DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date MAY 5 1997

From Joseph J. Green
Assistant Inspector General
for Public Health Service Audits

Subject Compliance With the Prompt Payment Act by the Food and Drug Administration (A-15-96-40002)

To Robert J. Byrd
Associate Commissioner for Management
Food and Drug Administration

The attached final report presents the results of the Office of Inspector General's review of Compliance with the Prompt Payment Act by the Food and Drug Administration (FDA). The report contains recommendations to improve compliance with the Prompt Payment Act by assuring that goods and services paid for are received, discounts that are advantageous to the government are taken, and payments made under the Act are accurately reported.

The FDA concurred with most of our recommendations when commenting on the draft report. Our evaluations of FDA's comments are contained after each recommendation, and the comments are included in their entirety in Appendix C. We believe that full implementation of our recommendations would improve FDA's compliance with the Act.

We would appreciate your views and the status of any further action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please call me or have your staff contact Jim Nycum, Director, at (301) 443-9745.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

COMPLIANCE WITH THE PROMPT PAYMENT ACT BY THE FOOD AND DRUG ADMINISTRATION

JUNE GIBBS BROWN
Inspector General

MAY 1997
A-15-96-40002

OFFICE OF INSPECTOR GENERAL

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EXECUTIVE SUMMARY

This report provides the results of our review of compliance by the Food and Drug Administration (FDA) with the Prompt Payment Act (Act).

OBJECTIVES

The audit objectives were to determine whether FDA meets Office of Management and Budget (OMB) Circular A-125, "Prompt Payment," requirements for:

A. having an adequate **payment process** to **pay bills on-time** and

- ▸ remit interest penalties when payments are made late,
- ▸ assure that goods and services paid for are received, and
- ▸ take discounts that are advantageous to the Government;

B. **accurately reporting** payments and progress made with respect to complying with the Act; and

C. **assessing its payment process.**

FINDINGS

The FDA's payment process does not meet OMB's performance standard for paying bills on time, and reports of payments and progress made with respect to complying with the Act are inaccurate. The FDA does not assess the process used for making most payments and processes at the headquarters office that are assessed are not comprehensive.

A. PAYMENT PROCESS

- ▸ ***Invoices were not processed timely.*** Of the 101 invoices we statistically selected for review, FDA did not date stamp 22 until 15 or more days after the invoice date. Its review of 61 invoices did not start until 8 or more days after the date of the date stamp, and 14 invoices were past due before the review process began. Circular A-125 requires that invoices be date stamped on the day the payment office receives them and either accepted for payment, or returned to the vendor if deficient, within 7 days of the date stamp date.

A lack of separation of duties contributed to difficulty in specifying reasons for untimely invoice processing.

- → The same individual can both date stamp and process invoices for payment.

- → The verifier who confirms the accuracy of data entry can unilaterally change some of the data.

These practices (1) compromise checks and balances in the payment process, thus increasing the potential for undisclosed processing delays and payment improprieties and (2) are not consistent with Federal standards for internal control.

- ***Interest penalties were underpaid.*** The FDA paid less than 25 percent of the $190.65 in interest penalties it should have paid on invoices we reviewed. Incomplete information in FDA files prevented us from determining the amount of interest that should have been paid for other invoices.

- ***Receipt of goods and services was not always confirmed.*** The practice in FDA headquarters of recording the date of receipt of some invoices as the date the goods and services were received, makes it virtually impossible to use the payment system to identify instances where the goods and services were paid for, but not received. The FDA processed around 46,600 invoices for $18.1 million in this manner in Fiscal Year (FY) 1994. The FDA does follow up on receipt of goods and services, for statistical samples of 2 to 3 percent of these invoices, but follow up is poorly documented.

- ***Discounts were not taken.*** The FDA lost all $298.50 in discounts available for the 9 invoices we reviewed where vendors offered discounts. The FDA does not require accounting technicians to record discount terms in the payment system, and the system is not configured to compare discount terms with the Department of Treasury's Cost of Funds to determine whether the discount is economical.

B. REPORT ACCURACY

In reporting to OMB on payments and progress made with respect to complying with the Act in FY 1994, FDA reported on time payments of 94 percent[1]. It stated that data used in preparing the reports were collected

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[1] The OMB established a performance standard of 95 percent for paying bills on time in its FY 1992 report to Congress entitled Status of Federal Agency Prompt Payment. This report is a compilation of reports from agencies required under Circular A-125.

through a quality control process that meets standard. However, we were able to confirm on time payments by FDA for less than 78 percent of its bills (78 of the 101 bills we reviewed). We found erroneous adjustments to data when FDA compiled the report.

The absence of policies and procedures for compiling reports on compliance with the Act, combined with the other weaknesses such as delays in date stamping and processing of invoices, lack of separation of duties, interest underpayment, and lack of evidence of receiving of goods and services, raise questions about the accuracy of the reports.

C. PAYMENT PROCESS ASSESSMENTS

The process FDA has in place for assessing payment system performance covers the system used for less than 22 percent of the $126.2 million in invoices processed by headquarters. For headquarters invoices assessed:

- → follow up on receipt of goods and services is poorly documented,
- → there is no requirement to compare purchase orders with invoices and receiving reports to confirm that the purchases were authorized, and
- → interest penalty calculations and opportunities to take discounts offered by vendors are not reviewed.

The FDA does conduct comprehensive assessments of the payment process in its field offices. Our review of a FDA report on one field office assessment showed problems similar to those we found at headquarters.

RECOMMENDATIONS

This report contains recommendations for improving FDA's process of making payments, of reporting on progress and problems, and of assessing the reliability of its payment process. The FDA concurred with most of our recommendations when commenting on the draft report. Our evaluations of FDA's comments are contained after each recommendation, and the comments are included in their entirety in Appendix C. We believe that full implementation of our recommendations would materially improve the credibility of FDA's assertions that it is in compliance with the Act.

CONTENTS

ABBREVIATIONS USED

FDA	Food and Drug Administration
FY	Fiscal Year
GAO	General Accounting Office
OFM	Office of Financial Management, FDA
OMB	Executive Office of Management and Budget

INTRODUCTION

The Prompt Payment Act, P.L. 100-496; 31 U.S.C. 3901-3907, requires Federal agencies to:

A. pay their bills on time, remit interest penalties when payments are made late, and take discounts that are advantageous to the Government;

B. accurately report progress made with respect to complying with the Act; and

C. assess the reliability of the payment process.

Regulations implementing the Act are contained in the OMB Circular A-125, "Prompt Payment," dated December 12, 1989 (Circular A-125).

In FY 1994, FDA processed $161.3 million in payments (98,870 invoices) that were subject to the Act's requirements. About 22 percent of this amount, or $35.1 million (payments for 26,898 invoices) was processed by FDA's 24 field offices located throughout the country. The other 78 percent, or $126.2 million (71,972 invoices), was processed by the Commercial Accounts Branch within the Division of Accounting's Office of Financial Management (OFM) at FDA headquarters. The Commercial Accounts Branch used the OFM Accounts Payable System (payment system) to process these payments.

The FDA matches invoices against purchase orders before processing the invoices for payment. The FDA uses the following two methods to process invoices for payment.

- **Standard Payment Procedures.** Invoices totaling more than $2,500 are (1) recorded in the payment system; and (2) placed in a "lacking a receiving report" status until a receiving report is received. The payment system periodically generates an "Invoice Pending Receiving" report for invoices where the receipt of goods and services has not been reported. This report, which is forwarded to the ordering office, is updated daily. After the ordering office forwards the receiving report to the Commercial Accounts Branch, the receiving report is matched with the invoice and the date the goods and services were received is recorded in the payment system. The payment system automatically schedules the invoice for payment.

- **Alternative Payment Procedures.** On June 1, 1989, FDA received approval from the Department's Deputy Assistant Secretary for Finance, within the Office of the Assistant Secretary for Management and Budget, to implement alternative payment procedures. These procedures authorize payment of invoices totaling $2,500 or less without first determining whether the goods

and services were received. Such procedures are allowed by Circular A-125. In FY 1994, FDA used alternative pay procedures to process around 46,600 invoices for $18.1 million.

The FDA began to pilot the concept of paying invoices without receiving reports in 1988 in an effort to speed up the payment process. It concluded from the pilot that routinely matching of receiving reports with invoices for low dollar amounts was not cost effective. In a letter dated May 24, 1989, to the Assistant Comptroller General, Accounting and Financial Division, General Accounting Office (GAO), the Department's Deputy Assistant Secretary, Finance, requested that GAO let his office know if there were problems foreseen with FDA's alternative payment process. The GAO commended the Department in its attempts to speed up payment of invoices, but stopped short of endorsing FDA's alternative payment process. Since that time, the concept of paying invoices without receiving reports has been expanded to other Federal agencies.

Schedules of invoices approved for payment are certified by a FDA Certifying Officer and submitted to the Treasury Department for payment.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of this audit were to determine whether FDA:

A. has an adequate **payment process** for paying bills on-time; remitting interest penalties when payments are made late; assuring that goods and services paid for are received; and taking discounts that are advantageous to the Government;

B. **accurately reports payments** and progress made with respect to complying with the Act; and

C. **assesses** the reliability of **its payment process.**

Scope

We selected a random sample of 101 invoices to get an understanding of the payment process. The purpose of our sampling was to assess internal controls and not to make estimates to the universe based on the sample units. The details of our sample selections are presented in Appendix A.

Methodology

We reviewed:

A. quality controls used by FDA headquarters during its payment process to: (a) pay invoices; (b) remit interest penalties; (c) confirm that goods and services were received; and (d) take discounts that are advantageous to the Government;

B. the accuracy of reports used to support payments and show progress made with respect to complying with the Act, including an evaluation of paid invoices, receiving reports, and annual Prompt Payment Reports for FY 1992, 1993 and 1994; and

C. the FDA procedures for assessing the reliability of its payment process, as well as other Federal policies and procedures pertaining to the Prompt Payment Act.

We held discussions with staff of the Commercial Accounts Branch, the Director of Accounting, and ordering officials and approving officers at various FDA organizational components. Our review of internal controls was limited to only those controls which we considered necessary to satisfy our objectives. We did not assess FDA's 1988 pilot study on the payment of invoices without receiving reports since (1) supporting data needed to validate the completeness and accuracy of the study may be difficult to locate because the study is dated; and (2) any changes in invoice processing procedures since that time would need to be evaluated in order to update the study.

Our audit was conducted in accordance with generally accepted government auditing standards between December 1994 and September 1996, at FDA offices in Rockville, Maryland.

FINDINGS IN DETAIL

OVERVIEW

We were able to confirm on time payments by FDA for about 78 percent of its bills (78 of the 101 bills we statistically selected for review). The OMB performance standard is 95 percent for paying bills on time. Circular A-125 defines an on-time payment as one made within 30 days following the latter of the date: (1) a proper invoice is received by the designated billing office; and (2) the goods or services were received.

The FDA's **process for paying bills** did not meet the OMB standard because of delays in processing the payments and a lack of separation of duties that exacerbated efforts to identify causes for the delays. Also FDA:

- paid less than 25 percent of the interest penalties due on the invoices we reviewed;

- sometimes overrides a payment process internal control for assuring receipt of goods and services. Follow-ups to confirm receipt of goods and services, for statistical samples of 2 to 3 percent of the invoices paid without first confirming receipt of the goods and services, are poorly documented; and

- lost all $298.50 in discounts available for the 9 invoices we reviewed where vendors offered discounts.

In **reports to OMB on payments and progress made with respect to complying with the Act**, FDA reported that it paid 94 percent of its bills on time. Problems with the payment process that we previously noted, in addition to errors in compiling reports we reviewed, raise questions about the accuracy of FDA's reports. Also, the **process** FDA has in place **for assessing the reliability of its payment process** does not cover major payment activities.

The OMB Circular A-125 includes criteria we used in addressing FDA's:

A. payment process,

B. report accuracy, and

C. payment process assessments.

A. PAYMENT PROCESS

Following is a comparison of (1) Federal requirements for a payment process with (2) conditions we found at FDA.

Timeliness of Processing Invoices

	Requirement	**Conditions We Found**
1.	Section 4.b.(1) of **OMB Circular A-125 requires date stamping of invoices on the date they are received by the** billing	Our analysis indicated that **FDA does not routinely date stamp invoices on the date they are received by the billing office.** Of the 101 invoices we reviewed, the Commercial Accounts Branch (the office designated by FDA as being

office. Section 1.i. defines the designated billing office as the **office or employee designated in the contract or purchase order to first receive invoices.**

responsible for processing invoices) stamped 22 with dates that were 15 to 229 days after the invoice date. The time difference between the date of an invoice and the date of receipt by the FDA payment office should normally not exceed 7 days, based on our estimate of mail delivery time from the vendor to the FDA payment office.

2. **OMB Circular A-125,** section 4.b.(3) **allows up to seven days** after receipt of an invoice **to either return deficient invoices** to vendors **or accept the invoices for payment.**

More than 7 days elapsed between the date stamp indicating receipt of the invoices and acceptance for payment for 61, or approximately 60 percent of the 101 invoices we reviewed. Fourteen invoices were past due before the review process began. The FDA accepts invoices for payment at the time when the technician who verifies information recorded in the payment system confirms that the information has been entered correctly. The following table shows elapsed time between receipt of the invoice and acceptance for payment:

Elapsed days	Number of invoices
8 to 15	24
16 to 30	23
31 to 221	14
Total	61

3. **Standards for Internal Controls in the Federal Government,** United States General Accounting Office, 1983, **require that no one individual should control all key aspects of a transaction** or event. Checks and balances envisioned in implementation of this requirement minimize the risk of error, waste or

There are two functions in the payment system process that are not consistent with GAO's standards for internal control: (1) the same individual responsible for date stamping invoices upon receipt is also entering data from invoices into the system; and (2) the verifier who confirms the accuracy of data entry, can change some data fields in the system.

Date Stamping and Data Entry

The FDA's practice of assigning an employee concurrent responsibilities, such as opening mail and date stamping invoices, and entering data

wrongful acts going undetected.

from invoices into the data system, provides the possibility of (a) delaying date stamping for days without being detected; and (b) destroying invoices in order to reduce the backlog of unprocessed invoices or for other reasons. In this regard, some invoices were reportedly mailed by vendors but never received by FDA.

The Director of FDA's Division of Accounting told us that accounting technicians need to be assigned duties other than mail opening and date stamping in order to help their careers.

We believe that the initiative to help a person's career is commendable. However, we believe that such an initiative can be accomplished through use of alternatives available to FDA that would not compromising internal controls. One alternative would be to have the mail opened and date stamped as part of the duties of employees who are not within the Commercial Accounts Branch.

Changes by Verifier

Use of a verifier to confirm the accuracy of data entry helps assure timely correction of errors. However, lack of controls in FDA's payment system allows the verifier unilateral discretion in changing data fields such as invoice date, receiving date, and the type of payment. This inhibits the intended purpose of having a verifier. This purpose is to reduce the probability of error by having two individuals involved in recording critical payment information. The verifier should either return problems noted to the person who entered the data or bring the matter to the attention of some other individual to make corrections. When corrections are entered, the verifier should assure they were made properly.

Reasons For Differences Between Requirements and Conditions We Found

1. The FDA does not require procurement officials to direct vendors to mail invoices to the Commercial Accounts Branch, the office that date stamps

the invoices for processing under the Prompt Payment Act. We were told that procurement officials sometimes direct vendors to send invoices to offices other than the Commercial Accounts Branch, even though the Commercial Accounts Branch may be shown on the purchase order (Block 21) as the addressee. Of the 22 invoices with date stamps of 15 or more days later than the invoice date, vendors had addressed 9 to the wrong office.

The absence of clear procedures to assure that (a) vendors know to address invoices to the Commercial Accounts Branch; and (b) invoices are promptly date stamped could result in a determination that FDA is not in compliance with the Prompt Payment Act, and that it owes interest penalties for late payments.

2. The FDA does not have policies and procedures for tracking invoices to assure that they are processed timely. Delays in accepting invoices for payment place FDA at risk of incurring interest penalties for late payments.

3. The responsibility for both date stamping invoices and processing invoices for payment are in the same office, the Commercial Accounts Branch. Date stamping could be performed by FDA administrative staff before the invoices are routed to the Commercial Accounts Branch.

   The FDA does not have controls in the payment system to prevent the verifier from changing data considered by the verifier to be incorrect.

Recommendations

We recommend that FDA:

1. establish a policy which requires employees to instruct vendors to submit invoices directly to the office responsible for receiving and date stamping them;

2. establish policies and procedures for tracking invoices to assure that invoices are either returned to the vendor or accepted for payment within 7 days of the receipt of the invoices; and

3. strengthen internal controls in the payment process by:

   a. separating control of the receipt and processing of invoices received for payment by moving the responsibility of date stamping invoices from the Commercial Accounts Branch to

another office within the Office of Financial Management, and requiring that office to date stamp invoices on the day they are received; and

b. placing a control in the payment system to prevent the verifier from changing data recorded into the payment system, and require the verifier to return invoices to the technician who recorded the data when the recordation is found to be incorrect.

Agency Comments and OIG Evaluation

The FDA concurred with the intent of the first recommendation and with recommendations 2 and 3a as stated, but did not concur with recommendation 3b.

In concurring with the intent of recommendation 1, FDA stated that it will determine why some program offices need to review invoices before OFM and possibly issue a policy statement instructing employees to ensure that all invoices be mailed directly to OFM. The FDA would be in compliance with our recommendation as long as it ensures that, absent clear evidence that the vendor did not follow instructions, invoices are date stamped by the FDA office initially receiving them and that this date stamp be used as the basis for determining when payment is due.

In concurring with recommendation 2, FDA stated that it would evaluate use of information technology in order to develop and implement a reliable tracking system for invoices received; such as an imaging system which would provide a permanent image of incoming invoices that cannot be changed by staff. In our opinion, while such technology could be helpful, no initiative will be successful unless it includes mechanisms for monitoring and assuring compliance with the requirement that invoices be processed within 7 days of the date they are received by FDA.

In concurring with recommendation 3a, FDA stated that it has already assigned the mail function to a staff member of OFM's Internal Control Section who does not have payment processing responsibilities. We believe that FDA's action is fully responsive to the recommendation.

In not concurring with recommendation 3b, FDA stated that requiring the technician who recorded the data to correct data entry errors would likely result in further delays in payment processing and a greater chance for late interest payments. In our opinion effective implementation of our recommendation would enhance payment accuracy while causing no more than inconsequential delays in payment processing.

Interest Penalties Underpaid

Requirement	Conditions We Found
Section 7.a.(2) of Circular A-125 provides that **interest penalties** on invoices that are paid late **will generally be computed from the day after the due date** (day 31 after both the invoice and the goods have been received) **through the payment date.** Interest penalties of less than one dollar need not be paid.	**The FDA paid less than 25 percent of the interest it should have for the 12 invoices we reviewed where interest was due.** The FDA should have paid $190.65 in interest on these invoices, but actually paid only $45.81 in interest on 7 of them. For another 5 invoices, we could not determine whether interest should have been paid because information in the files did not clearly show when both the invoice and the goods and services were received. Appendix B contains more information on the 17 invoices.

Reason For Differences Between Requirements and Conditions We Found

An FDA official told us that FDA determines the actual payment date by adding two calendar days to the date payment schedules are sent to the Department of Treasury. The official reexamined this practice and determined that two work days, rather than two calendar days should be allowed for Treasury to make the payments.

Recommendation

We recommend that FDA:

4. revise the payment system to count only work days when determining the payment date when calculating interest penalties.

Agency Comments and OIG Evaluation

The FDA concurred and noted action it planned which we believe to be responsive to our recommendation.

Receipt of Goods and Services Not Always Confirmed

Requirement

Section 12 of Circular A-125 specifies that, where goods and services have previously been paid for without evidence of receiving, **agencies shall ensure that receiving reports and payment documents are matched** and steps are taken to correct discrepancies.

Conditions We Found

When using alternative payment procedures FDA overrides an internal control in its payment system that is designed to help assure that goods and services paid for are actually received. The FDA's practice of taking statistical samples to verify that the goods and services have been received is poorly documented.

Override of Internal Control

The payment system is designed to process invoices for payment only after the date of the receiving report is recorded into the system. This internal control is intended to assure that goods and services are actually received. However, for alternative pay invoices, FDA overrides this internal control by instructing technicians to record in the accounting records the date of receipt of the invoice in the data field reserved for the date of the receiving report. Section C.1.c. of the Commercial Accounting Desk Manual states that **technicians** are to **use the date the invoice was received as the date the goods and services were received.** Placing an inappropriate date in the data field reserved to show the date of receipt of goods and services does not allow FDA to use the accounting system to identify instances where goods and services have been paid for, but not yet received.

Follow Up on Receipt of Purchases

As an alternative to using the payment system to focus follow up efforts on instances where goods and services were paid, FDA follows up on quarterly samples of 2 to 3 percent of the invoices processed under alternative pay. We found **no evidence that the receiving report had been checked or how it was otherwise determined that the goods and services had been received.**

Of the 13,524 alternative pay invoices paid from June 1 to August 31, 1994, FDA selected 270 for a follow-up audit. The follow-up consisted of sending a "list of invoices selected for audit" to administrative officers. We were unable to confirm the sufficiency of the follow-up because the responses from the administrative officers were poorly documented. The responses generally involved invoices attached to the lists, some of which were annotated with information indicating the date of receipt of goods and services. **There was no evidence that the receiving report had been checked or how it was otherwise determined that the goods and services had been received.**

Use of the alternative practice of sampling invoices for follow-up makes FDA vulnerable to never receiving some of the goods and services paid for under its alternative payment procedures. We randomly selected 14 alternative pay invoices to determine whether goods and services were received, because of internal control weaknesses in assuring receipt of goods and services paid for using alternative payment procedures. The FDA provided documentation on receipt of goods and services in 11 instances, but did not provide clear documentation in the following 3 instances:

- In two instances, processed under alternative payment procedures, FDA did not clearly record the date of receipt of goods and services, and the individual who received them. In one instance, the word "complete" was hand written on the invoice for services, along with a signature and date. In another instance, the words "Approved for payment" was hand written on the invoice for services, along with a signature and date. The FDA officials believe these annotations indicated that goods and services were received. The officials said that as a matter of practice the stamp for showing the date of receipt of goods and services, used under

standard payment procedures, is not used when processing invoices under alternative payment procedures.

- The FDA officials could not find receiving documentation for one invoice totaling $739 for micro instruments and related supplies. These kinds of supplies could be sensitive items since they are portable and marketable. Sensitive items require "special control," according to Part III, "Accountability Requirements and Responsibilities," of the PHS Logistics Policy Guide for Property Management.

We also found instances where alternative pay invoices were not included in the universe from which samples were selected. The universe of invoices from which FDA conducts the 2 to 3 percent sample did not include vendors' invoices where an incorrect vendor identification number was in the system, or where a vendor had been deleted from the vendor table. These instances caused the invoice table, from which FDA draws its audit sample, to be an incomplete representation of the universe. The FDA corrected the problem of excluding providers from the universe when we brought the matter to their attention.

Reason For Differences Between Requirements and Conditions We Found

The FDA has not established procedures for clearly documenting receipt of goods and services, particularly in cases processed using alternative payment procedures. There were instances where we had considerable difficulty deciphering the date of receipt of goods and services because of unclear annotations on documents we were provided for review. The FDA could reduce errors leading to underpayments by clearly annotating on the documents when the goods and services were received, and the person who received them.

The FDA, by instructing technicians to record the date invoices were received in the data field that is supposed to be reserved for the date the goods were received, renders ineffective the internal control in the payment system to help assure the receipt of goods and services. Follow ups on statistical samples of invoices to determine whether these goods and services were received are poorly documented.

Moreover, FDA does not take advantage of the payment system to identify paid invoices where goods and services have not been reported as received.

Recommendation

We recommend that FDA:

5. better document and track the receipt of invoices and goods and services by:

   a. requiring standard statements on receiving documents that clearly show in all cases what goods and services were received, the date of receipt, and the individual who received them;

   b. rescinding its instruction to technicians to record the date invoices were received in the data field that is supposed to be reserved for the date the goods and services were received, and require that the actual date of receipt of goods be recorded in this field. To better assure compliance with Federal internal control standards, the employee who actually receives the goods and services should record their receipt into the payment system; and

   c. revising policies and procedures to allow and require use of the existing payment system to identify all instances where goods and services have been reported as paid for, but not received as a basis for (1) assessing and correcting problems with the payment system; and (2) obtaining reimbursement from the payee in instances where goods and services were found to have not been received.

Agency Comments and OIG Evaluation

In concurring with recommendation 5a, FDA noted action it planned which we believe to be responsive to our recommendation. However, FDA did not concur with recommendations 5b and 5c.

In not concurring with recommendations 5b and 5c, FDA stated that it will explore the feasibility of having the employee who actually receives the goods or services enter the date of receipt directly into the payment system. In our opinion implementation of such an action on the part of FDA would improve assurance that goods and services were actually received.

The FDA also commented that:

> "Given the results of eight OFM audits, covering the period January 1994 through December 1995, found only four errors out of 2,057 invoices sampled (0.19 percent error rate), FDA intends to continue using such alternative payment procedures."
>
> "The random audits ascertain whether the goods were received and the date of receipt. This information is attested to by an employee of the ordering office based upon research of these records."

However, we noted in our review that FDA had made similar assertions but that documentation was insufficient to allow adequate verification of the assertions, despite a number of attempts to obtain clarification of the documentation from FDA staff. It is because of the documentation problems that we believe continued use of the alternative payment procedures at FDA would be appropriate only if FDA:

(1) stops overriding accounting controls designed to bring attention to instances where goods and services were paid for but not received. Effective use of these controls would provide better assurance that goods and services paid for were received, as well as eliminate the need for FDA staff to follow-up on receipt of samples of hundreds of items every quarter. Instead, follow-up would be needed only (a) when the payment system identifies goods and services paid for but not reported as received after a reasonable period of time and (b) in following up on small samples to meet the standard for a systematic performance measurement system. This standard is discussed in the section of this report titled "PAYMENT PROCESS ASSESSMENTS." Why work harder when you can work smarter and also do a better job?

(2) better assures that sampling procedures and other checks and balances in the receiving process are sufficiently documented.

The FDA also asserted that recommendation 5b should be directed to the Office of the Deputy Assistant Secretary, Finance since that office allowed FDA to use alternative payment procedures. We do not concur with FDA's assertion since (a) the authorization was based on data presented by FDA which indicated that it had sufficient alternative checks and balances in place, and (b) we found no evidence that the Deputy Assistant Secretary, Finance had authorized FDA to override its accounting controls. We believe this report clearly shows that the checks and balances that FDA has in place are substantially lower than that asserted in its proposal to use alternative payment procedures.

Discounts Not Taken

Requirement	Conditions We Found
Section 4.m. of Circular A-125 specifies that discounts will be taken whenever economically justified. Section 8040.30 of the Department of Treasury's Financial Manual states that **agency payment systems will incorporate procedures that take advantage of cash discounts as a matter of routine and eliminate any need for special handling.** This section also states that **economic justification should take into consideration a comparison of discount terms with the current value of funds rate.**	Of the 101 invoices we reviewed, 9 offered discounts totaling $298.50, but none were taken. The **OFM discourages accounting technicians from attempting to take discounts offered by vendors.** In a May 15, 1989 memorandum to the Department's Deputy Assistant Secretary, the FDA's Director, OFM, requested authority to discontinue taking discounts offered on invoices to FDA headquarters. The FDA official stated that it was no longer cost effective to continue to spend resources trying to take advantage of discounts. The information we were provided did not include a response to FDA's request for a waiver of the requirement of Circular A-125 to take discounts when advantageous to the Government. **The payment system is not currently configured to compare discount terms with the Department of Treasury's Cost of Funds to determine whether the discount is economical.**

Reason For Differences Between Requirements and Conditions We Found

The FDA does not systematically: (a) identify available discounts; and (b) take discounts when advantageous to the Government.

Recommendation

We recommend that FDA:

6. revise its: (a) policies and procedures to require that all available discounts be recorded in the payment system; and (b) payment system to electronically compare discount terms to the Department of Treasury's Current Value of Funds Rate to determine whether discounts are economical.

Agency Comments and OIG Evaluation

The FDA did not concur with recommendation 6a, but did concur with the intent of recommendation 6b.

In not concurring with recommendation 6a, FDA asserted that (a) taking discounts offered if payments are made within 10 days would be impractical since there are seven days on average between the date of a vendor's invoice and its receipt and (b) it does attempt to take advantage of all discounts where payment is required within 20 days of the invoice date. However, of the 9 invoices we reviewed where discounts were offered, 5 involved discount offers if payment was made within 20 days or more, but no discounts were taken. If FDA's policy is to take discounts where practical we believe it should provide clear instructions to accounting technicians in this regard.

In concurring with the intent of recommendation 6b, FDA stated that it would evaluate possible revision to its system. FDA concurred with the finding upon which this recommendation was based and we believe it should revise its system timely.

B. REPORT ACCURACY

Requirement	Conditions We Found
Section 3.b. of Circular A-125 requires each Federal agency to **issue internal instructions for accurately reporting prompt payment statistics to OMB.**	The FDA reported that it paid over 94 percent of its invoices on time, but our statistical sample of 101 invoices showed that only 78 were paid on time. Also, FDA reported that it had met the quality control process requirements as described in Section 3.e., Circular A-125, by using stringent quality and internal controls and that data was collected through a quality control process meeting this section. However, we found erroneous adjustments made to data used for the reports. The adjustments were made by an employee of the Accounting Reports and Analysis Branch of OFM, who compiled reports from the various FDA field offices. The FDA's field offices reported that 5,531 invoices ($6,961,960) were paid after the due date during FY 1994, but OFM adjusted these amounts downward to 5,482 invoices ($6,868,988), without an explanation for the adjustments.
Section 3.e. of Circular A-125 requires **a quality control program to assess performance of payment systems** and provide a reliable way to estimate payment performance.	

The largest adjustment was made to the amount reported by FDA's Seattle Office. The OFM adjusted the number of invoices reported as paid by that office from 216 invoices downward to 167, and eliminated the full $100,411 in late payments. The OFM also adjusted the amount of interest paid as reported by the Seattle Office from $97.32 on 12 invoices paid late, to $96.25 on 5 invoices paid late. At our request, the OFM employee who made the adjustments followed up with the Seattle Office and found that the amounts submitted by the Seattle Office were correct. Therefore, these adjustments should not have been made.

The presence of the above weaknesses, combined with the other weaknesses such as delays in date stamping and processing of invoices, lack of separation of duties, interest underpayment, and lack of evidence of receiving of goods and services disclosed in this report, raise questions about the overall accuracy of FDA's reports required under the Act.

Reasons For Differences Between Requirements and Conditions We Found

In addition to reasons for differences between requirements and conditions that are addressed elsewhere in this report, FDA does not have policies and procedures for use by headquarters for assuring that data from FDA field offices are compiled in a complete and accurate manner.

Recommendation

We recommend that FDA:

7. develop policies and procedures that require checks and balances in the process of compiling data from FDA field offices, and assure that adjustments to the data are adequately documented.

Agency Comments and OIG Evaluation

In concurring with this recommendation, FDA referred to recent revision of the Prompt Payment Act reporting requirements by HHS which have extended the reporting due dates, thus alleviating some of the time constraints which had been

the primary cause for inaccurate data being transmitted. It also referred to policies it has implemented which we believe adequately address this recommendation.

C. PAYMENT PROCESS ASSESSMENTS

Requirement	Conditions We Found
Section 3.e. of OMB Circular A-125 requires agencies to establish a **systematic performance measurement system throughout the agency.** The system must (a) provide a reliable way to estimate payment performance; (b) provide managers information about problems; and (c) assist in targeting corrective action.	The **FDA has not established a systematic performance measurement system throughout the agency to assess its payment system.** The FDA does have such a system in place for its field offices. However, the system at headquarters does not include (1) collection of data from about $108 million of payments processed in FY 1994; or (2) checks of original documentation and other validation of data collected for the other $18.1 million of payments processed in that year. Therefore, reports (showing the number of on time payments, the number of late payments with and without penalties, and categories of reasons why payments were late) provided to management on payment performance may not be reliable.
Section 3.e. of OMB Circular A-125 requires that **information must be collected through a process at least as thorough as the original payment decision** and **reviewers must use original documents.**	<u>Field Offices</u> The FDA officials told us their Prompt Pay performance measurement system does include reviews of its field offices at least once every 3 years. A checklist for measuring the performance of the payment system is incorporated into reviews of field administrative management by FDA's Office of Regulatory Affairs. We were provided, as an example of the kinds of reviews performed at each field office, a copy of a report on a review of the Detroit Office that was performed in March 1993. The report included the following statements. "<u>Prompt Pay Report</u> for several reporting periods was reviewed. These reports were always submitted with zeros, indicating no payments were made after the due date, no late payment interest was paid, etc. This report is never completed properly because we found several

cases in those schedules we reviewed where payments were extensively late. However, we also found that interest was not being paid as required under the Prompt Pay Act. These quarterly reports are not accurate reporting, and immediate action must be taken by the Administrative Officer to ensure that future reports are true and correct."

"A review of 23 paid commercial invoices in Schedule #194-92 to determine practices relating to the prompt pay act revealed nineteen (19) invoices were paid late. All invoices had receiving reports. One had an incorrect object class code. Four invoices were overpaid. If the order is placed FOB destination, we should not be paying freight/delivery charges. No interest payments were calculated or made in accordance with the Prompt Pay Act."

"It is questionable whether the invoices were date stamped on a daily basis, since many bills had a wide variation between the date of the invoice and the date the invoice was received."

The acting director of the Detroit Office acknowledged that the Office of Regulatory Affairs had found significant deficiencies. The FDA officials provided us with a report which indicated that they had followed up on the above deficiencies and that they had been corrected.

Headquarters

As part of its follow ups on quarterly samples of 2 or 3 percent of the invoices processed under alternative pay procedures, FDA compares: (1) charges shown on the invoices with amounts recorded as paid in the payment system; and (2) dates the invoices were date stamped with comparable dates recorded in the payment system. It also follows up on whether the goods and services were actually received.

Under its performance measurement system that covers FDA headquarters, **FDA does not collect information through a process that is as thorough as the original payment decision.** The information collected excludes standard payment procedures, which were used to process $108.1 million in invoices for FY 1994.

In collecting information for payments made under alternative payment procedures, FDA compares purchase order numbers written on invoices with purchase order numbers shown in the payment system. It does not: (a) require a comparison of purchase orders with invoices and receiving reports to validate that the purchases were authorized and correctly recorded in the payment system; (b) check interest penalty calculations; or (c) review available discounts to determine whether they should have been taken. Also, **documentation** of the follow up process **was not sufficient for us to determine whether reviewers used original documents**, such as receiving reports, in confirming receipt of goods and services or how FDA otherwise determined that the goods and services had been received. Validation of receipt of goods and services is further discussed in the section of this report, "Receipt of Goods and Services Not Always Confirmed."

Reason for Differences Between Requirements and Conditions We Found

The FDA has not implemented sufficient procedures for assessing the: (a) accuracy and completeness of reports required by the Act and b) performance of the Commercial Accounts Branch at FDA headquarters. Had FDA performed reviews of the Commercial Accounts Branch at headquarters, like those performed in its field offices, it may have disclosed similar deficiencies, such as the deficiencies disclosed in this report.

Recommendation

We recommend that FDA:

8. extend its assessments of the payment process at headquarters to include: (a) assessments of transactions processed using standard payment procedures; (b) comparisons and analysis of payment system data with original purchase orders, invoices, and receiving reports for selected transactions; and (c) adjustments made when compiling data reported by field offices.

Agency Comments and OIG Evaluation

In concurring with recommendations 8a and 8b, FDA stated that it intends to implement a policy which we believe adequately addresses these two parts of the recommendation.

In not concurring with the third part (recommendation 8c), FDA referred to a policy implemented in response to recommendation 7 which will no longer allow acceptance of verbal adjustments or revisions to district office data submissions. While we agree that this new policy should reduce the incidence of errors in reporting regional office data, we believe there should be assessments to ensure compliance with this policy. Such assessments should take little time and would enhance the credibility of FDA reports.

APPENDIX A

DESCRIPTION OF SAMPLE SELECTION

We selected and reviewed a total of 101 invoices in the following categories from those paid by FDA between June 1, 1994, and August 31, 1994:

- 70 of 13,524 invoices[2] totaling $5,665,585 paid under the alternative pay process, including:

  → 30 of 270 invoices reviewed under FDA's quarterly review process. To select our sample we divided the 270 by 30 and determined that every 9th invoice should be selected. We selected the 5th invoice as the 1st invoice (day of month sample was selected); and

  → 40 of 13,249 invoices not reviewed by FDA under this process. We used automated random selection procedures in selecting the 40 invoices.

- 31 invoices for over $2,500 each from the universe of 608 invoices totaling an estimated $40.3 million. To select our sample, we divided the 608 by 30 and determined that every 20th invoice should be selected. We selected the 8th invoice as the first invoice (day of month sample was selected).

To identify evidence of receipt of goods and services paid under the alternative pay process, we randomly selected a sample of 14 invoices out of a total of 65 processed under alternative pay, for which we were not provided receiving reports or other evidence sufficient to determine when or if the goods and services were received.

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[2] The universe of invoices paid under the alternative payment process from which we selected 101 contained 13,519. We later determined the actual count to be 13,524.

SUMMARY OF INVOICES PAID LATE

Following is information on the invoices that FDA files did not show were paid on time. The invoices were part of the 101 invoices we statistically selected for review. The information includes our assessment of FDA's compliance with Section 7.a.(2) of the OMB Circular A-125 which provides that **interest penalties** on invoices that are paid late **will generally be computed from the day after the due date** (day 31 after both the invoice and the goods have been received) **through the payment date**. Interest penalties of less than one dollar need not be paid.

INTEREST UNDERPAID

1. Purchase Order Number 1334BPA080004/Invoice Number 57731

   This invoice, for $393.75, dated March 25, 1994, was paid using alternative pay procedures. The FDA staff told us the invoice was inadvertently delayed in FDA and not date stamped and recorded into the payment system until May 11, 1994. An FDA employee noted on the invoice that the goods had been received on March 8, 1994. Based on an invoice date of March 25, 1994, the vendor should have been paid interest of $2.71. The FDA paid no interest.

   We attribute FDA's failure to pay interest when it should have to its policy of requiring accounting technicians to depart from the good business practice of using the best available information in recording the date of receipt of goods and services. Had the receiving report date been recorded in the payment system in this instance, and had the system been monitored as it should have been, FDA would have been alerted to the fact that invoice information had not been recorded into the payment system.

2. Purchase Order Number 1333FDA06642/Invoice Number 304648

   This invoice, for $275.00, dated October 28, 1993, was paid using alternative pay procedures. The FDA recorded in the payment system April 21, 1994, as both the date this invoice and the goods were received. However, the invoice was date stamped on November 6, 1993, and the receiving report was dated October 28, 1993. Therefore, 31-day payment processing time should have started on November 6, 1993, rather than the April 21, 1994 date used by FDA. Interest of $1.16 was paid, but $8.15 should have been paid.

   We attribute FDA's failure to pay all of the interest it should have to its policy of requiring accounting technicians to depart from the good business practice of using the best available information in recording the date of receipt of goods and services. Had the receiving report date been recorded in the payment system in

this instance, and had the system been monitored as it should have been, FDA would have been alerted to the fact that invoice information had not been recorded into the payment system.

3. Purchase Order Number 1034FF0068896/Invoice Number 715495

This invoice, in the amount of $3,436.00, was date stamped May 12, 1994, and a receiving stamp on the invoice indicated the goods were received on April 29, 1994. The FDA calculated interest through the date the invoice was scheduled for payment.

Had FDA calculated interest through the payment date, it would have determined that interest of $5.77 should have been paid, rather than the $4.66 it paid. The date the invoice is scheduled for payment is generally 2 days earlier than the date payment was made. Circular A-125 requires the interest calculation to extend through the payment date. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay the correct amount of interest to a deficiency in the payment system. This system does not calculate interest through the payment date when weekends and holidays occur between the date payments are scheduled to be made and the date they are actually made.

4. Purchase Order Number 1034FDAB67926/Invoice Number 153756

This invoice, in the amount of $4,633.00, was date stamped June 20, 1994, and a receiving stamp on the invoice indicated the goods were received on June 15, 1994. The FDA calculated interest through the date the invoice was scheduled for payment.

Had FDA calculated interest through the payment date, it would have determined that interest of $6.30 was due, or $1.86 more than the $4.44 that was paid. The date the invoice is scheduled for payment is generally 2 days earlier than the date payment was made. Circular A-125 requires the interest calculation to extend through the payment date. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay the correct amount of interest to a deficiency in the payment system. This system does not calculate interest through the payment date when weekends and holidays occur between the date payments are scheduled to be made and the date they are actually made.

5. Purchase Order Number 1033FF0014497/Invoice Number 140845501

Interest of $93.73 for late payment should have been paid on this invoice, in the amount of $6,600.00. However, no interest was paid. The invoice was dated February 2, 1994, and a receiving stamp on the invoice indicated the goods were received on February 3, 1994. However, the accounting records showed that the goods were received on June 3, 1994. The invoice was not submitted to Treasury until June 8, 1994, for payment on June 10, 1994. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have, largely to the absence of policies and procedures within FDA to enforce the requirement of Circular A-125 that invoices be entered into the payment system within 7 days of receipt of the invoice.

6. Purchase Order Number 1034FDAE94125/Invoice Number 67K7C84

Interest of $29.30 for late payment should have been paid on this invoice, which was for $3,366.01. However, no interest was paid. The invoice we reviewed was dated May 20, 1994, and was faxed to the Commercial Accounts Branch on July 8, 1994. The FDA had instructed the vendor to send the invoice to an office other than the Commercial Accounts Branch. The receiving report we reviewed showed that the goods were received on May 23, 1994. However, the accounting records showed that the invoice and goods were not received until August 12, 1994. The invoice was scheduled to be paid on August 18, 1994. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to its policy of requiring accounting technicians to depart from the good business practice of using the best available information in scheduling the invoice for payment. Since FDA had instructed the vendor to send the invoice to a location other than the Commercial Accounts Branch, we believe that it should have used the date of the invoice and the date of receipt of the goods as the basis for determining when interest would start accruing.

7. Purchase Order Number 1034FDA090359/Invoice Number 8929

This invoice was for $5,142.25 and was dated May 16, 1994. The invoice was stamped by FDA as having been received on May 26, 1994. The date of receipt of the goods was not clear. There was a stamp on the invoice to be completed when the goods were received, but it was not completed. There were several annotations on the invoice, such as "Recd.," the signature of a person, and two dates (June 2, 1994, and May 20, 1994). These annotations might indicate

that the goods were received on May 20, and signed on June 2 as having been received. However, the packing slip we were provided clearly indicated the goods were received on May 20. The date of receipt of the goods was recorded in the payment system as June 2, 1994.

We concluded from the above that the goods were received on May 20. Therefore, the 31-day period for making payment should have begun on May 26, rather than June 2, and the vendor should have been paid interest of $5.50. The FDA paid no interest. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to the absence of adequate procedures within FDA for use of receiving reports or clearly annotated documents to show when goods and services were received. We noted numerous other instances where we had considerable difficulty deciphering the date of receipt of goods and services because of unclear annotations on documents we were provided for review. Had FDA clearly annotated on the documents when the goods were received, and the person who received them, the above error probably would not have occurred.

8. Purchase Order Number 1034FDAB72065/Invoice Number 0072401

This invoice, for $18,725.00, was dated May 11, 1994, and a receiving stamp on the invoice indicated the goods were received on June 6, 1994. The FDA calculated interest through the date this invoice was scheduled for payment, rather than through the payment date as required by the Act.

Had FDA calculated interest through the payment date, it would have determined that interest of $3.64 should have been paid. The FDA paid no interest. Circular A-125 requires the interest calculation to extend through the payment date. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay the correct amount of interest to a deficiency in the payment system. This system does not calculate interest through the payment date when weekends and holidays occur between the date payments are scheduled to be made and the date they are actually made.

INTEREST CORRECTLY PAID

9. Purchase Order Number 1034FDA116115/Invoice Number 95285

The invoice was date stamped July 1, 1994, and contained a receiving stamp indicating the goods were also received on July 1, 1994. The invoice was recorded into the payment system on August 17, 1994, for payment by Treasury on August 20, 1994. The FDA correctly paid a late payment interest penalty of $20.11.

10. Purchase Order Number 1034FDAC37732/Invoice Number 740798

The invoice was date stamped July 7, 1994, and contained a receiving stamp indicating the goods were received on June 24, 1994. The invoice was recorded into the payment system on August 8, 1994, for payment by Treasury on August 11, 1994. The FDA correctly paid a late payment interest penalty of $3.87.

11. Purchase Order Number 1034FDAC747651/Invoice Number 110205259

The invoice was date stamped June 14, 1994, and contained a receiving stamp indicating the goods were received on June 10, 1994. The invoice was recorded into the payment system on July 14, 1994, for payment by Treasury on July 17, 1994. The FDA correctly paid a late payment interest penalty of $4.67.

12. Purchase Order Number 1034FF0105857/Invoice Number 27950900

The invoice was date stamped July 30, 1994, and contained a receiving stamp indicating the goods were received on June 17, 1994. The invoice was recorded into the payment system on August 29, 1994, for payment by Treasury on September 1, 1994. The FDA correctly paid a late payment interest penalty of $6.90.

NOT CLEAR WHETHER INTEREST SHOULD HAVE BEEN PAID

13. Purchase Order Number 1334FDA005440/Invoice Number DF98D

The invoice, for $289.00, was dated June 16, 1994, but was not date stamped until July 18, 1994. The Administrative Officer annotated the invoice, "Rec." with a date of "6/20/94." It was not clear whether this annotation was in reference to the receipt of the receiving report or the goods.

The payment records showed both an invoice date and a receiving report date of July 18, 1994. An FDA official believed the above indicates the goods were received on June 20, 1994, but that the invoice got lost in the mail. The FDA used alternative pay procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to an unclear receiving date annotated on the invoice.

14. Purchase Order Number 1034FDAD42536/Invoice Number N3T7105

This invoice was for $13,682.11 and was dated December 1, 1993, but there was no annotation clearly showing the date the invoice was received by FDA. There were various annotations on the invoice which indicate that the goods and the invoice could have been received as early as March 1, 1994. The invoice was recorded into the payment system on August 11, 1994, and was scheduled on August 15, 1994, for payment on August 17, 1994. No interest was paid. If the goods and invoice had been received on March 1, 1994, interest of $290.41 should have been paid. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to an unclear receiving date annotated on the invoice.

15. Purchase Order Number 1334BPA020263/Invoice Number 10645

This invoice was for $2,600 and was dated December 31, 1993. The invoice was marked "HAND DELIVER" and the shipping date was shown as December 30, 1993. We could not determine the date stamped on the invoice. The invoice contained a receiving stamp indicating the goods were received on June 30, 1994, and the invoice was recorded into payment system on July 13, 1994, for submission to Treasury for payment on July 29, 1994. No interest was paid. The FDA used standard payment procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to an unclear receiving date annotated on the invoice.

16. Purchase Order Number 1334FDA001896/Invoice Number 684940

This invoice, for $626.64, was dated February 16, 1994. The invoice we reviewed had a fax date of June 10, 1994, from the vendor. The FDA used the June 10, 1994 date as the invoice received date in the system. The Administrative Officer noted on the invoice "OK to pay Rec.," and dated the

annotation "2/16/94". The invoice was paid on June 24, 1994. We could not determine whether there was an initial invoice that was submitted to FDA which got lost, whether the vendor did not send the invoice, or whether processing of the invoice was delayed for some other reason. The FDA used alternative pay procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to an unclear receiving date annotated on the invoice.

17. Purchase Order Number 1034FDAB74312/Invoice Number S68661

The invoice was for $292.50 and was dated February 18, 1994, but was not date stamped by FDA until June 20, 1994. An FDA employee authorized payment on February 18, 1994, thus indicating the goods were received. The FDA used alternative pay procedures in processing this invoice.

We attribute FDA's failure to pay interest when it should have to its policy of requiring accounting technicians to depart from the good business practice of using the best available information in recording the date of receipt of goods and services. Had the receiving report date been recorded in the payment system in this instance, and had the system been monitored as it should have been, FDA would have been alerted to the fact that invoice information had not been recorded into the payment system.

INVOICES PAID LATE - INTEREST OF UNDER A DOLLAR

18. Purchase Order Number 1034FDAE90974/Invoice Number 077974

The invoice was date stamped May 17, 1994. The invoice was marked "O.K. to pay" with a date of May 17, 1994. The invoice was recorded into the payment system on June 17, 1994, for payment by Treasury on June 22, 1994. No interest was paid. The interest due was less than a dollar.

19. Purchase Order Number 1034FF0007208/Invoice Number 162091

This alternative pay invoice was date stamped June 6, 1994. There was no indication as to when the goods were received. The invoice was recorded into the payment system on June 29, 1994, for payment by Treasury on July 7, 1994. No interest was paid. The interest due was less than a dollar.

20. Purchase Order Number 1334FDA009447/Invoice Number 86974

The invoice was dated April 28, 1994, and was date stamped both "July 2, 1994," and "July 33, 1994." The invoice was marked "O.K. to pay." There was no indication as to when the goods and services were received. The invoice was recorded into the payment system on August 5, 1994, for payment by Treasury on August 10, 1994. No interest was paid. The interest due was less than a dollar.

21. Purchase Order Number 1034FF0073005/Invoice Number 01136558

The invoice was date stamped May 23, 1994, and the service was reported as received on May 17, 1994. The invoice was recorded into the payment system on June 23, 1994, for submission to Treasury for payment on June 26, 1994. No interest was paid because the interest due was less than a dollar.

22. Purchase Order Number 1334FDA001803/Invoice Number 9013

The invoice was date stamped June 6, 1994, and the goods were reported as received on May 26, 1994. The invoice was recorded into the payment system on June 14, 1994, for payment by Treasury on July 7, 1994. No interest was paid because the interest due was less than a dollar.

23. Purchase Order Number 1034FDA001891/Invoice Number 941471394

The invoice was date stamped "June 9, 1994," and "July 19, 1994." The goods and services were reported as received on June 3, 1994. The invoice was recorded into the payment system on July 20, 1994, for payment by Treasury on August 17, 1994. We could not determine whether this invoice was paid late because the invoice contained two date stamps. It would have been paid late had the invoice been received on June 9, 1994. If this invoice was actually paid late, interest for late payment should not have been paid since the interest amounted to less than a dollar.

DEPARTMENT OF HEALTH & HUMAN SERVICES
Public Health Service

Food and Drug Administration

Memorandum

Date MAR 21 1997

From Deputy Commissioner for Management and Systems, FDA

Subject FDA Comments on the OIG Draft Report "Compliance with the Prompt Payment Act by the Food and Drug Administration"- A15-96-40002

To Joseph J. Green
Assistant Inspector General
for Public Health Service Audits

We have reviewed the Office of Inspector General's draft report, "Compliance with the Prompt Payment Act by the Food and Drug Administration," and submit the attached FDA comments on the report's recommendations. FDA concurs with most of the recommendations, or their intent, and will or already has taken actions to implement the recommendations. In instances where we did not concur with a recommendation, our comments provide the rationale for our nonconcurrence.

Robert J. Byrd

Robert J. Byrd

Attachment

AGENCY COMMENTS ON OFFICE OF INSPECTOR GENERAL DRAFT REPORT ENTITLED "COMPLIANCE WITH THE PROMPT PAYMENT ACT BY THE FOOD AND DRUG ADMINISTRATION" (A-15-96-40002)

OIG Recommendation #1

That FDA establish a policy which requires employees to instruct vendors to submit invoices directly to the office responsible for receiving and date stamping them.

FDA Comment

We concur with the intent of this recommendation.

The address indicated in block 21 of the purchase order is where vendors are instructed to send their invoices. While the vast majority of purchase orders are prepared using the address for OFM's Accounting Operations Branch in block 21, there are some instances where the address of a program office is used at the request of a program official. The invoice is date-stamped upon receipt, whether that be at OFM or a program office. The FDA will ascertain the reasons why certain program offices need to review invoices before OFM. If there is no compelling reason, it is possible a policy statement will be issued instructing employees to ensure that all invoices be mailed directly to OFM.

OIG Recommendation #2

That FDA establish policies and procedures for tracking invoices to assure that invoices are either returned to the vendor or accepted for payment within 7 days of the receipt of the invoices.

FDA Comment

We concur with this recommendation.

We plan to evaluate the use of information technology in order to develop and implement a reliable tracking system for invoices received; such as an imaging system which would provide a permanent, electronic image of the incoming invoice, accessible (read only) to responsible staff.

OIG Recommendation #3a

That FDA strengthen internal controls in the payment process by separating control of the receipt and processing of invoices received for payment by moving the responsibility of date stamping invoices from the Commercial Accounts Branch to another office with the Office of Financial Management, and requiring that office to date stamp invoices on the day they are received.

FDA Comment

We concur with this recommendation.

The Agency has already assigned the mail function to a staff member of OFM's Internal Control Section who does not have payment processing responsibilities.

OIG Recommendation #3b

That FDA strengthen internal controls in the payment process by placing a control in the payment system to prevent the verifier from changing data recorded into the payment system, and require the verifier to return invoices to the technician who recorded the data when the recordation is found to be incorrect.

FDA Comment

We do not concur with this recommendation.

The verifier is currently allowed to change certain data elements which do not require examination of the purchase order. The FDA made a conscious decision to allow "verifier checks" for instances that do not compromise the internal controls over the payment amount and vendor's address. These are as follows: receiving report date, invoice date and whether the payment is partial or final. This results in the expeditious correction of input errors made by accounting technicians. To require verifiers to return an invoice to the technician who originally entered the payment data into the Accounts Payable System, so that corrections can be made, would likely result in a further delays in payment processing and greater chance for late interest penalties.

OIG Recommendation #4

That FDA revise the payment system to count only work days when determining the payment date when calculating interest penalties.

FDA Comment

We concur with this recommendation.

The Agency intends to revise its Accounts Payable System so that, for a late payment, the calculation of an interest penalty considers an additional two days to account for weekends when the payment schedule date falls on a Friday. If possible, an extra day will be added to the calculation to account for Federal holidays. This will ensure that the computation of interest penalties complies with Prompt Payment Act requirements for instances where weekends and holidays fall between FDA's payment schedule date and the date Treasury cuts its check.

The FDA will also revise its Accounts Payable System to ensure that, when a payment due date falls on a weekend or legal holiday, the payment may be made on the following business day without incurring late payment interest penalties.

OIG Recommendation #5a

We recommend that FDA better document and track the receipt of invoices and goods and services by requiring standard statements on receiving documents that clearly show in all cases what goods and services were received, the date of receipt, and the individual who received them.

FDA Comment

We concur with this recommendation.

Our comments on tracking the receipt of invoices has already been provided as part of the response to recommendation #s 2 and 3a contained in this report. With regard to tracking the receipt of goods and

services, FDA will implement a policy requiring the use of a standardized ink-stamp by those individuals required to annotate receiving documentation. This policy would apply to **all** goods and services received. This would reduce significantly or eliminate the need for OFM to use a standardized ink-stamp on copies of invoices when it must request receiving data from headquarters and program offices for items costing $2,500 or more in order to process a payment.

OIG Recommendation #5b

That FDA better document and track the receipt of invoices and goods and services by rescinding its instruction to technicians to record the date invoices were received in the data field that is supposed to be reserved for the date the goods and services were received, and require that the actual date of receipt of goods be recorded in this field. To better assure compliance with Federal internal control standards, the employee who actually receives the goods and services should record their receipt into the payment management system.

FDA Comment

We do not concur with this recommendation.

The FDA believes its internal controls are not compromised as a result of its use of alternative payment procedures for invoices for $2,500 or less. Performance of quarterly audits on samples (using statistical sampling techniques) of invoices for $2,500 or less, to ascertain proper delivery of goods or services, minimizes the additional risk this policy brings. Given the results of eight OFM audits, covering the period January 1994 through December 1995, found only four errors out of 2,057 invoices sampled (0.19 percent error rate), FDA intends to continue using such alternative payment procedures.

The FDA suggests that OIG consider referring this recommendation to the HHS Office of the Assistant Secretary for Management and Budget's Deputy Assistant Secretary, Finance, since he had been very supportive and gave permission to proceed with alternative payment procedures for invoices in the amount of $750 or less (the original threshold). In a letter dated May 24, 1989, the Deputy Assistant Secretary, Finance advised the Assistant Comptroller General of the General Accounting Office's Accounting and Financial Management Division that HHS was implementing an alternative system for making small purchase payments based upon an extremely successful pilot of the system conducted at FDA. Additionally, in response to a question posed by the Office of Management and Budget, the Deputy Assistant Secretary, Finance, in a letter dated September 7, 1989, asserted that there would not be any less control over the payment process using the alternative payment procedures.

With regard to the last sentence of this recommendation, FDA will explore the feasibility of OIG's suggestion that the employee who actually receives the goods or services enter the date of receipt directly into the payment system.

OIG Recommendation #5c

That FDA better document and track the receipt of invoices and goods and services by revising policies and procedures to allow and require use of the existing payment system to identify all instances where goods and services have been reported as paid for, but not received as a basis for (1) assessing and correcting problems with the payment system; and (2) obtaining reimbursement from the payee in instances where goods and services were found to have not been received.

FDA Comment

We do not concur with this recommendation.

The nonconcurrence relates to the same reasons stated in our response to recommendation #5b. For about seven years, FDA has been operating under the policy that invoices of $2,500 or less could be paid without review of the receiving report by the payment office. This innovation in financial operations improved performance of payment processing considerably due to efficiencies it created. The FDA believes that this policy creates little risk to the government because of existing safeguards in its automated payment system. In lieu of reliance on the payment system's quality control checks for invoices of $2,500 or less, OFM performs random audits of samples of such invoices. The FDA has determined that the risk of an improper payment is minimal. The random audits ascertain whether the goods or services were received and the date of receipt. This information is attested to by an employee of the ordering office based upon research of their records.

In addition, during the course of normal operations, ordering offices follow-up on their orders. Administrative officers periodically review order logs (both open and closed) to identify possible instances where a payment was made without the goods/services being received. If necessary, vendors are contacted to determine whether the goods/services were provided or whether FDA should be reimbursed. The FDA does follow the recommended internal control procedures for invoices over $2,500.

OIG Recommendation #6

That FDA revise its (a) policies and procedures to require that all available discounts be recorded in the payment system; and (b) payment system to electronically compare discount terms to the Department of Treasury's Current Value of Funds Rate to determine whether discounts are economical.

FDA Comment

We do not concur with part (a) of this recommendation.

The FDA does have policies and procedures for taking advantage of vendor discounts. The April 1, 1989, amendment to the Prompt Payment Act, which started the discount clock based on the invoice date regardless of when the goods or the invoice was received, made it more difficult for agencies to meet the terms of discounts offered. This is because there are seven days on average between the date of a vendor's invoice and its receipt. Thus, offers for discounts for which payment is due within 10 days of the invoice date are usually lost unless special procedures are in place. Such special procedures are in place for certain vendors. The FDA does attempt to take advantage of all discounts where payment is required within 20 days of the invoice date. In addition, goods are often not received by the Agency until several days after we receive the vendor's invoice. For invoices over $2,500, where payment cannot be made until after the receiving report is received and reviewed, it is less likely that FDA would be able to take advantage of discounts offered.

We concur with the intent of part (b) of this recommendation.

It is true that the Accounts Payable System is not configured to compare discount terms with the Department of Treasury's "Cost of Funds" to determine whether the discount is economical to the Federal Government. It will evaluate possible revision its system.

OIG Recommendation #7

That FDA develop policies and procedures that require checks and balances in the process of compiling data from FDA field offices, and assure that adjustments to the data are adequately documented.

FDA Comment

We concur with this recommendation.

The FDA acknowledges that better controls are needed within district offices to improve the accuracy and timeliness of the reports they submit to headquarters. Recent revision of Prompt Payment Act reporting requirements by HHS have extended the reporting due dates, thus alleviating some of the time constraints which had been a primary cause for inaccurate data being transmitted. The OFM has implemented a policy to not accept verbal adjustments from district offices for the preparation of Prompt Payment Act reports. The OFM also has a control in place as it checks the amount of late interest penalties reported by each district against a general ledger analysis report which indicates the transactions charging interest penalties for each accounting point and the total interest paid for that period. When discrepancies arise or when quantitative analyses identify large variances, the OFM accountant alerts the district office and attempts to obtain any necessary resolution and revision in writing before issuance of the required Prompt Payment Act report.

OIG Recommendation # 8

That FDA extend its assessments of the payment process at headquarters to include: (a) assessments of transactions processed using standard payment procedures; (b) comparisons and analysis of payment system data with original purchase orders, invoices, and receiving reports for selected transactions; and (c) adjustments made when compiling data reported by field offices.

FDA Comment

We concur with parts a & b of this recommendation.

The FDA intends to implement a policy which will require periodic independent quality control reviews of its headquarters' Accounts Payable System. Such reviews will involve examination of a random sampling of all "Prompt Payment" invoices paid to ensure that all aspects of the invoice were coded and entered into the Accounts Payable System correctly. The FDA notes that there are current efforts which assess the performance of the headquarters' payment system. These include the random audits of invoices of $2,500 or less, IMPAC/Bankcard audits and testing performed by OIG contractors as part of financial statement audits required by the CFO Act.

We do not concur with part c of this recommendation.

The FDA believes this step is not necessary. As stated in the response to recommendation #7 contained in this report, OFM will no longer accept verbal adjustments or revisions to district office data submissions.