



# Memorandum

Date NOV 26 1996  
From Joseph J. Green *Joseph J. Green*  
Assistant Inspector General  
Subject for Public Health Service Audits

To Compliance With the Prompt Payment Act by the Division of Fiscal Services  
(A-15-96-40001)

John C. West, Director  
Financial Management Service  
Chief Financial Officer  
Program Support Center

The attached final report presents the results of the Office of Inspector General's review of Compliance with the Prompt Payment Act by the Division of Fiscal Services within the Financial Management Service of the Program Support Center. 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.

In responding to our draft audit report, the Financial Management Service generally agreed with our recommendations. Comments by the Financial Management Service are reflected within the report and presented in their entirety as Appendix B to this report.

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

cc:

George H. Strader  
Deputy Assistant Secretary for Finance  
Office of the Assistant Secretary for Management & Budget

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**COMPLIANCE WITH THE PROMPT  
PAYMENT ACT BY THE DIVISION OF  
FISCAL SERVICES**



**JUNE GIBBS BROWN  
Inspector General**

**DECEMBER 1996  
A-15-96-40001**

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**Memorandum**

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Assistant Inspector General  
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Subject Compliance With the Prompt Payment Act by the Division of Fiscal Services  
(A-15-96-40001)

To John C. West, Director  
Financial Management Service  
Chief Financial Officer  
Program Support Center

This report provides you with the results of our review of compliance by the Division of Fiscal Services (DFS) with the Prompt Payment Act (Act), and implementing requirements in Office of Management and Budget (OMB) Circular A-125, "Prompt Payment" (Circular A-125). In Fiscal Year (FY) 1994, the DFS authorized \$1,061,610,707 in payments for 722,902 invoices processed that were subject to the Act's requirements. The DFS was an entity of the Health Resources and Services Administration until September 25, 1995, when this division was transferred to the Department's newly formed Program Support Center.

**EXECUTIVE SUMMARY****OBJECTIVES**

The audit objectives were to determine whether DFS:

- pays bills on-time, remits interest penalties when payments are made late, assures that goods and services paid for are received, and takes discounts that are advantageous to the Government;
- accurately reports payments and progress made with respect to complying with the Act; and
- assesses the reliability of its payment process.

**FINDINGS**

We found some errors with DFS reporting but concluded that *DFS met the standard for paying bills on-time and remitting interest penalties when payments are made late*. The DFS *has a process for confirming that goods and services paid for are received except the process is less effective and efficient than it could be in the case of invoices for \$2,500 or less processed by the headquarters office*. Payment of these invoices is authorized through use of "alternative payment procedures," approved by the Deputy Assistant Secretary, Finance, within the Department's Office of the Assistant Secretary for Management and Budget (ASMB), in an effort to reduce interest penalties by

speeding up payments. Alternative procedures provide for (1) paying acceptable invoices within 30 days of receipt without first determining whether the goods and services were received, (2) notifying ordering offices that payment for the goods and services is being authorized and (3) use of statistical sampling procedures to follow up on receipt of selected goods and services for which payment was made.

We believe that efficiency and effectiveness enhancements could be achieved if DFS were to use a quality control within its payment system to identify for follow up all instances where invoices have been paid but receipt of goods and services have not yet been reported, rather than going through what could be a more labor intensive process of taking statistical samples and following up in only selected instances. Information on receipt of goods and services is entered into the system as they are received. Using the DFS payment system, we identified 74 invoices, paid more than 6 months prior to our audit, where the receipt of the goods and services had not been reported.

The DFS *lost opportunities for discounts* we reviewed because accounting technicians did not record the available discount terms in the payment system. Failure to record available discounts in the payment system results in bypassing a quality control designed to electronically determine whether discounts offered are advantageous to the Government. Of the 216 invoices we reviewed, 14 involved instances where vendors offered discounts totaling \$90.98. The DFS took \$8.26 in discounts offered on 4 of the invoices and lost \$82.72 in discounts offered on the other 10 invoices.

*Compilations of data for the FY 1994 Prompt Payment Status Report, reporting payments and progress made with respect to complying with the Act, contained material inaccuracies* because the compilations (1) included estimates of Indian Health Service (IHS) field office results that varied significantly from actual amounts that were readily available and (2) were not sufficiently verified for completeness and accuracy. However, positive and negative inaccuracies in compiling the report offset each other and the report submitted to OMB was reasonably accurate.

Quality assurance *assessments of the reliability of the DFS's payment process are insufficient* because:

- DFS discontinued on-site reviews at field offices in FY 1994, without establishing a quality assurance program at these offices. Field offices made over 60 percent of the \$1.1 billion in payments reported for FY 1994; and
- DFS conducts quality assurance reviews at its DFS headquarters office but reviewers do not assess the reliability of the payment system for identifying goods paid for, but not actually received. In following up on samples of paid invoices, reviewers rely on payment system data indicating the status of the receipt of goods and services. They do not examine receiving reports or other original documentation, as required by the DFS policy implementing the requirements of OMB Circular A-125.

For 29 of the 216, or 13 percent, of the cases we reviewed where the payment system reported the goods and services as received, the system did not provide the date the goods and services were received or the location of documentation to support the receipt of the goods and services. The absence of such information in the payment system reduces assurance that the goods and services were actually received. The DFS must follow up to obtain the information in order to be in compliance with section 12.a of OMB Circular A-125. This section requires agencies to ensure that specific procedures are in place to assure that supplies paid for using alternative payment procedures are received.

## RECOMMENDATIONS AND AGENCY COMMENTS

We are recommending that DFS:

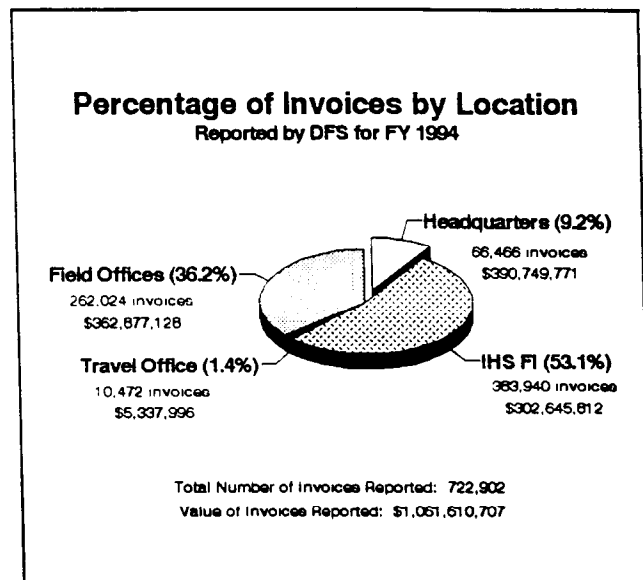
- use the existing payment system to identify all instances where goods and services have been reported as paid for, but not received to (1) assess and correct problems with the payment system and (2) obtain reimbursement from the payee in instances where goods and services were found to have not been received;
- modify the payment system to require that discount data be recorded in the payment system before payments can be processed;
- use actual results that are available when compiling Prompt Payment Status reports and, before submitting the reports to OMB, verify that the reports reflect all of the DFS and IHS field offices; and
- provide written policies and procedures to all reporting entities for performing quality assurance reviews. Reviewers should be instructed to: (1) examine receiving reports or other original documentation when verifying whether goods and services have actually been received and (2) assess the payment system to assure the system accurately identifies whether goods and services paid for have been received.

The DFS concurred with all of our recommendations, except the one to use the existing payment system to help identify instances where goods and services were paid for but not received. The DFS believed this recommendation should be referred to the Deputy Assistant Secretary, Finance, since DFS is complying with instructions from that office for an alternative payment system. We recognize the need for the Deputy Assistant Secretary, Finance to clarify instructions for verifying receipt of goods and services paid for under alternative payment procedures, and have discussed this need with that office. We do not believe that DFS should wait for clarification before it implements our recommendation. We received DFS comments on our recommendations on October 23, 1996, and included them in their entirety in Appendix B.

## BACKGROUND

The Prompt Payment Act (P.L. 100-496; 31 U.S.C. 3901-3907) requires Federal agencies to: (1) pay their bills on time, 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; (2) accurately report progress made with respect to complying with the Act; and (3) assess the reliability of the payment process. Regulations implementing the Act are contained in OMB Circular A-125, dated December 12, 1989.

Payments subject to the Act are processed through the DFS' payment system (payment system). This system maintains a data base of procurement and receiving report data for the purpose of scheduling payments in an automated environment. The DFS is responsible for processing its own payments and payments for the: Indian Health Service (IHS), Substance Abuse and Mental Health Services Administration, Agency for Health Care Policy and Research, and the Administration for Children and Families. Payments are processed by headquarters, 10 field offices<sup>1</sup>, a travel office which processes employee travel reimbursements, and the IHS Fiscal Intermediary (FI). The IHS FI processes invoices for Contract Health Services. The payments reported in the annual Prompt Payment Status report are reimbursements to the FI for payments the FI made to the medical provider who provided the Contract Health Services. In some instances, DFS will reimburse the medical provider directly. These payments are processed by the DFS' Governmental Accounting Branch.



Invoices received by DFS are date stamped in the Customer Services and Support Branch and delivered, daily, to the Disbursements Branch where the invoices are reviewed and recorded in the payment system. Invoices are matched, electronically, against the purchase order and then processed for payment.

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<sup>1</sup>Nine of the 10 field offices process payments for IHS. These nine offices are: (1) Phoenix, AZ; (2) Aberdeen, SD; (3) Billings, MT; (4) Oklahoma City, OK; (5) Nashville, TN; (6) Albuquerque, NM; (7) Window Rock, AZ; (8) Anchorage, AK; and (9) Portland, OR. The tenth field office, located in Carville, LA., processes payments for DFS.

The DFS processes invoices using the following two methods:

- **Standard Payment Procedures.** Invoice data are matched with receiving report data prior to making a payment. The General Accounting Branch is responsible for processing receiving reports for goods and services.
- **Alternative Payment Procedures.** On June 10, 1992, DFS received approval from the Department's Office of the Deputy Assistant Secretary, Finance, within ASMB, to implement alternative payment procedures for its headquarters office. These procedures authorized payment of invoices totaling \$2,500 or less without first matching them to a receiving report to verify that the goods and services were received. In FY 1994, using the alternative payment procedures, DFS paid 3,601 invoices (5.4 percent of all invoices processed by headquarters) totalling \$1.9 million (.5 percent of the amount paid by headquarters). Payment of invoices without first matching them to receiving reports is allowed by the Prompt Payment Act as long as the agency subsequently assures that the goods and services paid for were received.

Payment schedules certifying requests for payment are prepared by the Disbursement Services Section. This section forwards the requests to the Department of Treasury for payment. The Reports and Analysis Branch is responsible for quality assurance and internal control as they relate to Prompt Payment.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives:**

The objectives of this audit were to determine whether DFS:

- (1) 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;
- (2) accurately reports payments and progress made with respect to complying with the Act; and
- (3) assesses the reliability of its payment process.

### **Scope:**

We selected a stratified random sample of 216 paid invoices to get an understanding of the DFS payment process. Our sampling was designed 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.



We did not review payments by the DFS and IHS field offices, which process payments primarily for IHS, or payments to the IHS FI. An audit conducted in accordance with the requirements of the Chief Financial Officers Act is planned in FY 1996 for all IHS components. The audit is to be performed under the auspices of the Office of Inspector General through a contract with Independent Public Accountants. Audits performed under the Chief Financial Officers Act include an assessment of compliance with the Prompt Payment Act and other laws and regulations. Also, we did not review payments by the DFS's Travel Office since these payments were to the DFS employees rather than to entities that provide goods and services and accounted for less than .5 percent of the payments reported by DFS.

**Methodology:**

We reviewed (1) quality controls used by DFS during its payment process to pay invoices, remit interest penalties, confirm that goods and services were received, and take discounts that are advantageous to the Government; (2) the accuracy of reports used to support payments and show progress made with respect to complying with the Act; and (3) DFS' quality assessments of the reliability of its payment process.

Our review included (1) an observation of processing invoices for payment; (2) an evaluation of paid invoices, receiving reports, and annual Prompt Payment Status reports for FY 1992, 1993, and 1994; and (3) an evaluation of written policies and procedures pertaining to the Prompt Payment Act.

We held discussions with staff from DFS. We also held discussions with officials from the Department's ASMB on their observations of DFS' compliance with the Act. Our review of internal controls was limited to only those controls which we considered necessary to satisfy our objectives.

On November 4, 1994, we issued an Early Alert presenting findings identified in the audit at that time. The alert provided suggestions for improvement in DFS' compliance with the Act. This report takes into consideration DFS' response to this alert.

Our audit was conducted in accordance with generally accepted government auditing standards, from July 1994 through April 1996 at DFS' offices in Rockville, Maryland.

## **FINDINGS IN DETAIL**

Since FY 1992, DFS has reported that it made 98 percent of its payments on-time as compared to the OMB established performance standard of 95 percent.<sup>2</sup> The DFS reported interest penalties for FY 1994 of \$173,393 when payments were made late, a decrease from FY 1992 reported interest penalties of \$239,670. However:

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<sup>2</sup>The OMB on-time percentage was established in its FY 1992 report to Congress entitled Status of Federal Agency Prompt Payment.

- the DFS does not take advantage of the capability of its payment system to identify all instances where goods and services have been reported as paid for, but not received. The system can identify such instances because DFS or other employees record data on invoices paid and on goods and services when received. The system can be readily queried for information on paid invoices where goods and services have not been reported as received. Such information could be used to readily (1) assess and correct problems with the payment system and (2) obtain reimbursement from the payee in instances where goods and services were found to have not been received. Instead, DFS uses statistical sampling techniques to follow up on selected instances where goods and services have been paid for but not reported as having been received. We believe that DFS could make its follow-up process less costly and more effective if it were to simply follow up on all instances where its system indicates that goods and services paid for but not reported as received;
- compilations of data for the FY 1994 Prompt Payment Status Report, reporting payments and progress made with respect to complying with the Act, contained material inaccuracies. However, the positive and negative inaccuracies in compiling the report happened to offset each other, and the report submitted to OMB was reasonably accurate; and
- procedures for performing quality assurance assessments of payment system reliability are not uniformly applied throughout the organization; and quality assurance reviewers do not assess the reliability of the payment system for identifying whether goods and services paid for were received.

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

- the DFS's payment process,
- the accuracy of the DFS reports, and
- whether DFS assesses the reliability of its payment process.

## **PAYMENT PROCESS**

Following is a comparison of requirements for a payment process established by OMB under the Prompt Payment Act with conditions we found at DFS.

### **Requirements**

Section 12.a of Circular A-125 specifies that, where goods and services have previously been paid for without evidence of

### **Conditions We Found**

**The DFS uses alternative payment procedures to authorize payment for goods and services costing \$2,500 or less without determining whether all of the goods and services were received. Every quarter, DFS selects a sample of about 30 percent of the**

receiving, agencies shall **ensure that receiving reports and payment documents are matched** and steps are taken to correct discrepancies.

invoices authorized for payment using the alternative payment procedures. A report is generated from the payment system showing whether receipt of the goods and services for the sampled invoices has been recorded. The DFS then (1) selects all the invoices on this report where the goods and services are reported as not having been received; and (2) determines whether the goods and services have been received. The DFS occasionally finds instances where goods and services have not been received and requests that monies paid be refunded.

The DFS' payment system was designed to notify the ordering office when an invoice was paid prior to a verification that the goods and services were received. However, unless the invoice is selected as a part of the quarterly sample discussed above, there is no follow up to determine whether the goods and services have been received.

The DFS does not routinely use its payment system's capability to identify payments, made using alternative payment procedures, where the receipt of goods has not been recorded. At our request, the DFS staff provided to us a payment system report, titled "Alternative Pay Without Receiving Report." This report showed that, as of May 6, 1996, receipt of goods and services had not been reported for 74 invoices totalling \$16,716, which were processed for payment during FYs 1993 and 1994. The report is readily available from the DFS' payment system.

The DFS officials told us they use statistical sampling techniques for following up on selected invoices because such techniques are part of the alternative payment process approved by ASMB's Deputy Assistant Secretary, Finance. However, we noted that the concept of statistical sampling was introduced as an alternative for making the follow-up process more efficient. We could not find a requirement that statistical sampling be used if an entity has a more effective and efficient alternative that could be used.

Section 4.m of Circular A-125 specifies that **discounts will be taken**

The DFS' payment system is designed to take advantage of cash discounts as a matter of routine. No special handling is required. Accounting technicians

**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.**

can record discount terms into the system when recording other data from invoices and purchase orders. The payment system incorporates a process to electronically compare discount terms with the Department of Treasury's Cost of Funds to determine whether the discount is economical.

For the 14 invoices we reviewed that offered discounts, **DFS took discounts of \$8.26 on 4 invoices and lost discounts of \$82.72 on the other 10 invoices** because accounting technicians did not enter discount terms into the payment system. These invoices were received by DFS in time to process them for payment within the discount period. The Deputy Director of the Division of Fiscal Services agreed that discounts should be taken when advantageous to the Government. He stated that accounting technicians receive training in recording discounts.

#### **Reasons for Differences Between Requirements and Conditions We Found:**

1. The DFS' policies and procedures do not require use of the quality control in the DFS' payment system to identify instances where invoices have been authorized for payment, but receipt of the goods and services has not been reported, and **that such instances be followed up on to (a) assess and correct payment system deficiencies and (b) obtain reimbursement from vendors for goods and services paid for, but not received.**
2. The DFS' payment system does not require that discount data be recorded in the payment system before payments can be processed.

#### **RECOMMENDATIONS**

To assure that goods paid for are received and that discounts are taken when advantageous to the Government, we recommend that DFS:

1. use the existing payment system to identify all instances where goods and services have been reported as paid for, but not received to (1) assess and correct problems with the payment system and (2) obtain reimbursement from the vendor in instances where goods and services were found to have not been received; and
2. modify its payments system to require that discount data be recorded in the payment system before payments can be processed.

### **Agency Comments and OIG Evaluation**

The DFS concurred with the second recommendation but believed the first recommendation should be referred to ASMB's Deputy Assistant Secretary, Finance. The DFS stated that it is in compliance with instructions from that office for an alternative payment system. We recognize the need for the Deputy Assistant Secretary, Finance to clarify instructions for assuring receipt of goods and services paid for under alternative payment procedures, and have discussed this need with that office. We do not believe that DFS should wait for clarification before it implements our recommendation.

The DFS also stated that it: (1) believes the current alternative payment procedures have been beneficial and (2) is currently obtaining reimbursement from vendors in those extremely rare instances where goods are found not to be actually received. We do not dispute that the alternative payment process is beneficial. Our point is that use of the DFS payment system to identify instances where goods have been paid for but not reported as received could result in fewer follow-ups than is occurring through use of statistical sampling from the universe of alternative payments processed. Moreover, use of the payment system in this way could help:

- assure identification of all instances where goods and services paid for but not received, rather than just a sampling of them; and
- identify problems with the financial management system that need to be corrected. Statistical sampling, then, might be limited to a small number of transactions selected as part of **assessments of the payment process**. Such assessments are discussed later in this report.

The DFS did not provide us data to show that the current practice of statistical sampling to validate receipt of goods and services paid for under the alternative payment process is superior to use of the financial management system to focus follow up only on instances where goods and services were not reported as received.

A staff member of the Office of the Deputy Assistant Secretary, Finance told us that the instructions from that office for use of statistical sampling to validate receipt of goods and services paid for under alternative payment procedures, are based on data provided by the agencies years ago. This individual: (1) said the original development of the alternative payment process and its justification was based on cost savings by using statistical sampling to reduce the manpower needed to follow up for all receiving reports; and (2) recognized the possibility that there may be a more cost effective way to deal with following up on receipt of goods and services purchased using alternative payment procedures than there was back when the instructions were issued.

**ACCURACY OF REPORTS:**

**Requirement**

Section 3.b. of OMB Circular A-125 requires each Federal agency to **accurately** report to OMB statistics showing progress made under the Act.

**Condition We Found**

**Compilations of data** for the Prompt Payment Status Report for FY 1994, **on payments and progress made with respect to complying with the Act contained material inaccuracies** because the compilations (1) included estimates of IHS field office results that varied significantly from actual amounts that were readily available and (2) contained errors that DFS could have identified had data been reviewed for completeness and accuracy. However, positive and negative inaccuracies in compiling the report happened to offset each other, and the report submitted to OMB was reasonably accurate.

(1) Estimates

When preparing its report for the first half of FY 1994, DFS estimated results for four IHS field offices that had submitted their results after the due date of the report. The DFS then used these estimates in compiling the final report for the year, although actual results were available before the year-end report was compiled. The following table shows a comparison of the estimated and actual results reported by these offices for the first half of FY 1994.

Effect of Using Estimates			
	<u>Actual</u>	<u>Estimate</u>	Percent Overstated (Understated)
Invoices Paid			
Number	63,587	67,558	6.2%
Amount	\$100 mil	\$93 mil	(7%)
Invoices Paid Late			
Number	436	684	56.9%
Amount	\$789,620	\$1,299,275	64.5%
Interest Penalties			
Number	436	684	56.9%
Amount	\$4,926	\$6,838	39%

NOTE: Actual and estimated amounts shown above are for the first half of FY 1994 for the 4 IHS field offices.

(2) Errors

In compiling the Prompt Payment Status Report for FY 1994, prompt payment results for one of the IHS field offices for the first half of FY 1994 were excluded. The DFS' prompt payment compilations also contained material errors for two other IHS reporting entities.

Excluded data

The DFS excluded, for the second half of FY 1994, prompt payment results for the Phoenix, AZ, IHS field office. We brought this exclusion to DFS' attention during our review, and the spreadsheet calculations were corrected. However, the exclusion was identified after the annual report had been issued.

Excluded Prompt Payment Results		
	<u>Number</u>	<u>Amount</u>
Invoices Paid	27,180	\$23,284,581
Invoices Paid Late	17	35,315
Interest Penalties	17	2,682

Other errors

The DFS reported \$173,393 in interest penalties for FY 1994 when supported interest penalties totalled \$89,467. This overstatement occurred primarily because the Billings, MT, IHS field office reported interest penalties of \$85,100, an overstatement of \$84,696, for the third quarter when actual interest penalties totalled \$404. An analysis of the first, second, and third quarter reports would have indicated that interest penalties for the third quarter were overstated. Interest penalties for the first and second quarter were \$712 and \$853, respectively.

Additional errors in interest penalties were discussed previously under (1) Estimates resulting in an \$1,912 overstatement and (2) Errors resulting in a \$2,682 understatement. Total interest penalties were overstated by \$83,926.

The number of IHS FI payments reported for FY 1994 were overstated by 25,338 invoices (7 percent of the

358,602 invoices actually paid), while the amount of the payments were understated by \$37.5 million (11 percent of the \$340.2 million actually paid). These errors were made while DFS was compiling the numbers for the Prompt Payment Status report.

**Reasons for Differences Between Requirements and Conditions We Found:**

3. the DFS does not have policies and procedures for use by its headquarters office to update estimates in the prompt payment data base when actual amounts become available; and
4. the DFS does not fully review or analyze:
  - (a) the annual Prompt Payment Status report before it is submitted to OMB;
  - (b) reports submitted by the field offices and the IHS FI before the annual report is compiled; and
  - (c) the methodology used to compile the reports from the field offices and IHS FI.

**RECOMMENDATIONS**

To assure that the annual Prompt Payment Status report is accurate, we recommend that DFS revise its policies and procedures to require:

3. use of actual results that are available when compiling Prompt Payment Status reports; and
4. reviews of the accuracy of report data for all of the DFS and IHS field offices before submitting the reports to OMB.

**Agency Comments and OIG Evaluation**

The DFS concurred with both of the above recommendations. It noted that action was taken since our review to accelerate quality control monitoring of the data submitted by field offices.

**ASSESSMENT OF THE PAYMENT PROCESS:**

<b>Requirement</b>	<b>Conditions We Found</b>
Section 3.e of OMB Circular A-125 requires agencies to establish a <b>systematic</b>	We found that DFS routinely performs quality assurance reviews of payments made by headquarters. However, DFS does not review payments by the IHS



**performance measurement system throughout the agency.** The system must (a) provide a reliable way to estimate payment performance and (b) provide managers information about problems and assist in targeting corrective action.

FI and discontinued on-site reviews of its 10 field offices in FY 1994. The IHS FI and the field offices made 89 percent of the payments DFS reported for FY 1994 as being subject to the Prompt Payment Act.

The DFS includes data on IHS FI payments in reports to OMB required under the Prompt Payment Act. However, DFS does not have quality assurance information to validate that the IHS FI payments were made on time, or that they were otherwise made in compliance with the Act. It considers that virtually all of the payments made to the IHS FI were made on time. If a material percentage of the payments are in fact not being made on time, DFS' on-time payment percentage could be substantially less than the OMB threshold of 95 percent on-time payments, rather than the reported 98 percent on-time payment rate it reports to OMB.

The field offices made 36 percent of the payments DFS reported for FY 1994 as being subject to the Prompt Payment Act. In its response to our Early Alert regarding its discontinued reviews, DFS stated that:

Quality assurance review of payments by IHS regions (Area Offices) [DFS and IHS field offices] was modified somewhat under the Government/PHS Streamlining initiative...for the 1994 fiscal year, quality assurance is being conducted primarily by a combination of reviewing [1] prompt payment reports..., and [2] data available from other sources, including audits and reviews by the Area Offices themselves... [brackets added]

[1] As discussed under the section titled, ACCURACY OF REPORTS, we found that report data submitted by the DFS and IHS field offices are not fully reviewed, thus, resulting in errors. While reviewing the field office report data would help identify errors in the reports, such reviews are not substitutes for quality assurance reviews designed to identify problems with the payment process.

[2] Our review of DFS' FY 1994 Annual Prompt Payment Status Report disclosed that of the 10 field offices, 2 IHS offices perform a 100 percent review of all payments made; 2 IHS offices perform a statistical sample of payments made; and 1 IHS office conducts a supervisory review of a sample of invoices. The remaining five (one DFS and four IHS) field offices do not perform internal quality assurance reviews.

Our discussion with one of the IHS field offices that performs quality assurance reviews disclosed that although reviews are performed, the office does not have policies or procedures for performing the reviews.

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.

During its quality assurance reviews of payments made at headquarters, DFS' reviewers rely on the payment system on-line certification that the goods and services were received instead of reviewing reports confirming that the goods and services have been received. For 29 of the 216 invoices we reviewed where the payment system reported the goods and services as received, it did not provide the date the goods and services were received or the location of documentation to support the receipt of the goods and services. For an additional invoice, the payment system indicated that the goods and services had not been received when we received confirmation that the goods and services had been received.

#### **Reasons for Differences Between Requirements and Conditions We Found:**

5. the DFS discontinued its on-site reviews at the 10 field offices in FY 1994 without establishing a quality assurance program at each of the field offices. In addition, DFS has not established policies and procedures for reviewing payments made by the IHS FI; and
6. the DFS is not following its written policies and procedures requiring reviewers to review original documents when performing quality assurance reviews.

### **RECOMMENDATIONS**

To assure that DFS' payment process complies with the requirements of the Act throughout the agency, we recommend that DFS:

5. provide to all reporting entities policies and procedures for performing quality assurance reviews and regularly follow up to assure that the reviews are performed timely and effectively; and
6. instruct quality assurance reviewers to follow written policies and procedures to review original documents to confirm the receipt of goods and services, and to assess the reliability of the DFS payment system's on-line certifications that goods and services have been received.

### **Agency Comments and OIG Evaluation**

The DFS concurred with both of the above recommendations. It stated that it will:  
a) issue written policy on review of payment data to supplement generic governmentwide policies in existence and b) reinforce the requirements for reviewers to examine original documents in lieu of over reliance on secondary data sources.

**DESCRIPTION OF SAMPLE SELECTION**

We selected and reviewed a total of 216 invoices as discussed below.

For invoices paid using alternative payment procedures, we:

- (A) selected a sample of 18 invoices from the quarterly audit Alternative Payment Invoice Report for payments made during 10/1/93 through 12/31/93. The report consisted of 200 invoices. We randomly selected the 18 invoices and found that 4 of the invoices were between Government agencies. We excluded these 4 invoices because invoices between Government agencies are excluded from the Prompt Payment Act. We focused our review on the 14 remaining invoices;
- (B) selected a sample of 17 invoices from the quarterly audit Alternative Payment Invoice Report for payments made during 4/1/94 through 6/30/94. The report consisted of 280 invoices. To select our sample, we divided the 280 by 17 and determined that every 16th invoice should be selected. We selected the 28th invoice as the 1st invoice (day of month sample was selected);
- (C) selected from the universe of invoices (935 invoices) paid between 4/1/94 and 6/30/94 using alternative payment procedures 123 invoices where the receipt of goods and services had not been reported as of 7/27/94. We received documentation for 120 of the 123 invoices and, therefore, focused our review on the 120 invoices; and
- (D) randomly selected 10 invoices from the 935 invoices paid between 4/1/94 and 6/30/94 using alternative payment procedures where the receipt of goods and services had been reported as of 7/27/94. This sample of 10 invoices did not include invoices selected in (A), (B), or (C) above.

For invoices paid using procedures other than the alternative payment procedures, we:

- (E) selected a random sample of 40 invoices paid from between 2/1/94 and 2/28/94 from a universe of 5,626 invoices. Goods and services were shown as received for each of the 40 invoices; and
- (F) selected all 15 of the invoices paid from between 2/1/94 and 2/28/94 where the receipt of the goods and services was either reported as "not received" or left blank.



Rockville MD 20857

OCT - 4 1996

**TO:** Assistant Inspector General for  
Public Health Service Audits/OIG/OS  
Deputy Assistant Secretary, Finance/OS

**FROM:** Chief Financial Officer

**SUBJECT:** Comments on Draft OIG Report: Compliance with the  
Prompt Payment Act by the Division of Fiscal  
Services (A-15-96-40001)

**OIG Recommendation**

To assure that goods paid for are received and that discounts are taken when advantageous to the Government, we recommend that DFS:

1. use the existing payment system to identify all instances where goods and services have been reported as paid for, but not received to (1) assess and correct problems with the payment system and (2) obtain reimbursement from the vendor in instances where goods and services were found to have not been received; and

## Comment

This recommendation should be referred to the Deputy Assistant Secretary, Finance/OS (DASF). We are in compliance with OASMB instructions for an alternative payment system. We believe that current procedures have been beneficial to customers and the Government, by permitting timely payment while reducing interest and labor costs. In those extremely rare cases where goods are found to be actually not received, rather than simply not reported as received, we are currently obtaining reimbursement from the vendor.

**OIG Recommendation**

2. modify its payments system to require that discount data be recorded in the payment system before payments can be processed.

Comment

We concur.

**OIG Recommendation**

To assure that the annual Prompt Payment Status report is accurate, we recommend that DFS revise its policies and procedures to require:

3. use of actual results that are available when compiling Prompt Payment Status reports; and

Comment

We concur but note that prompt payment performance targets have been met consistently and that use of estimates when actual data was delayed did not at any time result in misstatement of goal achievement.

**OIG Recommendation**

4. reviews of the accuracy of report data for all of the DFS and IHS field offices before submitting the reports to OMB.

Comment

We concur. Since your review, action has already been taken to accelerate quality control monitoring of the data submitted by field offices.

**OIG Recommendation**

To assure that DFS' payment process complies with the requirements of the Act throughout the agency, we recommend that DFS:

5. provide to all reporting entities policies and procedures for performing quality assurance reviews and regularly follow-up to assure that the reviews are performed timely and effectively; and

**Comment**

We concur: DFS will issue written policy on review of payment data to supplement generic governmentwide policies in existence.

**OIG Recommendation**

6. instruct quality assurance reviewers to follow written policies and procedures to review original documents to confirm the receipt of goods and services, and to assess the reliability of the DFS payment system's on-line certifications that goods and services have been received.

**Comment**

We concur. DFS policy will reinforce the requirements for reviewers to examine original documents in lieu of over reliance on secondary data sources.

  
John C. West