AUDIT OF THE ACCOUNTS PAYABLE OPERATIONS IN WASHINGTON, D.C.

Audit Report No. 00-014
March 31, 2000

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

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DATE: March 31, 2000

TO: Fred Selby, Director
Division of Finance

Arleas Upton Kea, Director
Division of Administration

FROM: David H. Loewenstein
Assistant Inspector General

SUBJECT: *Audit of the Accounts Payable Operations in Washington, D.C.*

This report presents the results of the Office of Inspector General's (OIG) audit of the Federal Deposit Insurance Corporation's (FDIC) accounts payable operations in Washington, D.C. The Division of Finance (DOF) disburses all payments for the Corporation through its accounts payable operations in Washington, D.C. and Dallas, Texas. The Washington office primarily disburses funds for FDIC's corporate payments and the Dallas office makes receivership-related payments. FDIC processed approximately 231,000 transactions amounting to $4.2 billion during 1998 and approximately 175,000 transactions amounting to $3.1 billion for the period January 1, 1999 through September 30, 1999. Our review focused on the internal controls over the accounts payable process, the appropriateness of the payments, and compliance with laws and regulations in Washington, D.C. Overall, internal controls over the accounts payable process are working effectively and transactions are being properly processed and paid. However, improvements are needed in FDIC's timeliness in processing of payments and adherence to the Prompt Payment Act requirements.

BACKGROUND

FDIC disburses funds to vendors, employees, and other government agencies for payment for goods and/or services received. Payments are made using the FDIC Accounts Payable Purchase Order System (APPO), which is a Walker based software system. The FDIC's Financial Information Management System (FIMS) is built on a suite of commercial-off-the-shelf software licensed by Walker Interactive Systems, Inc. FIMS is the central accounting system which includes but is not limited to the general ledger, accounts payable, accounts receivable, and the purchase order sub-systems. There are several types of invoices processed within the FDIC APPO system. They include invoices related to Purchase Orders (PO), Payment Authorization Voucher (PAV), Legal Services Invoices (LSI), and recurring transactions. A purchase order is an agreement made between FDIC and a vendor for goods and/or services. A PAV is for the disbursement of funds that do not require a PO. Purchases made without going through DOA's Acquisition and Corporate Services Branch (ACSB) require a PAV, prepared by an originating individual department. LSIs are invoice payments made to FDIC contracted law firms. Recurring payments are invoices paid on a regular basis such as monthly or quarterly rental or lease payments.

The FDIC makes its payments by wire transfers, on-line payment and collection (OPAC), electronic fund transfers (EFT), and checks. There are two basic wire transfers processed by the FDIC, corporate treasury wires and liquidations activity wires. Use of the Wire Authorization Voucher (WAV) is an integral part of the wire transfer process. OPACs are electronic payments and collections made between participating government agencies. Payments and collections are transferred to and from the agency's treasury account. When the FDIC purchases goods or services from a participating agency, the agency prepares a bill. The agency transfers the funds from the FDIC's account directly into its account, and then submits the bill and invoices to the FDIC. The Debt Collection Improvement Act of 1996 requires federal agencies including the FDIC to increase the use of EFTs largely to reduce the cost of processing checks manually. For the fiscal year ending September 30, 1998, the FDIC paid approximately 55 percent of its vendor payments, excluding employee salary payments, using EFTs. Forty-five percent were paid by check. In comparison, in the fiscal year ending September 30, 1999, the FDIC paid approximately 78 percent of its vendor payments, excluding employee salary payments, using EFTs and 22 percent using checks. The comparison of fiscal year EFT activity indicates that the FDIC had increased the use of EFTs by approximately 42 percent. FDIC personnel indicated that the use of EFTs would increase further over the next several years.

In making payments for services, the FDIC is required to follow the Prompt Payment Act (PPA) and the policies and procedures outlined in the Office of Management and Budget (OMB) Circular A-125. The PPA requires payment of an invoice on the date specified in the contract or, if a payment due date is not specified, 30 days after the start of the payment period. If a payment is not made on the due date, OMB Circular A-125 states that, "agencies must pay interest penalties automatically, without contractors having to request them..." The purpose of the federal requirement is to spur agencies to make payments more timely. It also provides better relationships with contractors, improved competition for government business, and reduced costs to the government for property and services.

In April 1999, the Deputy to the Chairman and Chief Operating Officer requested the Office of Internal Control Management (OICM) to conduct a review of FDIC's compliance with the PPA. At the time, our office was conducting an audit of the Accounts Payable Operations in Washington, D.C. Our audit included a review of the Corporation's compliance with the provisions of PPA and other laws. To avoid any duplication of effort, OICM and the OIG agreed that the OIG would conduct the review of PPA. FDIC reported that it paid PPA interest of $100,969 in 1997, $53,751 in 1998, and $17,162 from January 1 through September 30, 1999.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to (1) evaluate internal controls over the accounts payable process; (2) verify that payments were made correctly, accurately accounted for, and properly supported; (3) review for duplicate payments; and (4) evaluate compliance with laws and regulations. We performed an audit of FDIC's accounts payable process in Washington, D.C. for the period of January 1, 1998 through September 30, 1999 and tested a sample of transactions processed during 1998. We did not review LSI payments during our audit because the OIG has performed audits in this area over the past several years.

During our audit, we interviewed FDIC personnel from the Division of Administration (DOA), Division of Finance (DOF), Legal Division, and Office of Internal Control Management (OICM). We also contacted the U.S. General Accounting Office (GAO) to discuss its audit of FDIC's 1998 financial statements. GAO's audit entailed a review of the Bank Insurance Fund (BIF), Saving Association Insurance Fund (SAIF), and Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). Further, we discussed certain aspects of OMB Circular A-125 with personnel from the OMB. We tested a sample of 131 payments made from the Washington, D.C. office to verify that payments were correct, properly accounted for, and that no duplicate payments were made. We generally chose larger dollar amounts from each category of payments. Our sample included payments from WAVs, OPACs, EFTs, POs, and PAVs. Of the 131 payments, we reviewed 41 payments to determine compliance with the Prompt Payment Act. We also reviewed 54 vendor files to determine whether the files were properly maintained and updated. We also reviewed DOA's contract files for applicable payments. Further, we reviewed DOF's Signature Verification System to determine that all approval signatures were correct and proper delegations of authority existed.

We reviewed two prior OIG audit reports entitled *Audit of the Use of Payment Authorization Vouchers*, dated March 31, 1997, and *Audit Report on the Accounts Payable Purchase Order System*, dated May 19, 1995. We reviewed these reports to determine that all issues were addressed and closed. We also reviewed the Chief Financial Officers Act (CFOA) and OMB Circular A-125 to determine FDIC's compliance with applicable laws. In addition, we discussed Government Performance Results Act (GPRA) issues with DOF and determined that FDIC has taken steps to prepare for the necessary reporting requirements related to accounts payable activities that must be reported in March 2000. Finally, we obtained a legal opinion from FDIC's Legal Division concerning applicability of the PPA for utility expenses. We conducted the audit from September 1998 through November 1999 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Generally, internal controls over the accounts payable process are working effectively; however, the FDIC needs to improve the timeliness of payments and implement additional controls when an invoice received for payment is incomplete. Our review indicated that payments are properly processed and paid; however, FDIC personnel did not have original invoices for 4 payments from our sample of 131. FDIC personnel indicated that these invoices had been misplaced or lost. Although the original invoices and related support were not available for these four payments, we do not consider such payments inappropriate based on other information we reviewed. Also, our review did not identify any duplicate payments. FDIC had adequate controls in place to prevent duplicate payments. Specifically, the system has built in controls that produce an error message whenever a duplicate invoice number is inputted into the system. In addition, FDIC complied with the requirements of GPRA and CFOA. However, because FDIC did not interpret the requirements of PPA correctly, none of the payments to utility vendors that were 30 days late included PPA interest, as they should have. FDIC personnel interpreted OMB Circular A-125 to exempt all utility companies from PPA interest. The OMB and FDIC's Legal Division confirmed that utility companies were subject to PPA interest. Further, we found that FDIC did not pay PPA interest for some other payments that it paid 30 days late. We also noted four instances where FDIC personnel contacted certain vendors when PPA interest totaled $50 or more and discussed the forfeiture of the interest amount. We were told this was a common practice. We believe that FDIC is not following the intent of the law when FDIC personnel contact the vendor to discuss a late payment and the vendor relinquishes the PPA interest to which it is entitled.

FDIC NEEDS TO COMPLY FULLY WITH REQUIREMENTS OF THE PROMPT PAYMENT ACT

Although the majority of payments to vendors were timely and accurately computed, the FDIC needs to comply fully with the requirements of the PPA. The PPA and the implementing guidelines in OMB Circular A-125 require that federal agencies, including the FDIC, pay their vendors on the date specified in the contract, or if payment is not specified, 30-days after the start of the payment period. We found that FDIC did not always pay PPA interest to vendors entitled to such interest. We noted at least four instances where FDIC personnel contacted certain vendors when PPA interest totaled $50 or more and discussed the forfeiture of the interest amount. In addition, we noted in reviewing a random sample of 41 invoices, that the FDIC did not pay two utility companies approximately $3,600 in PPA interest for 12 invoices submitted. Additionally, FDIC considered a company that performed maintenance and repairs for telecommunications equipment a utility company and did not pay PPA interest on three invoices. FDIC personnel interpreted OMB Circular A-125 to mean that all utility companies were exempt from PPA interest. The requirements of the PPA were not correctly interpreted and applied by the FDIC; therefore, none of the payments to utility vendors that were paid 30 days late included PPA interest, as they should have. As a result of the non-payment of PPA interest for utility companies and other vendors paid late, the accounting and reporting of such interest in the internal management reports and the Corporation's financial statements, although immaterial, was not accurate.

FDIC Should Not Contact Vendors to Forego Prompt Payment Interest

FDIC should not contact a vendor to discuss the payment of PPA interest when FDIC pays an invoice late. For 4 of 41 invoices involving two vendors, the FDIC contacted the vendors and discussed the late payment. In these instances, the vendors agreed to accept the amount invoiced and relinquish PPA interest totaling $465. One invoice totaled $15,300 and FDIC paid it 39 days late. FDIC should have paid approximately $114 in PPA interest for this late payment. The other three invoices totaling $26,780, $10,148, and $14,875 involved one vendor. FDIC paid the three invoices late by 42 days, 36 days, and 36 days, respectively. PPA interest for these three invoices totaled approximately $351. FDIC personnel stated that they contacted the vendor and discussed the PPA interest and the vendor agreed to forego the interest. The FDIC agreed that the payment was late and the vendor was PPA-eligible; nevertheless, FDIC did not pay PPA interest.

OMB Circular A-125 states that agencies must pay interest penalties automatically, without contractors having to request them if a payment is made 30 days after the start of the payment period. The intent of the PPA is to provide for timely payment, better relationships with contractors, improve competition for government business, and reduce costs to the government for property and services. We believe that the FDIC is not following the intent of the law when FDIC personnel contact the vendor to discuss a late payment and the vendor relinquishes the PPA interest to which it is entitled.

Prompt Payment Interest to Utility Companies Needs to Be Paid

FDIC did not pay PPA interest for late payments involving a utility company. For 12 of 41 invoices selected for review of PPA, FDIC did not pay two vendors approximately $3,600 in PPA interest. Late payments ranged from a low of 10 days past due to a high of 198 days past due for the 12 invoices. DOA personnel stated that DOA interpreted the OMB Circular A-125 to exempt utility companies from the requirements of PPA. Therefore, FDIC did not pay any PPA interest for any late payments made to a utility company. DOA personnel did not secure a legal opinion from the FDIC Legal Division when DOA made a conscious decision to exempt utility expenses from the requirements of the PPA. In addition, DOA considered a company that performed maintenance and repairs for telecommunications equipment a utility company and did not pay PPA interest on three invoices. The FDIC Legal Division did opine that the PPA applies generally to the FDIC in its corporate capacity in September 1996. In this opinion, the Legal Division addressed the acceptance period, calculation of the interest penalties, and requirements and responsibilities of the FDIC. However, it did not address applicability of PPA to utility companies in its opinion.

OMB Circular A-125 Section 2.b. states that, "Where agencies acquire utility services under terms required by other governmental authorities not subject to the Act (e.g., tariffs) this circular does not apply. If agencies acquired these services through contracts or other written requests, payment terms specified would prevail. If there is no contract or the contract is silent about payment terms, the applicable tariff prevails." During our review, we requested the FDIC Legal Division to opine on whether utility companies are exempt from OMB Circular A-125. The Legal Division stated in its opinion dated November 4, 1999 that the company identified from our sample is a utility company and entitled to interest on late payments in accordance with the PPA. It also stated that the PPA itself does not contain any language that exempts utility companies from the requirements of PPA.

From the remaining sample of 25 of 41 invoices selected for review of PPA, the FDIC paid 10 invoices late and paid PPA interest totaling $3,077. We determined that FDIC paid these vendors late and FDIC computed PPA interest correctly. Late payments ranged from a low of 4 days to high of 171 days for the 10 invoices. In addition, five invoices were determined to be PPA exempt. The five invoices were for liquidation-related work. The FDIC is not required to pay PPA interest for work associated with liquidating assets from closed banks. For six invoices, PPA interest was less than one dollar. According to the PPA, the FDIC does not pay interest if it is less than one dollar. Late payments ranged from a low of 1 day to a high of 6 days for these six invoices. For one invoice, FDIC issued a stop payment for a check issued to but not received by a contractor. FDIC paid the original payment timely but it was not received by the vendor. Because FDIC issued a stop payment, FDIC is not required to pay PPA interest. Finally, three invoices lacked supporting documentation and we were unable to determine whether the payments were made late and whether PPA should have been paid. The timely processing of invoices is discussed later in the report.

Based upon the results of our review, the FDIC needs to improve the payment process as it relates to the PPA. FDIC is not adhering to the intent of the PPA when it contacts vendors to discuss forfeiture of interest payments. PPA interest should be paid automatically when payment is made past the 30-day due date and should not be negotiated with vendors. It may be more costly to the FDIC to contact the vendor, cancel the payment, and issue another check than pay PPA interest. In addition, the FDIC did not comply with the Prompt Payment Act when it did not pay PPA interest for utility payments. In order to reduce the expense of PPA interest, FDIC should pay all invoices within the due date. Emphasis needs to be placed to all responsible employees that timely processing and payment of invoices is a goal that must be met.

Further, because the FDIC did not pay PPA interest for payments made late to utility companies, the amount that the FDIC reported internally as PPA interest paid for 1998 is not accurate. FDIC reported that it paid $53,751 in PPA interest in 1998. This amount was down from $100,969 that FDIC reported in 1997. In addition, the FDIC paid PPA interest totaling $11,804 from January through May 1999. DOA personnel informed us that during 1999 FDIC continued to not pay PPA interest for late payments to utility companies and selectively contacted vendors for other late payments that involved PPA interest.

PROCESSING OF INVOICES NEEDS IMPROVEMENT

Although internal controls over the accounts payable process are working effectively, the FDIC needs to improve the timeliness of processing invoices. We found that the FDIC generally reviewed, authorized, and paid the PAVs, EFTs, WAVs, OPACs, and POs in our sample in accordance with FDIC guidelines and procedures. Invoices and supporting documentation received were properly date stamped and contained the appropriate delegated authority's signature. However, the respective offices and divisions did not review and forward invoices in a timely manner. From our sample of 41 invoices, FDIC paid PPA interest for 10 late payments. Late payments ranged from 4 to 171 days for these 10 invoices. Of the 10, 7 were not timely cleared by the ACSB, the program office did not timely clear 1, and 1 was not timely cleared by multiple offices. One of the 10 invoices was held for Electronic Fund Transfers pre-note verification. Although the APPO Manual provides guidelines and specific timeframes for processing and paying invoices, the FDIC did not always meet the specified timeframes.

In addition, the FDIC needs to implement additional controls when an invoice received for payment is incomplete. For three invoices, DOA personnel informed us that the invoices originally submitted lacked supporting documentation or FDIC adjusted the invoice amount. For one invoice, the original invoice was lost and paid from a copy. The PPA requires that invoices submitted by a vendor be complete with all supporting documentation such as time sheets or a breakdown of specific hours spent by the contractor, as required by the contract. If the FDIC needs additional information, PPA requires that the FDIC review the invoice within 7 days of original receipt and, if necessary, send it back to the vendor for additional information. If the invoice is incomplete and FDIC requests additional information from the vendor, the 30 day payment requirement does not start until FDIC receives a complete invoice. For these three instances, DOA personnel stated that DOA requested additional information because the invoices were incomplete. However, there was no documentation indicating that the FDIC had contacted the vendor for additional information. Because DOA did not document the files as to when the vendor was contacted and what additional information was requested, we were unable to determine whether the payments were made late and whether PPA should have been paid. In all three instances, the FDIC did not pay PPA interest for the payments.

OTHER MATTERS

Our review of the accounts payable process indicated that payments are generally well supported and paid correctly. However, in our sample of 131 invoices, FDIC did not have original support for four payments totaling $115,895 to three different vendors. FDIC personnel indicated that the invoices were either misplaced or lost. We verified that all three vendors that had missing invoices were approved on FDIC's vendor file. In addition, we noted that other payments to these vendors for similar type of transactions made by the FDIC contained all supporting documentation. The FDIC frequently contracts for the types of work performed by these vendors, and we believe that services were received in return for payment. The APPO Manual requires that FDIC maintain appropriate support for all payments, including original invoices. Although the original invoices and related support were not available for these four payments, we do not consider such payments inappropriate based on other information we reviewed. However, we suggest that DOF remind personnel that all payments made from the APPO system should be adequately supported by documentation and filed accordingly. Documentation includes an original invoice to verify the amount paid and the name of the payee.

In addition, we found that some parts of the APPO Manual need updating. We found that several sections of the manual do not reflect procedures currently in place. Specifically, the manual needs updating in areas such as assigning “dummy” check numbers to wire payments, and indicating that DOF is now responsible for the maintenance of the vendor file. DOF representatives indicated they are aware of the needed changes and plan to update the manual in the near future. We suggest that DOF along with DOA update the manual to reflect all new requirements and procedures. This will ensure that all individuals responsible for processing of payments for the FDIC are aware of the processes and the controls.

Finally, during our review of wire transfers, we noted that FDIC personnel had assigned duplicate check numbers to payments made by wire transfer. Although we did not find any duplicate payments for any wire transfers, the duplicate numbers created confusion when we reviewed the payment records. We discussed this issue with FDIC personnel, and they immediately corrected the problem. We suggest that DOF assign distinct numbers to each wire transfer and ensure that numbers are not duplicated.

CONCLUSION AND RECOMMENDATIONS

Generally, our review of the accounts payable process indicated payments are properly processed and paid, and overall the process is working effectively. However, improvements can be made by the FDIC in the areas of timeliness of payments and adherence to the Prompt Payment Act. Based upon our results, we recommend that the Director of DOA:

(1) Designate all utility companies as PPA eligible on the Accounts Payable system.

(2) Instruct contracting personnel to not contact vendors to forego PPA interest payments when payment is made 30 days late and the late payment is the result of FDIC delays.

(3) Instruct DOA personnel to document the file to show what support is missing, the date contact is made with the vendor, and an explanation of what support will be provided when an incomplete invoice is received for payment. When the additional support is received, responsible personnel should note the date the documentation is received to start the payment process for PPA requirements.

(4) Reiterate to office and division directors the process and requirements for invoice processing and the need for timely payments.

In addition, we recommend that the Director of DOF:

(5) Instruct disbursement personnel to not withhold any payments that include automatically computed PPA interest unless the basis for withholding of PPA interest is properly justified, documented, and approved. Also, PPA interest paid to utility companies should be included in internal management reports and financial records.

CORPORATION COMMENTS AND OIG EVALUATION

On March 6, 2000, the Director, Division of Finance, provided a written response to the one recommendation addressed to DOF in the draft report. DOF's response is presented in appendix I of this report. Also, on March 28, 2000, the Director, Division of Administration, provided a written response to the four recommendations addressed to DOA in the draft report. DOA's response is presented in appendix II of this report.

The Directors of both DOF and DOA each stated that they agreed to all findings and recommendations presented in the draft report. The Corporation's responses to the draft report provided the elements necessary for management decisions on the report's recommendations. Therefore, no further response to this report is necessary. Appendix III presents management's proposed action on our recommendations and shows that there is a management decision for each recommendation in this report.

FDIC
Federal Deposit Insurance Corporation
801 - 17th Street, NW, Washington, DC 20434

Office of the Director
Division of Finance

March 6, 2000

MEMORANDUM TO: David H. Loewenstein, Assistant Inspector General
Office of Inspector General

FROM: Fred S. Selby
Director

SUBJECT: Response to the OIG draft report entitled *Audit of Accounts Payable Operations in Washington, DC*

We have completed our review of the referenced draft report. We accept and concur with the DOF recommendations as presented by the OIG. As with all invoices received from DOA, DOF will continue to review the documentation received related to the exempting of PPA interest to make sure that it is properly justified. All PPA interest incurred and paid will be included on an internal management reports and financial records.

If you have any questions or feel that further clarification is necessary, please let me know.

cc: Karen Hughes
Joe Nairn
Stan Pawlowski

FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

ATTACHMENT II

Division of Administration

DATE: March 28, 2000

MEMORANDUM TO: David H. Loewenstein
Assistant Inspector General

Arleas Upton Kea

FROM: Arleas Upton Kea
Director, Division of Administration

SUBJECT: Management Response to Draft Report entitled *Audit of the Accounts Payable Operations in Washington, D.C.*

The Division of Administration's (DOA) Acquisition and Corporate Services Branch (ACSB) has completed its evaluation of the Office of Inspector General (OIG) Draft Report entitled *"Audit of the Accounts Payable Operations in Washington, D.C."*

The objectives of this audit were to evaluate internal controls over the accounts payable process and evaluate whether those controls were adequate to prevent duplicate payments, ensure that payments were made correctly, and comply with laws and regulations. The draft report makes five recommendations dealing primarily with observations of contracting practices regarding the Prompt Payment Act (PPA) and interest penalties. There were no questioned costs.

Our management responses to the recommendations are outlined below. Our analysis and evaluation addresses only on four of the five findings and recommendations presented in the report. The fifth finding was addressed to the Division of Finance. Based on our preliminary review, corrective actions are required for all four recommendations. Exhibit A summarizes the expected completion dates and the documentation that will confirm completion of the corrective actions.

MANAGEMENT RESPONSE

FINDING #1: Prompt Payment Interest Is Not Being Paid to Utility Companies

RECOMMENDATION: The OIG recommends that the Director, DOA, designate all utility companies as PPA eligible on the Accounts Payable system.

BACKGROUND: OMB Circular A-125 contained language describing circumstances in which utility services would not be subject to the Prompt Payment Act. ACSB interpreted that language to exclude utility companies from PPA requirements, including late payment interest. As a result, FDIC has not paid PPA interest for any late payments to utility companies, as documented in the draft audit report. The OMB issued new Prompt Payment regulations (5 CFR Part 1315) in October 1999 that superceded OMB Circular A-125. Those new regulations make it clear that utility company contracts are not exempt from penalty interest. The Legal Division subsequently issued an opinion on this issue, dated November 4, 1999, that states that the PPA does not contain any language that exempts utility companies from the requirements of the Act; and that those companies are entitled to interest on late payments in accordance with PPA.

MANAGEMENT RESPONSE: We agree with the finding and recommendation. DOA will issue immediate verbal instructions to all Acquisition Section personnel, to be followed by a memorandum, discontinuing the practice that exempts utility companies from PPA penalty interest payments. For affected contractors, ACSB will remove the ‘PPA exempt’ designation code that prevents late interest calculations in the Purchase Order System. These actions will be completed by May 31, 2000.

FINDING #2: Contracting Personnel Contacted Vendors and Negotiated Waiving the Payment of PPA Penalty Interest When Invoice Processing Exceeded 30 Days

RECOMMENDATION: The OIG recommends that the Director, DOA, instruct contracting personnel not to request of vendors that they forego PPA interest payments when FDIC takes more than 30 days to pay its invoices.

BACKGROUND: The OIG identified four invoices from its sample of 41 invoices for which the FDIC had requested that the affected contractors forego a total of $465 in PPA penalty interest that was due to them. Two contractors agreed to do so. When drafting the original legislation, Congress chose the word “penalty” when referring to the Prompt Payment interest to emphasize the importance to government managers of paying bills on time. Therefore, the OIG concluded that the interest penalty was automatic and that any attempt to avoid PPA interest payments was tantamount to circumventing the spirit of the law.

The practice noted by the OIG was not intended to violate PPA requirements. It evolved over time as contracting personnel attempted to work with small vendors to expedite the invoice process after invoice errors or omissions had been detected. In such cases, contracting personnel continued to work with the vendor to obtain the required information, rather than rejecting the invoice and restarting the 30-day clock upon receipt of a correct invoice. If processing time exceeded 30 days in such instances, they requested that the vendor waive entitlement to the PPA interest.

MANAGEMENT RESPONSE: We agree with the finding and recommendation. DOA will discontinue the practice of negotiating PPA interest payments. In the future, all late interest penalties calculated under PPA will be paid to vendors.

FINDING #3: ACSB Is Not Adequately Documenting Interruptions in the 30-Day Payment Period

RECOMMENDATION: The OIG recommends that the Director, DOA, instruct DOA personnel on the handling of incomplete vendor invoices, to include: documenting in the contract file (a) missing vendor support, (b) dates of contacts with the vendor regarding missing support, and (c) what additional information is necessary to satisfy the omission. When the additional support is received, responsible personnel should note the date the additional support was received, complete the invoice, and restart the 30-day payment process for PPA requirements.

BACKGROUND: The OIG identified three invoices from its sample of 41 invoices on which PPA interest had not been paid where contract personnel had noted that the invoices were incomplete and more information had been requested. At the time additional information was requested, the PPA 30-day payment period clock should have been stopped until the FDIC received a complete invoice from the vendor. However, the contract file lacked sufficient documentation to determine whether the PPA payment period had been properly interrupted or if PPA penalty interest should have been paid.

MANAGEMENT RESPONSE: Management agrees with the finding and will take the following corrective actions. DOA will issue instructions to contracting personnel by May 15, 2000, to reject and return to the vendor any incomplete invoice that is not capable of being corrected and paid within 30 days; and to appropriately document the contract file. The start time for vendor invoices under PPA will begin upon receipt of a correct and valid invoice. DOA will also include in contracting documents more descriptive information regarding the mandatory elements that are required to be submitted with invoices. This will be implemented with the publication of the revised Acquisition Policy Manual that will be released by March 31, 2000.

FINDING #4: FDIC Is Not Processing Invoice Payments Timely

RECOMMENDATIONS: The OIG recommends that the Director, DOA, reiterate to office and division directors the process and requirements for invoice processing and the need for timely payments.

BACKGROUND: The OIG identified 10 invoices from its sample of 41 invoices that were not paid in 30 days, as required under PPA, which resulted in the FDIC having to pay penalty interest.

MANAGEMENT RESPONSE: We agree with the finding and recommendation. DOA will re-emphasize to all division and office points of contact the importance of timely invoice review, approval, and payment. In addition, a review of the OIG's analysis indicated that, although delays occurred at several office locations, most were in the DOA Acquisition Section. Accordingly, DOA will also place more emphasis on monitoring by the contracting officer to ensure that invoices are processed within the DOA Acquisition Section within allowed timeframes. These actions will be completed by May 31, 2000.

If you have any questions concerning the management responses, please contact Andrew Nickle, Audit Liaison for the Division of Administration, at (202) 942-3190.

cc: Mike Rubino
Deborah Reilly
Dave McDermott
Mary Rann
Andrew Nickle
Rodney Cartwright
Tom Harris
Richard Johnson
Alan Oleartchick

EXHIBIT A

DIVISION OF ADMINISTRATION
SUMMARY OF MANAGEMENT DECISION

NO.	FINDING DESCRIPTION	QUESTIONED COST	DISALLOWED AMOUNT	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
1	ACSB incorrectly interpreted the Prompt Payment Act to exclude the interest due to utility companies for late payments.	-0-	-0-	Management agreed with the finding and recommendation. The designation for any contractor not eligible for PPA will be changed to permit calculation and payment of interest for late payments. That change will include all utility companies.	May 31, 2000	Memorandum to the Contract Staff
2	Contracting personnel were improperly negotiating with contractors to obtain waivers of PPA interest due for late payment of invoices.	-0-	-0-	Management agreed with the finding and recommendation. ACSB will ensure that all PPA interest due is paid, and that there will be no negotiations with contractors regarding payment of penalty interest.	May 31, 2000	Memorandum To the Contract Staff
3	ACSB is not documenting the interruption of the 30-day PPA clock when the contractor submits incomplete invoices.	-0-	-0-	Management agrees with the finding and will take the following corrective action. ACSB will issue instructions to all contract personnel to reject and return to vendor any incomplete invoice and to appropriately document the contract file. DOA will also include in contracting documents more descriptive information regarding the mandatory elements that will be required to be submitted with invoices.	May 15, 2000 March 31, 2000	Memorandum To the Contract Staff And issuance of APM
4	Invoices are not being processed within 30 days to avoid payment of PPA interest penalties.	-0-	-0-	Management agreed with the finding and recommendation. DOA will re-emphasize to all division and office points of contact the importance of a timely invoice review process.	May 31, 2000	DOA Memorandum

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC's responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management's response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid.

Second, the OIG must determine that management's descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	The Director, DOA, stated that DOA would issue immediate verbal instructions to all Acquisition Section personnel, to be followed by a memorandum, discontinuing the practice that exempts utility companies from PPA penalty interest payments. The Acquisition and Corporate Services Branch (ACSB) will also remove the "PPA exempt" designation code that prevents late interest calculations in the Purchase Order System.	05/31/2000	Memorandum and removal of designation code.	N/A	Yes
2	The Director, DOA, stated that DOA would discontinue the practice of negotiating PPA interest payments. In the future, all late interest penalties calculated under PPA will be paid to vendors.	05/31/2000	Director's Response	N/A	Yes
3	The Director, DOA, stated that DOA will issue instructions to contracting personnel by May 15, 2000 to reject and return to the vendor any incomplete invoice that is not capable of being corrected and paid within 30 days; and to appropriately document the contract file. The start time for vendor invoices under PPA will begin upon receipt of a correct and valid invoice. DOA will also include in contracting documents more descriptive information regarding the mandatory elements that are required to be submitted with invoices. This will be implemented with the publication of the revised Acquisition Policy Manual that will be released by March 31, 2000.	05/15/2000	Issued instructions and revised APM	N/A	Yes
4	The Director, DOA, stated that DOA will reemphasize to all division and office points of contact the importance of timely review, approval, and payment. DOA will also place more emphasis on monitoring by the contracting officer to ensure that invoices are processed within the DOA Acquisition Section within allowed timeframes.	05/31/2000	Memorandum	N/A	Yes
5	The Director, DOF, stated that DOF will continue to review the documentation received related to the exempting of PPA interest and ensure that it is properly justified. In addition, DOF will include all PPA interest on internal management reports and financial records.	03/31/00	Internal Management Reports and Financial Records	N/A	Yes