than 10 days from the invoice date (12, 19 and 38 days for Tests 13, 8 and 9).
    - 2 invoices displayed a stamped date corresponding to a reception time of 5 to 7 days from the invoice date (Tests 11 and 10).
    - Invoices without a purchase order were not received in a shorter time than those with a purchase order.
  - Among those for which the city was able to obtain a discount:
    - 3 invoices displayed a stamped date corresponding to a reception time of 6 to 7 days from the invoice date (Tests 1, 2 and 7).
    - 1 invoice displayed a stamped date one day later than the invoice date (Test 6).

For invoices with a stamped date, we found that the five invoices received within five to seven days do not allow us to directly link these reception times to the possibility of obtaining a discount. In fact, in three cases, a discount was obtained, while in the two other cases, it was not. However, for the three invoices received more than ten days after the invoice date, we found that the discount had been lost. In two of these cases, the invoice was received after the discount period, i.e., 19 and 38 days after the invoice date.

Such a situation could be explained by the fact that certain suppliers do not always send out their invoices promptly after they are issued. It could also be due to the fact that the business units to which the suppliers send their invoices do not stamp invoices received straightaway. We were unable to clearly determine if it was the suppliers or the business units that caused the delay. However, reception times of 12, 19 and 38 days lead us to believe that the responsibility is shared.

If it is determined that the suppliers are responsible for delays in receiving invoices, we feel that steps should be taken with them to ensure that they send their invoices to the city promptly so that it can benefit from discounts (e.g., receiving invoices online). However, we feel that in order to take such measures, the reception date must be systematically and promptly stamped.

If, however, it is shown that part of the delay is caused by the business units, they should be made aware of the importance of reducing this period as much as possible, since the earlier it is received, the better the chances of obtaining the available discount.

### **ENTRY TIME**

Invoices are entered into SIMON by either the Service des finances or the business units, depending on whether or not there is a purchase order. Entry time is the difference between the date the invoice is received and the date it is entered in SIMON. We were unable to calculate the difference between these two dates for all of the invoices because a large portion of them did not display any evidence of their reception date. We were, however, able to obtain the following results:

- Among the 7 invoices for which a discount was obtained:
  - 2 invoices (28.5%) were entered within the discount period, i.e., 10 days or 15 days, depending on the case (Tests 4 and 6).
  - 3 invoices (43%) were entered within 4 to 11 days of reception; one of these had no purchase order (Test 1), and the other two (Tests 2 and 7) had a purchase order.
  - 2 invoices (28.5%) were entered within 23 days (Test 5) and 43 days (Test 3) of the invoice date; for these two cases, the discount could be obtained by paying before the 15th of the following month.
- Among the 21 invoices for which a discount was not obtained:
  - 3 invoices (14%) without a purchase order were entered within 1 to 13 days of the reception date (Tests 8, 9 and 10); for two of these cases (Tests 8 and 9), the discount had already been lost by the time the invoice was received.
  - 2 invoices (10%) with a purchase order were entered within 29 days (Test 11) and 65 days (Test 13) of the invoice reception date.

- 15 invoices (71%) with a purchase order were entered after the discount period (10, 15, 20 days or the 10th of the following month for Tests 12, 14, 15, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 and 28).
- 1 invoice (5%) was entered within the discount period calculated using the invoice date (Test 16).

The seven invoices for which a discount was obtained were entered within a period varying between 4 days of the reception date and 43 days of the invoice date. This shows that it is indeed possible to pay invoices within the period required to obtain a discount. However, in the case of the invoice that was paid in 43 days (Test 3), the discount may have been obtained because the discount period was longer (15th of the following month).

As for the 21 invoices for which a discount was not obtained, our findings disregarded two invoices for which the discount had already been lost by the time the invoice was received. For the 19 other invoices, we found that the entry times were too long for the city to obtain a discount. In order to improve the process, we wanted to determine which business units were involved. The three invoices without a purchase order were received and processed by the requesting business unit, making it responsible for the delay. For the 18 invoices with a purchase order, however, we noted two problems.

The first is that not all of the invoices were received by the Service des finances first, as is set out in the directive on processing invoices and issuing cheques. Some invoices were received by the requesting business units before being sent to the Service des finances for entry into SIMON. Such a practice extends entry times and reduces the chances of obtaining the discounts offered by suppliers. According to the information obtained, close to 50% of invoices with a purchase order are received by the business units instead of being sent directly to the Service des finances.

As we mentioned above, this practice goes against the draft directive on processing invoices and issuing cheques. Therefore, as the Service des finances is responsible for ensuring compliance with this directive and related procedures as well as evaluating it regularly, we believe it should assess the impact of this practice on payment and

discount periods in order to recommend the best way to proceed. If the results reveal that it is still appropriate for all the invoices with a purchase order to be sent to the Service des finances, a reminder should be sent to the business units to comply with the directive. If, however, the results show that payment times could be shorter if the business units received certain invoices (e.g., for professional services), the directive should then be modified to reflect this. Either way, we feel that the Service des finances should take the proper steps to have this directive officially approved following modification.

The second problem is that the Service des finances processes invoices with a purchase order (purchase of goods and services) below \$1,000. We should point out that when the requesting business units acquire goods and services, they have a choice, because of the monetary limit, to enter these invoices themselves in the [TRANSLATION] “decentralized payment entry” module or to create purchase orders. If they opt for the second choice, this creates an increased workload for data entry staff in the Service des finances and may have an impact on payment times. Among the 18 invoices in our sample for which a discount was not obtained, 11 of them were below the \$1,000 limit. We feel that the Service des finances, as the body responsible for the implementation and follow-up of the decentralized data entry procedure, should assess the relevance of requiring the requesting business units to use decentralized data entry for invoices. Accordingly, the Service des finances should also assess the relevance of increasing the monetary limit related to decentralized data entry for invoices.

While not observed in our sample, another problem was brought to our attention. According to the information obtained, some suppliers send invoices to the Service des finances without making reference to the purchase order number issued by the requesting business unit. This practice is said to have caused invoice entry delays because, in such cases, steps have to be taken to contact the business units and have them create the purchase order or provide the corresponding number and enter the goods and services in SIMON. An invoice is only eligible for payment once these documents have been matched. A memorandum regarding this problem was sent by the Service des finances to the business units in December to inform them of the proper practice and that as of February 2012, invoices without a reference to a purchase order

would be returned to the supplier. We believe that the Service des finances should closely monitor this practice so that corrections can be made.

### **HOLD AND RELEASE TIMES**

Automatically matching the purchase order, reception slip and invoice is required for the cheque to be issued. When there is missing information, the system places a hold on the invoice and no payment is possible. The hold and release time is the difference between the hold date and the release date. This delay occurs after the invoice is entered by the Service des finances and before its payment. We wanted to determine to what extent these delays contributed to not obtaining discounts. We found that 5 of the 28 invoices examined (17%) had been put on hold following their entry in SIMON. Two of these invoices were released the same day, two others within one day and one within 13 days (Test 28).

Based on our sample, we concluded that, in general, actions are taken quite promptly by the requesting business units to release the invoices. However, because we found one case in which the delay was longer, we feel that the resolution of these holds should be closely monitored.

### **CHEQUE ISSUING TIME**

Once the invoice is entered in SIMON, the system manages payment times and dates. A cheque is issued four to five days before the due date. Cheque issuing time is the difference between the date the invoice becomes eligible for payment and the date the cheque is issued.

We observed that in 3 cases (Tests 10, 17 and 25) out of the 28 (11%), the invoice became eligible for payment on the last day the city could have obtained a discount. For these cases, we feel that the reception and entry times were not managed efficiently enough to allow the city to benefit from the discounts offered by the suppliers.

In conclusion, our analysis of the actual paying times indicates that payment terms are not followed in most cases. These periods are sometimes greatly exceeded, to the point of destroying any possibility of obtaining a discount. The measures put in place to enable the city to achieve savings through purchase discounts are inadequate and not sufficiently effective.

There is no specific procedure in place to identify and promptly process invoices with a discount. This applies both to business units and the Service des finances. The business units are not aware of the importance of taking measures to allow the city to benefit from discounts. They do not see the value because they do not get the returns from the savings achieved.

We found, however, that if the invoices are promptly processed, it is quite possible to obtain the discounts offered by suppliers. For this reason, invoice processing should be reviewed to ensure not only that the maximum savings are realized, but also that there is better management of payment terms, thereby improving the city's image as a "payer."

We noted a clear interest on the part of the manager of the Division de la vérification et du paiement des factures of the Service des finances to improve invoice processing in order to reduce payment times. This was demonstrated by the creation of a working committee on improving invoice processing in December. It is made up of the Service des finances and individuals in charge of financial resource management for a few business units. Two meetings have been held to educate business units with a view to standardizing practices. We encourage the Service des finances to continue with this initiative.

### **3.1.B. Recommendations**

**We recommend that the Service des finances take the necessary steps to reduce invoice payment times so that the city may benefit from the discounts offered by suppliers. These steps should include the following:**

- **Ensure that all business units systematically indicate the invoice reception date to allow for subsequent analysis of payment times.**

- Ensure that all business units encourage suppliers to send their invoices as quickly as possible.
- Process invoices from suppliers promptly to reduce reception times as much as possible.
- Assess the impact on payment times of having invoices with a purchase order go through the business units before being sent to the Service des finances for entry and determine, if applicable, any changes to be made to this method of operation.
- Assess the suitability of requesting business units using decentralized invoice entry for the relevant payment types and amounts.
- Assess the possibility of increasing the monetary threshold for decentralized invoice entry.
- Regularly assess the impact on payment times of any other problem related to processing invoices and issuing cheques.
- Closely monitor invoice holds in SIMON and take the necessary steps with the business units.
- Modify the administrative frameworks on processing invoices and issuing cheques as need be and have them approved by the necessary authority.

### **3.1.C. Action Plan of the Relevant Business Unit**

*[TRANSLATION] “To educate business units on the recommended best practices, the Direction de la comptabilité et du contrôle financier regularly meets with the financial resource managers of all the business units to discuss shared problems. We will use these meetings to inform our clients of the importance of improving invoice processing.*

***(Planned completion: May 2012)***

*In addition, the working committee on improving invoice processing struck at the end of 2011 will continue to meet in 2012 to find ways to improve practices, including:*

- *increasing and enforcing the use of decentralized invoice entry for certain categories of expenses*
- *assessing the possibility of increasing decentralized invoice entry monetary limits.*

***(Planned completion: a first report on changes made will be produced by June 2012)***

*We will create management reports in the Bureau d'affaires (repository for data from the 'procurement' and 'finances' business sections in SIMON) to highlight our follow-up with clients on:*

- *invoice holds*
- *supplier payment times.” (Planned completion: October 2012)*

### **3.2. PAYMENT TIMES FOR INVOICES WITH AN “IMMEDIATE” PAYMENT TERM**

#### **3.2.A. Background and Findings**

Among the 41 payment terms available in SIMON, we noted the existence of an “immediate” payment term. This means that payment of invoices with this payment term is required upon reception of the invoice with no incentive advantages for the city.

In the course of our audit, we wanted to evaluate the number of invoices from external suppliers registered with such a payment term, as well as their actual payment time. This choice is justified by the fact that external suppliers are the category from which the city can reasonably be expected to negotiate discount payment terms.

The total number of invoices paid according to the “immediate” payment term is 127,714, or 34.8%, of the total number of invoices paid during the 11-month period ending November 23, 2011. To focus our audit solely on suppliers of goods and services, since this is the category from which the city may obtain discount payment terms, we eliminated employee and internal invoices (e.g., the Service de police de la Ville de Montréal [SPVM], the Commission des services électriques de Montréal CSEM). Accordingly, 52,601 invoices, or 41%, of invoices with an “immediate” payment term, were included in our analysis. These invoices include both public utility service suppliers (e.g., Bell, TELUS, Hydro-Québec, Gaz Métro) as well as other external suppliers of goods and services.

We then divided these by level based on their actual payment term (see Table 5). Examination of the figures in this table reveals the following conclusions:

- Less than 1% of invoices with an “immediate” payment term are actually paid on the date indicated.
- 16% of this type of invoices are paid within 1 to 10 days, for a total average payment term of 6 days, and 9% are paid within 11 to 15 days.
- 29% of this type of invoices are paid within 16 to 30 days.
- 45% of invoices with an “immediate” payment term are paid after more than 30 days, with an average of 77 days.

**Table 5—Average Payment Times for Invoices with the “Immediate” Payment Term (External Suppliers of Goods and Services) (First 11 Months of 2011)**

	<b>Payment the same day</b>	<b>1 to 10 days</b>	<b>11 to 15 days</b>	<b>16 to 30 days</b>	<b>&gt; 30 days</b>	<b>Total</b>
Number of invoices	453	8,508	4,962	15,032	23,646	52,601
<b>% of invoices</b>	<b>1%</b>	<b>16%</b>	<b>9%</b>	<b>29%</b>	<b>45%</b>	<b>100%</b>
<b>Average payment time</b>	<b>0 day</b>	<b>6 days</b>	<b>13 days</b>	<b>23 days</b>	<b>77 days</b>	<b>44 days</b>

These figures show that 13,923 invoices (26%) were paid within an actual period of 15 days. It is therefore possible to pay invoices in a relatively short time. In fact, if it was possible to pay 1% of invoices on the same day, 16% within 1 to 10 days and 9% within 11 to 15 days, it should therefore be possible to satisfy discount payment terms (“2/10, net 30” and “2/15, net 30”) and obtain a discount if efforts are made in this regard. It should also be possible to satisfy all the other, less restrictive, payment terms.

In addition, these results lead us to question the effect of this rapid processing on other invoices, including those for which a discount may be obtained.

As part of our audit, we wanted to be sure that entering invoices with an “immediate” payment term was supported by a statement to this effect on the invoice. We also wanted to determine that the “immediate” payment term corresponded to what the supplier entered when registering in the supplier file. To do so, we selected 10 invoices entered with the “immediate” payment term.

The comparison between the payment term selected in SIMON when the invoice is entered and that appearing on the invoice itself revealed differences in 8 cases out of 10:

- Seven invoices out of the 10 (70%) did not indicate any payment term.
- One invoice out of the 10 (10%) indicated a “net 30 days” payment term.

Comparison between the payment terms entered in SIMON and those recorded in the supplier file by the suppliers themselves at the time of their registration also revealed differences in 9 cases out of 10. The payment terms appearing in the supplier file were “net 30 days” for all nine cases. In 1 case out of 10, the supplier file indicated the “immediate” payment term, which matched the information entered in SIMON.

According to the information obtained, when an invoice is entered in SIMON, the payment term indicated is that which appears in the supplier file. However, the payer may modify it without changing the supplier file. Consequently, despite the fact that most of the invoices examined did not indicate any payment term and that the supplier file indicated a payment term of “net 30 days” for the suppliers in question, payment officers entered the “immediate” payment term in SIMON.

We feel that while the ability to modify a payment term during invoice entry certainly helps speed up processing when discrepancies are found between the invoice and the supplier file, such a practice presents the risk of issuing payments earlier than required, without the city deriving any benefit. Actual payment times for the nine invoices with discrepancies were: five paid in less than 10 days, three paid in 11 to 15 days and one invoice was paid in 29 days, which is faster processing than required by the payment terms in the supplier file.

Moreover, such a practice presents the disadvantage of modifying payment terms during invoice entry without the supplier file being updated.

In conclusion, we feel the Service des finances should stipulate in its administrative frameworks that use of the “immediate” payment term should be limited when invoices are being entered. The supplier file should also contain up-to-date information, given

that it is the official reference for the city's registered suppliers. Since it is the suppliers' responsibility to enter and update their profile in the supplier file, we believe that the business unit in charge of invoice entry should ensure that the requesting unit ask the supplier to perform this update when required.

### **3.2.B. Recommendations**

**We recommend that the Service des finances identify the suppliers who have received payments based on the “immediate” payment term and communicate this information to the business units responsible for the purchases so that negotiations can be undertaken to obtain discount payment terms.**

**We also recommend that the Service des finances stipulate the following in its administrative frameworks on processing invoices and issuing cheques:**

- **Use of the “immediate” payment term is limited to specific invoices to allow the city to derive benefits from them.**
- **Business units in charge of invoices must ensure that requesting units ask suppliers to update their payment terms when required to keep the supplier file up to date, as it is the official reference.**

### **3.2.C. Action Plan of the Relevant Business Unit**

*[TRANSLATION] “We will re-examine the payment term philosophy in supplier files with the Direction de l’approvisionnement and ensure that any “immediate” payment term stipulated by suppliers of goods and services also be approved by us. We will also perform a monthly follow-up of this file.” (Planned completion: October 2012)*

*[TRANSLATION] “We will re-examine the payment term philosophy in the supplier file with the Direction de l’approvisionnement. We prefer to no longer allow suppliers to choose the ‘immediate’ payment term without compensation. Any supplier who wants to be paid in less than 30 days will have to give us a discount, otherwise the ‘net 30 days’ or the standard term will be the only option. All city business units will be informed of this new philosophy.” (Planned completion: October 2012)*

### 3.3. OBJECTIVES AND MANAGEMENT REPORTS

#### 3.3.A. Background and Findings

Measurable objectives must be established to help guide payment term management (processing invoices and issuing cheques). Subsequently, regular permanent accountability mechanisms must be put in place to evaluate whether the objectives have been met. To do so, management reports must be produced periodically.

At the time of our audit, measurable objectives had not been established (e.g., reducing entry times by X days for discount payment terms). However, predefined management reports can be produced in SIMON. We found various types of reports that managers can use to identify discrepancies and standardize invoice payment times. For example, the following reports can be produced:

- [TRANSLATION] “List of invoices on hold”: This report is useful in monitoring invoices on hold in the SIMON supplier accounts module. Using this information, it is easy to identify invoices that require action on the part of a department, borough or the accounts payable team of the Service des finances.
- [TRANSLATION] “Invoices not verified”: This report provides a list of invoices entered in SIMON that have not been verified. Tracking invoices that have not been verified prevents delays in paying suppliers.
- [TRANSLATION] “Invoice entry analysis”: This control report, mainly intended for the Service des finances, can be used to analyze whether invoices have been entered more than once using the invoice number, invoice date or simply the amount of the invoice. Invoices are selected based on a given range of invoice creation dates.
- [TRANSLATION] “Payment times per supplier”: This statistical report is reserved for the Division de la vérification et du paiement des factures of the Service des finances. It provides the number of invoices recorded, the entry time and the payment time for each supplier over a given period.

While these monitoring reports are readily accessible, our audit revealed that few of them have been analyzed in a regular manner over the past year.

However, using data from SIMON, the manager of the Division de la vérification et du paiement des factures occasionally produces a statistical report on payment times by process. This report determines, for a given period, the entry and payment times for invoices processed by the Service des finances and the business units as well as internal invoices. It also allows for comparison between two periods to assess the variation in times.

According to the information obtained, formal accountability mechanisms for payment term management were not in place. Consequently, the reports mentioned above were used for internal management purposes within the Division de la vérification et du paiement des factures and were not communicated to department management. Yet, at the time of our audit, a copy of the statistical report on payment times by process indicated that the average payment time for the first 10 months of 2011 was 4.8 days longer than the same period the previous year (42.7 days compared to 37.9 days).

We feel that these reports are not sufficient in measuring payment times according to payment term categories (with discount, immediate payment or without discount). These reports are also not sufficient for business unit managers to evaluate their performance in invoice processing and guide payment term management toward realizing savings through discount payment terms. Since these reports are not linked to any measurable objectives, they cannot demonstrate whether the objectives have been met.

### **3.3.B. Recommendations**

**We recommend that the Service des finances establish measurable objectives aimed at improving invoice payment terms, particularly those with discounts, to enable the city to achieve savings through discounts and improve its image as a “payer.”**

**We also recommend that the Service des finances produce management reports containing useful and sufficient information in order to measure the achievement of the established objectives and enable informed decision making.**

### 3.3.C. Action Plan of the Relevant Business Unit

[TRANSLATION] “Prepare new management reports to:

- monitor processing of invoices from suppliers offering a discount
- compile a list of suppliers with payment times of over 45 days and meet with them as well as the business units involved.” **(Planned completion: November 2012)**

[TRANSLATION] “Prepare new management reports demonstrating the changes in payment times when improvements to the invoice handling process have been made.” **(Planned completion: November 2012)**

## 3.4. DISTRIBUTION OF CHEQUES AFTER ISSUING

### 3.4.A. Background and Findings

The draft directive on processing invoices and issuing cheques dating back to 2006 stipulates that all cheques are issued by the Service des finances. It also states that, based on the payment group determined when the invoice is entered in the “Payment request – SIMON” module, the cheque is sent to:

- department and borough requesting business units by internal mail
  - to have support documents attached before mailing to payee
  - to be submitted, exceptionally, directly to the payee
- or to the supplier by mail

As part of our audit, we wanted to assess how often cheques were sent directly to the requesting units. For the first 11 months of 2011, we found that close to 80% of invoices were paid to external suppliers via cheques mailed by the Service des finances. Moreover, 13% of invoices were paid to internal payment groups (e.g., the CSEM, the SPVM, the Division de la sécurité [of the Direction des immeubles]) or involved payments added to salaries. We found that for 7% of invoices paid, the cheques had been sent directly to the requesting unit. We counted 42 different requesting units in both the central departments and boroughs.

We then examined the nature of the cheques sent directly to 12 boroughs and two central department business units. The largest payments consisted mainly of subsidies

to non-profit organizations and sponsorship funds for social, sporting or cultural events. Our examination also revealed that some cheques addressed to suppliers are sent to the boroughs.

We feel that the practice of submitting cheques addressed to suppliers directly to the requesting units is likely to extend the time it takes for suppliers to receive their payments. Furthermore, we believe that such a practice goes against the rules of task separation in the procuring, receiving and paying process for goods and services. A cheque should not be submitted to any person who has participated in the spending authorization process or any step of the payment request process. We feel that all cheques issued by the Service des finances should be sent directly to the payees by mail. The Service des finances should therefore modify its directive on processing invoices and issuing cheques accordingly.

#### **3.4.B. Recommendations**

**We recommend that the Service des finances:**

- **Ensure that all cheques issued as current payment are sent by mail directly to the payees in order to clearly demonstrate compliance with task separation rules.**
- **Modify its directive on processing invoices and issuing cheques accordingly.**

#### **3.4.C. Action Plan of the Relevant Business Unit**

*[TRANSLATION] “We will remind business units of this situation. We will also remind administrative units of the importance of task separation and we will apply the recommendation on mailing of cheques, assessing the situation based on the needs of the units. (Planned completion: memo and meeting before July 2012)”*

*However, in rare cases, we believe that this may be justified, although it is exceptional. We will modify the directive to indicate that cheques must be sent directly to the payees by mail and we will specify the exceptions that will have to be approved by the unit manager and the Division de la vérification et du paiement des factures manager.” (Planned completion: November 2012)*

### 3.5. IMPROVING OUTLOOK OF PAYMENT TIME

#### 3.5.A. Background and Findings

We mentioned in previous sections that efforts should be made to reduce the various delays involved in the payment process to be able to benefit from discounts offered by suppliers. We also mentioned that purchases of goods and services paid under an “immediate” payment term should be negotiated wherever possible with the suppliers in question so that the city may benefit from discounts.

We calculated the average payment times for the 12 payment terms established for invoices that do not include any discount payment terms in the supplier file (apart from those with the “immediate” payment term). These represent more than 60% of invoices paid. Table 6 shows that the average payment time for this group of payment terms is 46 days. For each of the payment terms, the actual average payment time exceeds the limit set by suppliers.

**Table 6—Average Payment Times for  
Un-Discounted Payment Terms  
(First 11 Months of 2011)**

Index	Payment term	Average payment time (days)
T29	Net 10 days	40.7
T30	Net 15 days	44.5
T31	Net 20 days	44.6
T32	Net 21 days	32.4
T33	Net 25 days	47.4
T34	Net 30 days	45.9
T35	Net 45 days	51.5
T36	Net 60 days	65.0
T37	Net 75 days	79.9
T38	Net 90 days	116.2
T39	Net the 15th of the following month	48.4
T40	Net the 25th of the following month	62.0
<b>Average payment time for un-discounted payment terms</b>		<b>46.0</b>

While it is true that the city does not lose any discounts for these invoices, as such payment terms have not been arranged with the suppliers in question, the city is nonetheless exposing itself to late fees. Moreover, such a situation damages the city's image as a "payee."

We also wondered about the possibility of obtaining payment discounts in cases where goods and services are acquired through public calls or invitations for tenders. We therefore examined standard call for tender documents to determine whether provisions were already present to inform bidders of the possibility of offering purchase discounts. In the general provisions document, for goods and services other than professional services, we found the following clauses on payment terms:

**Paragraph 6.1**

*[TRANSLATION] "Payment terms are 'net thirty (30) days' from the date of reception of the invoice or the provision of services or the delivery of goods to the destination point determined by the city, based on the later of the two dates. As a result, no other payment term will be enforceable on the city."*

**Paragraph 6.2**

*"Despite paragraph 6.1, bidders may offer payment discounts according to very precise payment terms indicated in section A of additional information, point 1. These discounts are not taken into account in the bid evaluation, but will bind the successful bidder where applicable."*

Bidders can then offer purchase discounts. However, according to the information obtained, few suppliers have taken advantage of this possibility up to now.

Nevertheless, upon reading these general provisions on payment terms, we noted that they make reference to a calculation method starting with the invoice reception date. This is a significant difference from the payment time calculation method generally used by SIMON (invoice date). It is undeniable that choosing this method would affect the payment period and could, in theory, increase discounts granted by suppliers by offering the city more flexibility in paying expenses.

We also found that clauses related to payment terms did not exist in the call for tender documents for professional services or construction work. This situation does not encourage suppliers to offer payment discounts. It should be mentioned that these two

types of calls for tenders (professional services and construction work) do not come under the Direction de l'approvisionnement, but rather the relevant business units in charge (e.g., the Direction des travaux publics, the Service de l'eau, the boroughs). Given that these call for tender documents are currently being standardized, we feel that clauses pertaining to payment terms should be considered. Such clauses would be beneficial to the city, provided that efforts are made to reduce payment times.

At the time of our audit, we noted that some preliminary actions had been taken. According to the information obtained, the Service des finances and the Direction de l'approvisionnement held a meeting in February to discuss, among other things, the fine-tuning of payment terms as well as the possibility of replacing the "immediate" payment term with another payment term that would generate savings.

We also found that in February 2012 the Direction de l'approvisionnement and the Service des finances have together put in place a new process for purchasing de-icing salt. The business units must order by phone and keep the delivery slip when the salt is received. The supplier sends a weekly statement to the Service des finances for payment within 10 days of its reception. According to the information obtained, this new procedure should make it possible to obtain a payment discount.

Because this is a new way of proceeding, we feel that the stakeholders involved should assess the extent to which payment terms were respected and expected discounts realized. If the results are conclusive and the control environment is also reliable, the Direction de l'approvisionnement could then consider extending this practice to other collective purchasing agreements.

In conclusion, given the actual payment times and the consequences they can have on the city's image, we believe that serious thought needs to be put into finding solutions to reduce these delays. Specifically, the city could explore other modes of operation that could put it in a better position to negotiate payment terms with its current or future suppliers so that it could benefit from payment discounts. For example, it could consider receiving or paying invoices online.

### 3.5.B. Recommendations

We recommend that the Direction de l'approvisionnement and the Service des finances:

- Continue their discussions on payment terms in order to improve payment term management and allow the city to benefit from discounts offered by suppliers.
- Assess the results of the new de-icing salt purchasing process to determine whether it was possible to adhere to the payment terms to receive the expected discounts and, if appropriate, consider extending this practice to other collective purchasing agreements.
- Explore other modes of operation for receiving, processing and paying invoices and, if appropriate, modify the current procedures to reduce payment terms.

We recommend that the Direction générale decide on the calculation method used to establish payment times in a consistent manner and provide the city with greater flexibility to pay its expenses.

In addition, we recommend that the Direction générale assess the relevance of including general clauses in the standard call for tender documents (professional services and construction work) for payment terms to allow suppliers to offer discounts based on payment times.

### 3.5.C. Action Plan of the Relevant Business Unit

- **DIRECTION DE L'APPROVISIONNEMENT**  
[TRANSLATION] "Designate the Service des finances and the Direction de l'approvisionnement to propose a procedure for improving payment times to the Direction générale. (Planned completion: June 2012)"

*For the benefit of these two bodies, have the recommendation clarified to ensure that it is properly understood. (Planned completion: June 2012)*

Assess target payment times with representatives of the various business sections for the following:

- goods and services
- professional services
- construction work (**Planned completion: September 2012**)

Draft a directive to be approved by the Direction générale on the responsibilities of all those involved in payment document processing and the targets to meet. (**Planned completion: November 2012**)

Approval and implementation of the directive.” (**Planned completion: December 2012**)

- **SERVICE DES FINANCES**

[TRANSLATION] “Close cooperation between the Direction de l’approvisionnement and the Service des finances is clearly essential. However, these two partners cannot improve certain purchasing and invoice payment processes without the support of the team in charge of the ORACLE/SIMON computer systems and the willingness of suppliers to comply with our procedures. A progress meeting will be organized to establish the shared objectives (Direction de l’approvisionnement and Service des finances) for future purchasing agreements.” (**Planned completion: June 2012**)

- **DIRECTION GÉNÉRALE**

1) [TRANSLATION] “The Direction de l’approvisionnement has been mandated to assess the current calculation method and submit possible solutions to the city manager.” (**Planned completion: December 2012**)

2) [TRANSLATION] “The Direction de l’approvisionnement will assess the relevance and methods of including general clauses on payment terms in the standard call for tender documents (professional services and construction work) to allow suppliers to offer discounts based on payment times.

*The following steps will be used to amend existing clauses so that they are considered in evaluating the financial component of submissions:*

- Analyze existing clauses.*
- Establish a weighting for proposed discounts.*
- Assess the feasibility of rapid payment for 90% of invoices.*
- Test with suppliers.*
- Amend existing clauses and include them in templates.” (Planned completion: December 2012)*

## 4. APPENDICES

### 4.1. PAYMENT TERM SUMMARY (PERIOD FROM JANUARY 1 TO NOVEMBER 23, 2011)

Table A—Payment Term Summary

Index	Payment term	Number of invoices	Amount eligible for discount	Amount not eligible for discount	Maximum discount granted	Discount received
T1	0.5% 10 days, net 30 days	3	\$2,682		\$13	\$0
T2	1% 10 days, net 30 days	790	\$865,388		\$8,654	\$643
T3	1% the 10th of the following month, net the 20th of the following month	35	\$27,965		\$280	\$16
T4	1% 15 days, net 30 days	284	\$149,679		\$1,497	\$296
T5	1% the 15th of the following month, net 30 days	75	\$24,497		\$245	\$168
T6	1% 20 days, net 30 days	486	\$604,876		\$6,049	\$770
T7	1% 30 days, net 30 days	41	\$483,960		\$4,840	\$2,259
T8	1% the 15th of the following month	259	\$73,317		\$733	\$448
T9	1.25% 10 days, net 30 days	181	\$25,277		\$316	\$0
T10	1.5% 10 days, net 30 days	5	\$7,313		\$110	\$0
T11	10% 30 days, net 30 days	10	\$13,166		\$1,317	\$356
T12	2% 10 days, 1% 15 days, net 30 days	1,973	\$218,311		\$4,366	\$892
T13	2% 10 days, net 30 days	1,412	\$1,177,374		\$23,547	\$2,668
T14	2% 10 days, net 90 days	1	\$16		\$0	\$0
T15	2% 15 days, net 30 days	2 221	\$853,227		\$17,065	\$2,823
T16	2% 30 days, net 31 days	63	\$16,451		\$329	\$183
T17	2% 30 days, net 45 days	1,914	\$1,023,589		\$20,472	\$10,699
T18	2% 30 days, net 60 days	31	\$22,597		\$452	\$360
T19	2% 5 days, net 30 days	1	\$3,160		\$63	\$0
T20	2% the 10th of the following month, net 30 days	1,801	\$813,676		\$16,274	\$6,810
T21	2% the 15th of the following month	3,575	\$898,751		\$17,975	\$9,277
T22	2% the 15th of the following month, net 30 days	686	\$510,675		\$10,214	\$6,715
T23	2% the 20th of the following month	896	\$299,280		\$5,986	\$3,591
T24	2,2% 30 days, net 30 days	2	\$25,290		\$556	\$0
T25	3% 15 days, net 30 days	12	\$185,228		\$5,557	\$2,086
T26	3% on reception, 2% 10 days, 1% 15 days, net 30 days	104	\$103,247		\$2,065	\$1,746
T27	5% 10 days, net 30 days	5	\$49,279		\$2,464	\$0
T28	7% the 20th of the following month	1	\$7,257		\$508	\$0
<b>Total for invoices with discounts</b>		<b>16,867</b>	<b>\$8,485,528</b>		<b>\$151,947</b>	<b>\$52,806</b>
T29	Net 10 days	2,685		\$13,183,110		\$0
T30	Net 15 days	3,000		\$7,355,466		\$0
T31	Net 20 days	224		\$231,676		\$0
T32	Net 21 days	347		\$276,343		\$0
T33	Net 25 days	79		\$144,122		\$0
T34	Net 30 days	212,285		\$319,146,275		\$0
T35	Net 45 days	1,427		\$10,034,503		\$0
T36	Net 60 days	712		\$1,584,172		\$0
T37	Net 75 days	222		\$553,982		\$0
T38	Net 90 days	6		\$16,981		\$0
T39	Net the 15th of the following month	1,573		\$3,490,359		\$0
T40	Net the 25th of the following month	2		\$23,068		\$0
<b>Total for un-discounted invoices except for the "immediate" payment term</b>		<b>222,562</b>		<b>\$356,040,057</b>		<b>\$0</b>
T40	<b>Immediate</b>	<b>127,714</b>		<b>\$2,324,155,824</b>		<b>\$0</b>
<b>Overall total</b>		<b>367,143</b>	<b>\$2,688,681,409</b>		<b>\$151,947</b>	<b>\$52,806</b>

#### STATISTICS

- Number of invoices whose payment terms allowed for a discount: 16,867.
- Proportion of invoices with discount payment terms: 4.6%.
- Number of invoices with an "immediate" payment term: 127,714.
- Proportion of invoices with an "immediate" payment term: 34.8%.

## 4.2. PAYMENT TIME ANALYSIS – SELECTED INVOICES

**Table B—Payment Time Analysis  
(Number of days)**

Test	Payment term	Invoice amount	Reception time <sup>1</sup>	Entry time <sup>2</sup>	Hold and release time <sup>3</sup>	Cheque issuing time <sup>4</sup>	Actual time	Time allowed <sup>5</sup>
<b>Invoices for which a discount was obtained</b>								
<b>Invoice without a purchase order</b>								
1	2% the 20th of the following month	\$447.02	7	4	n/a	19	30	45
<b>Invoices with a purchase order</b>								
2	2% the 10th of the following month, net 30 d	\$1,656.57	6	7	n/a	20	33	40
3	2% the 15th of the following month	\$6,890.18	n.d.	43	n/a	1	44	45
4	2% 15 d, net 30 d	\$223.29	n.d.	7	n/a	5	12	30
5	2% the 15th of the following month	\$1,281.98	n.d.	23	n/a	1	24	45
6	2% 10 d, net 30 d	\$1,777.23	1	7	n/a	1	8	30
7	2% the 15th of the following month	\$2,237.62	6	11	n/a	14	31	45
<b>Invoices for which a discount was not obtained</b>								
<b>Invoices without a purchase order</b>								
8	2% 15 d, net 30 d	\$278.12	19	13	n/a	1	33	15/30
9	2% 10 d, net 30 d	\$157.80	38	1	n/a	3	42	10/30
10	2% 15 d, net 30 d	\$906.53	7	8	0	11	26	15/30
<b>Invoices with a purchase order</b>								
11	2% 15 d, net 30 d	\$1,084.57	5	29	n/a	0	34	30
12	2% 10 d, net 30 d	\$243.34	n.d.	92	n/a	3	95	30
13	2% the 20th of the following month	\$549.81	12	65	1	0	78	45
14	2% 10 d, net 30 d	\$384.78	n.d.	40	n/a	1	41	30
15	2% the 10th of the following month, net 30 d	\$227.43	n.d.	58	n/a	2	60	40
16	2% the 15th of the following month	\$1,403.56	n.d.	17	n/a	25	42	45
17	2% 10 d, net 30 d	\$245.66	n.d.	7	n/a	19	26	30
18	2% the 20th of the following month	\$393.87	n.d.	27	n/a	15	42	45
19	2% 10 d, net 30 d	\$1,143.72	n.d.	14	n/a	14	28	30
20	2% the 10th of the following month, net 30 d	\$1,737.36	n.d.	57	13	1	71	40
21	1% 15 d, net 30 d	\$1,379.58	n.d.	63	n/a	0	63	30
22	1% 20 j, net 30 d	\$118.66	n.d.	24	n/a	2	26	30
23	2% the 15th of the following month	\$211.65	n.d.	35	n/a	6	41	45
24	1% 20 j, net 30 d	\$338.55	n.d.	78	n/a	2	80	30
25	2% 15 d, net 30 d	\$338.55	n.d.	13	0	14	27	30
26	2% 10 d, net 30 d	\$1,379.46	n.d.	20	n/a	7	27	30
27	1% 10 d, net 30 d	\$882.68	n.d.	31	n/a	1	32	30
28	2% the 10th of the following month, net 30 d	\$5,353.34	n.d.	12	1	13	26	40

<sup>1</sup> Reception term: number of days between the invoice date and the date the invoice is received.

<sup>2</sup> Entry term: number of days between the invoice reception date and the date it is entered in SIMON. When the reception date is not determined, entry term corresponds to the difference between the invoice date and the entry date.

<sup>3</sup> Hold and release term: number of days between the hold date and the release date.

<sup>4</sup> Cheque issuing term: number of days between the invoice entry date or the release date and the payment date.

<sup>5</sup> Time allowed: Maximum number of days granted by the supplier according to payment terms.

n.d.: not determined.

n/a: not applicable.