

Restructuring Account Payables

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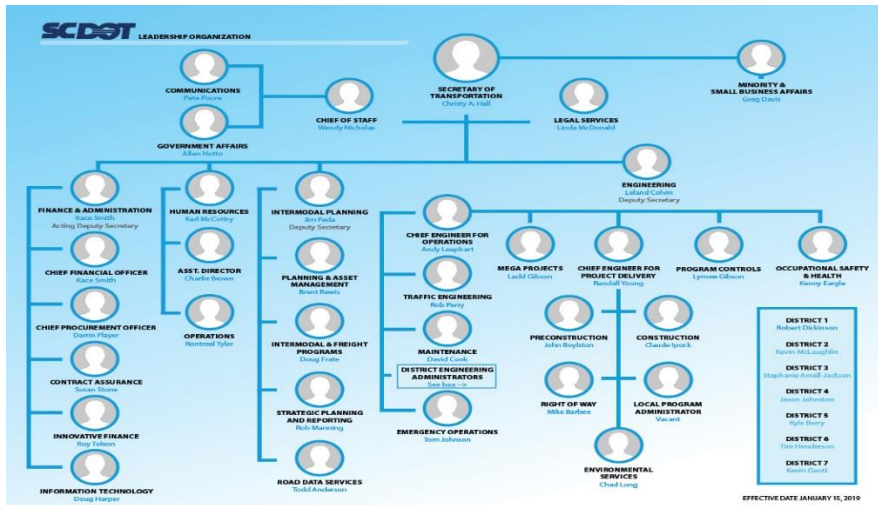
South Carolina of Department of Transportation

January 30, 2019

History and Structure

The South Carolina Department of Transportation (SCDOT) was established on March 10, 1917 to comply with the 1916 Federal Act. The Federal Act required each state to manage and maintain all roads and bridges within the state. The state agency was originally named South Carolina Highway Commission until July 1, 1993, when legislation was passed to change it to the South Carolina Department of Transportation (SCDOT). SCDOT is run and operated by the Secretary of Transportation who is appointed by a nine Commission Board that is the governing authority of SCDOT. Christy Hall currently holds the Secretary position.

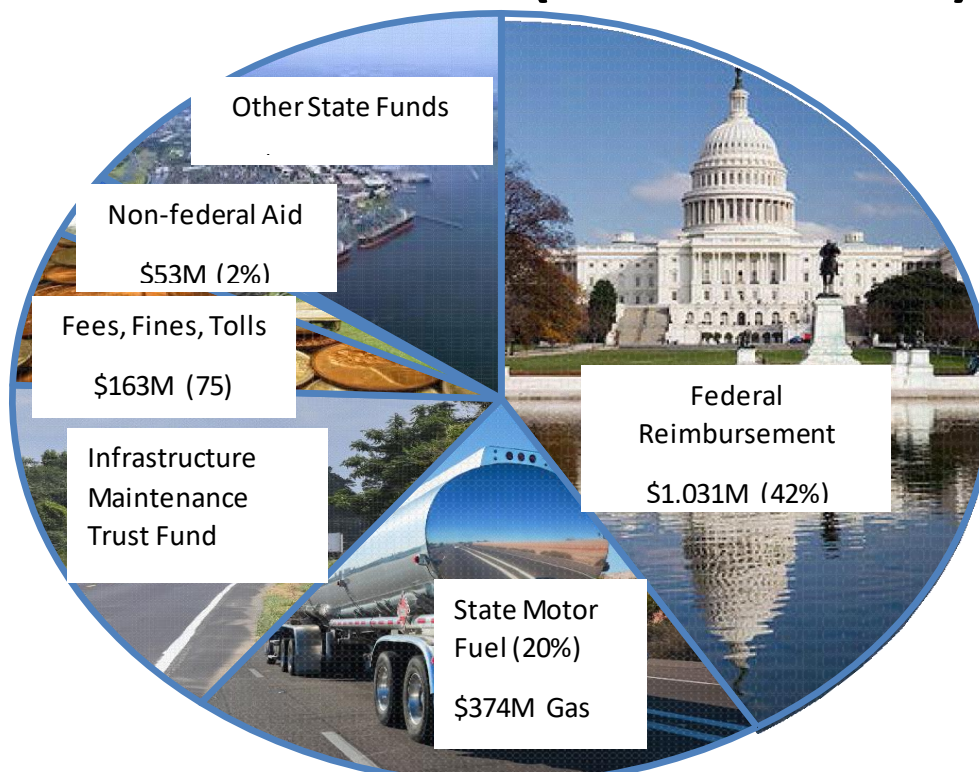
Within SCDOT there are seven engineering districts that make up the state's 46 counties. SCDOT is divided into three organizational departments: Finance and Administration which includes finance, procurement, information technology and audit; Intermodal Planning which includes planning and asset management; and Engineering which includes traffic, maintenance, preconstruction, construction, right of way, LPA and environmental. These three areas have a combined 4,500 employees that manage and maintain the states 41,000 miles of roads and 8,400 bridges throughout South Carolina. SCDOT Commission that governs the agency has nine members with one member from each Congressional District and two at-large members who are appointed by the Governor. Below is an organizational chart that illustrates the SCDOT structure within the agency.



Revenue and Funding

SCDOT's two largest sources of revenue are federal funds from federal motor user fees and state motor fuel revenue from state motor user fees. These two fund sources along with others illustrated below are how the agency incurs cost for the State's Transportation System.

Estimated Revenues (FY2018-2019)



On July 1, 2017, Act 40 was passed and signed by the Governor which provided needed funding for transportation to South Carolina's citizens and businesses. Act 40 increases motor fuel user fees by 2 cents each year for six years, biennial registration fees increase on private passenger vehicles by \$16, infrastructure maintenance fees on the purchase of motor vehicle to a max of \$500, one-time \$250 fee for motor vehicles transferred from another state and new registration fee for alternate vehicles to \$120 for EV's and \$60 for hybrid vehicles. South Carolina's gas tax has historically been the lowest in the country and, even with the increase, remains lower than the neighboring states of Georgia and North Carolina. When Act 40 is fully phased, SCDOT will receive an additional \$600 million per year to maintain and rebuild South Carolina's roads and bridges which is something that has been underfunded for decades.

SCDOT has created and is implementing a 10- year plan that includes road maintenance and enhancement and repairing and replacing 465 bridges throughout the state. South Carolina has the fourth-largest state highway system in the United States with 41,400 miles and 8,400 bridges. Below are revenue components for the Infrastructure Maintenance Fund (Act 40) for the state's revenue in the Highway Fund, Non-Federal Aid Accounts. With the passing of ACT 40 South Carolina is still behind other states with money available to operate the state's transportation system although substantial progress has been made providing the funding needed to manage South Carolina roads and bridges. Act 40 is providing and will provide the funding for South Carolina to prosper economically as the state moves into the future.

SFY 18-19 Revenue Component: Detailed Information

In Millions, Through November 30, 2018*

IMTF (Infrastructure Maintenance Trust Fund) Revenues	Year 2 Revenue Projecti on SFY18- 19	SFY 18-19 YTD Actuals Thru November 30, 2018	Forecasted YTD Revenue Receipts	Variance Actuals- Projections
Gasoline Portion of the Gas Tax Increase @ 12 cents (2 cents per year for 6 years)	\$120	\$43.61	\$49.80	(\$6.19)
Diesel Portion of the Gas Tax Increase @ 12 cents (2 cents per year for 6 years)	\$34	\$13.67	\$13.31	\$0.36
Registration Fee (\$16 increase)	\$26	\$12.34	\$9.49	\$2.85
Hybrid Vehicles / Alternative Vehicles	\$1	\$0.58	\$0.53	\$0.05
Motor Carrier Road Use Fee	\$4	\$0.00	\$0.00	\$0.00
Infrastructure Maintenance Fee aka Vehicle Sales Tax (New Portion increasing \$300 cap to \$500)	\$69	\$28.50	\$26.35	\$2.15
Refundable Tax Credit	(\$20)	\$0.00	\$0.00	\$0.00
CTC Donor Bonus Transfer from DOT (Act 40 Revisions)	(\$21)	(\$17.62)	(\$21.00)	\$3.38
Act 40: Roads Bill Revenues	\$213	\$81.08	\$78.48	\$2.60
Existing SCDOT Funds now swept into IMTF account: Act 275 Original (80% of the first \$300 portion)	\$140	\$57.86	\$53.48	\$4.38
Interest	\$0	\$1.90	\$0.00	\$1.90
Sales and Use Tax	\$2	\$1.42	\$0.70	\$0.72
Existing SCDOT Revenues swept into the IMTF Account	\$142	\$61.18	\$54.18	\$7.00
TOTAL IMTF Revenues	\$355	\$142.26	\$132.66	\$9.60

Other State Revenues in the Highway Fund, Non-Fed. Aid Act	Revenue Project ion SFY18- 19	SFY 18-19 YTD Actuals Thru November 30, 2018	YTD Projected Revenue Receipts	Variance Actuals- Projections
Gas Tax Original 16 cent portion - Gasoline	\$392	\$162.12	\$177.33	(\$15.21)
Gas Tax Original 16 cent portion - Diesel	\$125	\$56.52	\$50.52	\$6.00
International Fuel Trade Agreement	(\$18)	(\$9.41)	(\$7.50)	(\$1.91)
Act 275 SCDMV Fees & Fines	\$87	\$21.21	\$19.97	\$1.24
Sale of Services	\$18	\$11.56	\$4.82	\$6.74
Act 176: Motor Vehicle License Fees	\$17	\$7.36	\$5.21	\$2.15
Act 176: Petroleum Inspection Tax	\$9	\$4.05	\$3.72	\$0.33
Act 176: Electric Power Tax	\$4	\$0.00	\$0.00	\$0.00
Act 176: DMV Penalties	\$4	\$0.95	\$1.05	(\$0.10)
Cross Island Parkway Tolls	\$9	\$3.71	\$3.72	(\$0.01)
Sale of Goods	\$4	\$0.00	\$0.00	\$0.00
Over Size/Over Weight Permits	\$4	\$1.46	\$1.03	\$0.43
Other Misc. Revenues	\$7	\$3.05	\$4.16	(\$1.11)
Interest earned outside of IMTF and Tolls	\$5	\$4.36	\$1.79	\$2.57
Transfer to Parks, Recreation, and Tourism (Welcome Center)	(\$4)	(\$3.56)	(\$3.56)	\$0.00
	\$663	\$263.38	\$262.26	\$1.12

Project Overview

After taking the SCDOT Controller position and understanding the impact ACT 40 would have on the agency I, along with my Supervisor (Kace Smith), began analyzing the overall impact it would have on the Accounting/Finance Department. Immediately it was realized Accounts Payable (AP) current structure was currently not performing to expectations and would not support the additional invoices that the new funding would generate. AP's current structure was invoiced based which means an invoice was assigned to an analyst for processing as it was received. The problem with this is SCDOT receives invoices from 46 counties and 12 departments within headquarters. When an invoice is received the analyst checks the invoice for correct accounting information along with the required signatures. If any part of the information being checked is incorrect it is returned to the appropriate source for correction and is put back in the queue for processing until it is returned with the correct information. It was determined that this current process created an environment that delayed invoice processing time.

At the time AP's process began to be analyzed in October 2018, the department had 1575 invoices outstanding. The invoices were either waiting to be received from one of the 59 areas within SCDOT, a correction needed to be made, or just the time it took AP to process an invoice which was up to 120 days. SCDOT's goal is to process every invoice within 30 days of receipt. With the current structure it was realized this goal wasn't being met and the accountability to achieve this goal didn't exist. The ability to track invoices outstanding and determine the status or location was unavailable as well as a relationship between SCDOT staff and AP Analyst. Below is a chart that

illustrates SCDOT's total number of invoices processed and total dollar amount for the Fiscal Year 2017-2018.

Accounts Payable Analysis
Invoices Paid in Fiscal Year 17-18

	# of Invoices	% of Invoices	Value	% of TOTAL Value
Direct Pay Invoices	26,316	44%	\$ 1,422,902,622	84%
PO Invoices	32,616	54%	\$ 147,208,667	9%
Interfaced Invoices	112	-	\$ 29,282,951	2%
IDT's	915	2%	\$ 84,649,680	5%
TOTAL	59,959		\$ 1,685,825,056	



Data Collected to Determine AP Process

After analyzing the current AP process it was determined the area needed to move to a process where each analysis was assigned to a specific location/department within SCDOT. This new type of structure was to create a closer relationship between AP staff and the SCDOT employees in the field and headquarters, AP analyst consistently working with an area where they are familiar with invoices and the work and processes that area has day-to-day and the

ability to track and reduce invoice processing time. An invoice tracking system was also developed to determine how many invoices AP was receiving each day and how many of the invoices received daily were new, returned invoices that had been sent back for a correction or duplicates that had already been received. The invoices then were analyzed further by how many were able to be processed or that had to be sent back for correct accounting information or signatures. Below is the spreadsheet that illustrates this analyzes.

	Monday 6-Nov	Tuesday 7-Nov	Wednesday 8-Nov	Thursday 9-Nov	Monday 13-Nov
Beginning of Day - Number of Outstanding Invoices	1,229	1,367	1,350	1,413	1,466
	0	0	0	0	0
Invoices Received for the Day	0	0	0	0	0
-Initial Invoices	429	199	180	267	460
-Returned Invoices	94	84	42	52	96
Total	523	283	222	319	556
Invoices sent out for correction	174	62	77	89	82
	0	0	0	0	0
Duplicate Invoices	-50	-9	-19	-37	-82
Invoices Processed for the Day	-241	-207	-98	-177	-269
End of Day - Number of DOT Outstanding Invoices	1,367	1,350	1,413	1,466	1,575
Outstanding invoices available to be processed	324	318	318	427	543
	0	0	0	0	0
Outstanding Invoices not available for processing yet	0	0	0	0	0
-Departments	828	821	866	806	786
-Procurement	0	0	0	0	0
-Program Controls	10	19	34	13	20
-Invoices waiting to be sent out	205	192	195	220	226
Total Outstanding Invoices	1,043	1,032	1,095	1,039	1,032
DOT Outstanding Invoices	1,367	1,350	1,413	1,466	1,575

After this information and the shell for the new AP structure was created, round table discussions with each county and departments were held to present the change and the new structure. Roundtable format was decided to be the best format because an overview could be given to the change and then it would allow for open discussion. This was a way to see the new process from the other side and receive feedback to fully develop the new structure with all the information and data available. It also created collaboration and started to develop a stronger relationship and create a team environment.

New AP Structure and Implementation

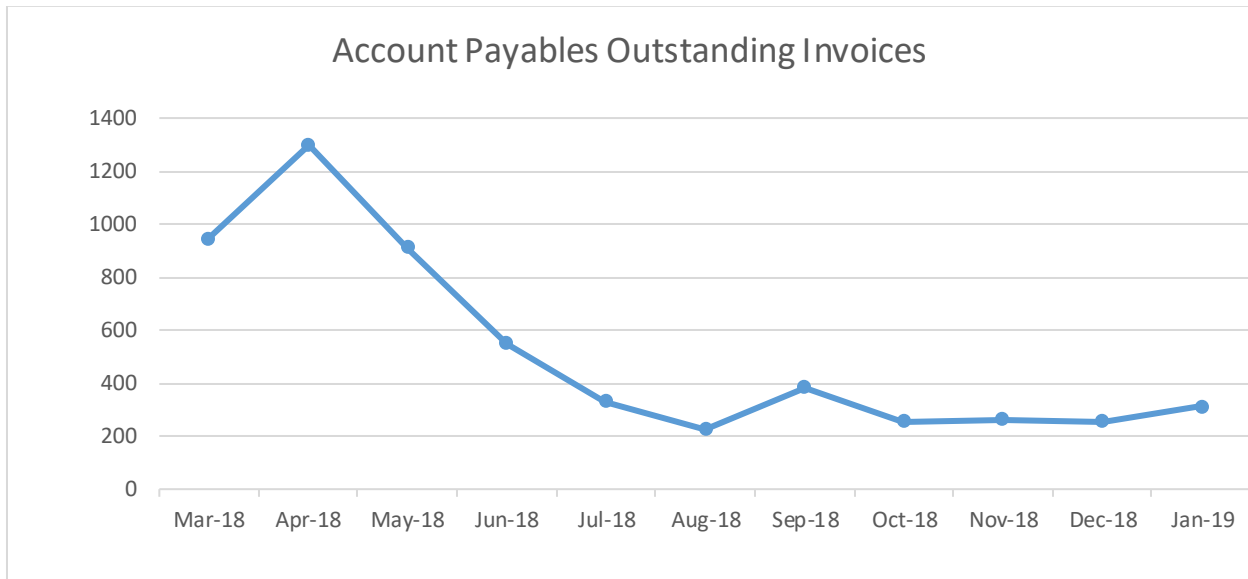
From the data and information analyzed and collected the new structure for AP was developed. The structure would divide SCDOT into nine groups for AP purposes. The groups include seven districts, headquarters and State Highway Emergency Program (SHEP) and utility, travel and procurement bills. The AP Department has 11 employees that include two managers and nine analysts. The seven districts and headquarters and SHEP were assigned between seven analysts. Six analysts were each assigned one district with one analyst receiving two districts that have lower volume of invoices and complexity and one analyst was assigned Headquarters and SHEP. The two remaining analysts were assigned to utility invoices for the entire state, procurement cards and travel for all SCDOT employees. Once the assignments were determined each analyst held a central meeting with their assigned area. This was a way for each analyst to meet and start developing a relationship and for the final details of the new

structure to be presented. March 12, 2018 was set as the implementation date for the new structure and evaluation methods were ready to determine the success of the process.

Evaluation Method

On March 12, 2018, when the new AP structure was implemented, there were 1,116 invoices in SCDOT's possession needing to be processed. An evaluation process had been created to ensure the new structure did not increase the total outstanding invoice number or create problems among SCDOT staff. Weekly meetings were held with AP staff to receive feedback so adjustments could be made and the invoice tracking model used previously was continuing to be used to track invoices. The main concern was that the end of the fiscal year was approaching. The end of a fiscal year brings an influx of invoices to be paid. With the high number of outstanding invoices, and the amount of invoices anticipated to be coming, it was unknown if there was an additional potential problem forthcoming. The thought process was that the new structure would decrease the number of current invoices with the analysis being assigned to a certain group and would enable them to work closely as the increased end of the year invoices started to be received. The feedback in the weekly meetings was very positive from analysts. Both the analyst and the assigned groups felt each had a specific contact and someone they could communicate directly with to receive assistance and information concerning invoices. At the beginning of implementation there was a slight increase in outstanding invoices to around 1,280 but within 12 days the outstanding number started to be

reduced. The reason for this was AP analysts focused on their outstanding invoices initially and worked to reduce. As days past, analysts were able to focus on current invoices received as well as continue to work to reduce the outstanding number. Below is a chart detailing the outstanding invoices by month from March 2018 until January 2019.



The chart indicates that there was a slight increase in total invoices at implementation but the process eventually corrected itself and all the benefits of the revised process began to be received. It has also been determined from analyzing the outstanding invoice total day to day that there are times when the invoice numbers increase due to the time of the month, but overall the number of invoices return to below 400. SCDOT's goal is to have the total invoices outstanding, on average between 300-400. This ensures invoices are getting paid by and not after the 30-day benchmark. The average processing time per invoice was 24 days from receipt.

Summary

The new AP structure and process implemented has been a success. It has created an environment for analysts and the assigned area to better perform their job and be successful. Upper Management feels confident agency invoices are being paid and tracked at a detailed level. The change was needed as SCDOT has and will have more road and bridge projects with ACT 40 which will increase the number of invoices. The change to AP was implemented at the right time and with the components needed.