



## Memorandum

Date **FEB 5 1992**

From Richard P. Kusserow  
Inspector General *For Bryan Wilbur*

Subject Review of Prompt Payment Reporting for Fiscal Year 1990  
(A-12-90-00044)

To Kevin E. Moley  
Assistant Secretary  
for Management and Budget

The attached final report provides the results of our review of the Division of Accounting Operations' (DAO) compliance with the reporting requirements of the Prompt Payment Act (Act), Public Law (P.L.) 97-177, as amended by P.L. 100-496. The report is provided to you because of your cognizance of DAO. We reviewed DAO's Fiscal Year (FY) 1990 Prompt Payment report to the Office of Financial Policy (OFP) and a selection of invoices to validate data in the report. We believe DAO's report to the OFP was generally accurate and complete. The few errors that we found were not materially significant to affect the content of the FY 1990 report.

We analyzed a statistical sample of 512 out of 10,540 invoices classified as subject to the Act that had been paid by DAO during 1990 to ensure that they were properly classified and appropriately shown on the FY 1990 report. The DAO reported paying approximately \$32,000 in interest on \$37 million of paid invoices.

In response to our draft report, the Assistant Secretary for Management and Budget (ASMB) concurred with the report. The ASMB stated that DAO has implemented procedures which have greatly improved their performance in FY 1991. The response is attached to the report as Attachment A.

We would appreciate receiving comments on any additional action you take on this report within 60 days. If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

REVIEW OF PROMPT PAYMENT  
REPORTING FOR FISCAL YEAR 1990



Richard P. Kusserow  
INSPECTOR GENERAL

CIN: A-12-90-00044



## Memorandum

**FEB 5 1992**

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From

Richard P. Kusserow  
Inspector General*For Bryan Vitale*

Subject

Review of Prompt Payment Reporting for Fiscal Year 1990  
(A-12-90-00044)

To

Kevin E. Moley  
Assistant Secretary  
for Management and Budget

This final report provides the results of our review of Division of Accounting Operations' (DAO) compliance with the reporting requirements of the **Prompt Payment Act (Act)**, Public Law (P.L.) 97-177, as amended by P.L. 100-496. We reviewed **DAO's Fiscal Year (FY) 1990 Prompt Payment** report to the Office of Financial Policy (OFP) and a selection of invoices to validate data in the report. The DAO's report was generally accurate and complete. The OFP submits a Prompt Payment report for the entire Department to the Office of Management and Budget (OMB). The **DAO** processed approximately 10,540 invoices subject to the Act and paid \$32,000 in interest on approximately \$37 million of invoices.

Our scope included the invoices processed by the Administrative Payment Section (APS) and the Employee Services Section (ESS); the two sections within DAO that handle invoices subject to the Act. We selected and analyzed three stratified, random samples of invoices that had been paid during FY 1990 to ensure that they were properly classified, and to determine whether interest or discounts were accurately calculated and appropriately shown on **DAO's FY 1990** report. In the case of discounts, we found that DAO performed better in the actual number of discounts taken than the report indicates. We noted DAO staff made some minor errors transferring information from supporting documentation to the FY 1990 report.

## INTRODUCTION

### Background

The Act was passed in 1982 to encourage agencies to make more timely payments to vendors. Federal Departments and agencies must pay their bills when due, or pay interest penalties, if the interest totals \$1.00 or more, when payments are made in excess of 30 days after receipt of the invoice. The Act was amended in 1988 eliminating a 15-day grace period and requiring the Government to pay interest on late payments without vendors requesting interest. The Government should take discounts, if offered by the vendor, when payments are made within the discount period.

The Act requires the OMB to report annually to the Congress on agencies' adherence to the Prompt Payment requirements. The OMB issued Circular A-125 to guide agencies in implementing the Act. Each Federal agency is required to provide data to OMB within 60 days after the end of the fiscal year.

The DAO and the Division of Contract Operations, (components under the cognizance of the Assistant Secretary for Management and Budget (ASMB)), jointly issued a memorandum on July 17, 1990 stressing the importance of timely review and approval of contractor invoices. The memorandum emphasized that invoices returned to DAO after the due date would require a statement from the supervisor of the project officer detailing the reason for the delay. The DAO personnel have reported that this action has significantly improved the timeliness of returning invoices to DAO during FY 1991.

### Objective and Scope

Our audit was conducted in accordance with generally accepted Government auditing standards. The objective of this review was to assess DAO's process for controlling and reporting on payments as required by Circular A-125. We traced sampled data as shown on DAO's report to supporting documents. We reviewed a total of 512 invoices. For each invoice selected, we determined if:

- a. The classification of the invoice was accurate.
- b. Payment was timely.

- c. Payment was late, the number of days late, the interest paid and if a schedule of this information was attached to the invoice.
- d. A discount was offered, whether it was taken and properly noted.

In performing our review, we selected a stratified, random sample of 60 schedules out of 1,170 schedules processed by the APS and ESS for FY 1990. We selected 20 schedules processed by APS and 40 schedules from ESS. Analysis of statistically sampled data is presented in Appendix A.

The types of sample errors in the schedules involved:

- a. Classification of invoices.
- b. Calculation of discounts and interest.
- c. Under and overpayment of interest.
- d. Annotation of information from invoices to schedule, for example:
  - Number and amount of invoices subject to the Act.
  - Number of discounts earned and lost.
  - Number of invoices paid late and the amount of interest paid, if any.

To accomplish our objective, we interviewed cognizant DAO personnel, examined supporting reports, Department of the Treasury confirmation schedules and other related payment documents: and computed interest payments based on the Act's guidelines for late payment to vendors.

The field work was conducted at the DAO offices in Washington, District of Columbia between March and September 1991.

Other than the issues discussed in the RESULTS OF REVIEW section of this report, we found no instances of non-compliance with applicable laws and regulations. With respect to those items not tested, nothing came to our attention to cause us to believe untested items are not in compliance with applicable laws and regulations.

RESULTS OF REVIEW

We found minor discrepancies in the classification and reporting of transactions. In reviewing DAO's Prompt Payment report, we analyzed selected transactions by the two accounting sections that provide information for the report. The DAO's FY 1990 report indicated that 10,534 invoices were subject to the Act, totaling \$37,127,350. The DAO's supporting records, however, reflect APS processed 10,048 invoices totaling \$36,946,912 and ESS processed 514 invoices totaling \$311,475. The DAO could not explain the difference of \$131,037 representing an increase of 28 invoices. These errors were clearly arithmetic in nature and occurred in transferring data from schedules to the Prompt Payment report. This variance is not included in our statistical projection of error rate.

Administrative Payment Section

The APS reported processing 10,048 invoices subject to the Act totaling \$36,946,912. Our stratified sample indicates that the error rate in the APS processing and reporting was approximately 3 percent or 310 invoices.

Generally, APS properly classified late payments and interest amounts. Our review confirmed the reasons stated by APS for late payments. Specifically, the major causes for late payment or interest penalties were either invoices were provided to APS late by project officers or contract officers, or invoices were overlooked and not paid timely by the accounting technicians.

The major area of APS's errors was in annotating the discounts lost on the schedule cover, so that it could be accurately summarized for the Prompt Payment report. The APS processed in a timely manner most of the invoices that offered discounts; however, APS did not take credit for many discounts offered and taken, in the Prompt Payment report. The supporting documentation of APS was not reflected accurately in the FY 1990 report. For FY 1990, the Department under-reported over 100 discounts taken and overstated the number of discounts not taken by 82.

Employee Services Section

The ESS reported processing 514 invoices subject to the Act totaling \$311,475. Our review identified 492

invoices and an increase of \$1,288 subject to Prompt Payment. In addition, based on our sample, we estimate that 13 percent, approximately 66 ESS invoices contained errors. The errors found were in classification of invoices, under/overpayment of interest and annotating invoice information on the schedule cover.

### Conclusion

We believe the DAO's Prompt Payment report is sufficiently accurate to reflect the respective offices' payments under the Act. The work of DAO, APS and ESS, is generally accurate and complete. The errors found on the FY 1990 report were attributable to hastily tallying the supporting documentation and inaccurate transference of this information onto the FY 1990 report. We concur with DAO's FY 1990 report that the two most prevalent problems contributing to penalty interest payments and lost discount(s) result from the late return of invoices from the contract officers, project officers and accounting technician errors.

Since timeliness and accuracy are the basis for processing payments by the two accounting sections, we recommend that both APS and ESS could avoid the occurrence of errors in transferring information to the schedule cover by increased supervisory review of the accounting technician's work.

The DAO officials stated that a new accounts payable module, part of the new CORE accounting system referred to as the "Federal Success" system, will be implemented during FY 1993. The DAO personnel believe this system will assist the accounting technicians and expedite the processing of invoices for payment and improve the ability to take discounts and reduce late payment penalties.

### ASMB RESPONSES AND OIG COMMENTS

The ASMB concurred with the conclusions in our draft report and has implemented steps to prevent reoccurrences. During FY 1991, the joint efforts of DAO and the Division of Contract Operations have significantly reduced the interest penalties paid from \$32,000 in 1990 to less than \$6,000 in 1991.

Please advise us of any further actions taken on this report within the next 60 days. If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

SUMMARY OF THE  
SAMPLE PLAN AND RESULTS

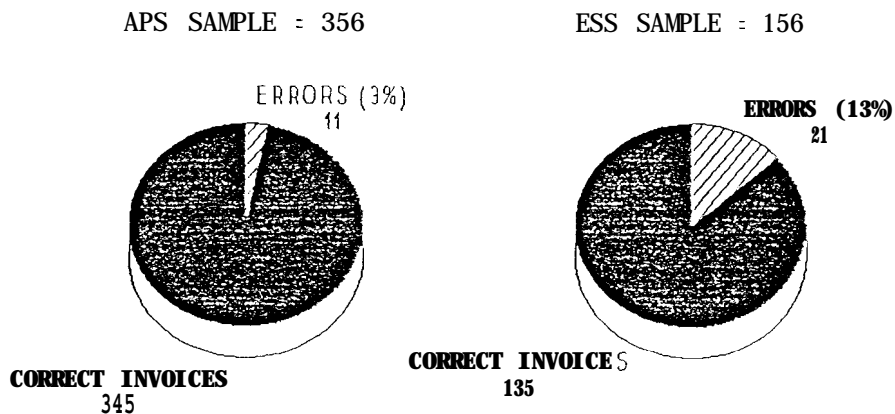
Schedules were randomly selected from the schedule logs kept by APS and ESS. All invoices attached to the schedules were reviewed. Table #1 shows the universe and sample audit results by accounting section. Table #2 shows the estimate of the percentage of invoices in error and the total number of invoices in error.

Table #1 Universe and Sample Audit Results

	Schedules	Sampled	Universe	Invoices reviewed subject to the Act Rev'd.	Errors
APS	713	20	10,048	356	11
ESS	<u>457</u>	<u>40</u>	<u>492</u>	<u>156</u>	<u>21</u>
	1,170	60	10,540	512	32

## INVOICE SAMPLE RESULTS

FROM FY 1990 INVOICES PROCESSED BY DAO



FOOTNOTE: INVOICES REVIEWED = 512

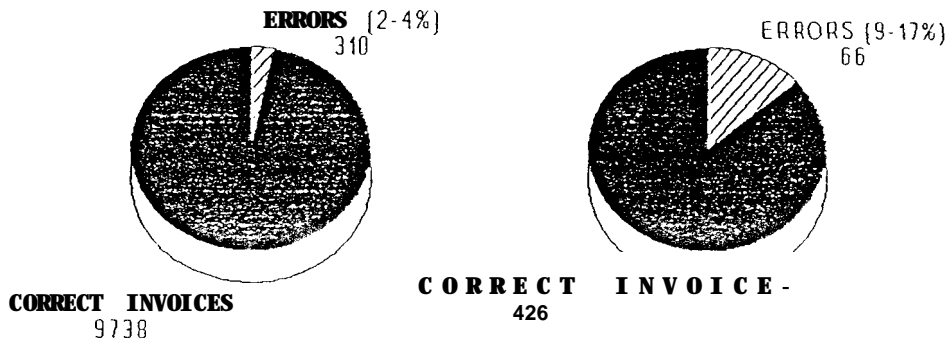


Table #2 Estimate - Invoices and Errors

	% Error	90% Confidence Level		Total no. of inv. in error
		Lower Limit	Upper Limit	
APS	3%	2%	4%	310
ESS	13%	9%	17%	66

PROMPT PAY ERROR PROJECTION  
DAO INVOICES FOR FY 1990

APS PROCESSED: 10,048 ESS PROCESSED = 492



TOTAL INVOICES SUBJECT TO ACT 10,540



DEPARTMENT OF HEALTH & HUMAN SERVICES  
 OFFICE OF INSPECTOR GENERAL

ATTACHMENT A  
 Office of the Secretary

Washington, D.C. 20201

1991 DEC 19 AM 10:29

DATE : DEC 18 1991  
 TO : Richard P. Kusserow  
 Inspector General

FROM : *for* Kevin E. Moley *Elizabeth B. James*  
 Assistant Secretary  
 for Management and Budget

SUBJECT: Review of Prompt Payment Reporting for Fiscal Year 1990  
 (A-12-90-00044)

We have reviewed the draft of the subject report forwarded to this office by your letter dated December 4, 1991, and our comments are provided below. We concur with the report as written: however, we want to emphasize that procedures were implemented by the Division of Accounting Operations (DAO) in FY 1991 which greatly improved our performance in this area.

While there are no formal recommendations contained in the report, we concur with the report's conclusions that more supervisory review of the technicians' work should have been applied to avoid the clerical mistakes made in compiling data for the report. Steps have been implemented to prevent a recurrence of this problem.

The joint efforts between DAO and the Division of Contract Operations stressing the importance of timely review and approval by project officers of contractor invoices has improved the turnaround time of getting invoices approved and paid, and thus reduced the interest penalties significantly. In FY 1990 interest penalties amounted to \$32,000, while in FY 1991 interest penalties totalled less than \$6,000. Total invoice payments for both years were in the \$35 - \$37 million range.

As discussed at the exit conference, the new CORE accounting system being developed for OS implementation in FY 1993 will have an accounts payable module. This will provide for more automated control over invoices from receipt to payment, and will generate the Prompt Payment report as an output.

IG	<u>          </u>
PDIG	<u>          </u>
DIG-AS	<u>          </u>
DIG-EI	<u>          </u>
DIG-OI	<u>          </u>
AIG-MP	<u>          </u>
OGC/IG	<u>          </u>
EX SEC	<u>          </u>
DATE SENT	<u>12/19</u>

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