United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

JUN 8 1992

FINANCIAL ADMINISTRATION MEMORANDUM (FAM) NO. 92-038   (II. J)

To: Bureau Assistant Directors, Administration
           Bureau Finance Officers
           Chief, Division of Fiscal Services

From: Chief, Division of Financial Administration
           Office of Financial Management (PFM)

Subject: Prompt Payment Act Quality Control Procedures

The purpose of this FAM is to reissue an Office of Management and
Budget (OMB) memorandum of July 18, 1988, which addresses prompt
payment reporting and the need to implement adequate quality
control (QC) procedures to ensure full compliance with the Prompt
Payment Act. For reference purposes, this subject was previously
covered by FAM No. 88-65 dated August 2, 1988.

This re-emphasis of QC procedures has been necessitated by
several recent events. In 1990, the Department's QC processes
were rated as "Stage III - Fair" in OMB's status report to
Congress. This rating was defined by OMB as follows:

    "These quality control systems have written procedures
    that are reviewed by an agency policy official and/or
    independent auditor on an intermittent basis (at least
    once within the last three years). The quality control
    activity is not independent of the payment activity and
    the samples are not routine enough to measure overall
    performance."

In 1990, the Department in its annual report to OMB reported
that based on individual bureau submissions all but one bureau
complied with the QC requirements of A-125 and met or exceeded
the General Services Administration's (GSA) QC review model. In
1991, the Department reported to OMB that all bureaus met the QC
requirements (again, based on individual bureau submissions).
However, OMB's 1991 status report to Congress rated the
Department's QC systems as "Poor/Limited Progress." This rating
was defined by OMB as follows:

    "A poor QC system, or one on which the agency has made
    limited progress, has written procedures for one or more
    components and may have a QC process in a few components but
    not agency-wide. These agencies have failed to implement
    critical elements of a QC system, usually a statistically
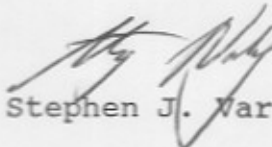   valid sampling process."

Moreover, the Department's prompt payment performance was cited in the 1993 OMB Allowance Letter - Enclosure C dated March 9, 1992. The Allowance Letter requires the Department to improve the accuracy of its Prompt Payment data by fully implementing a QC program which meets the criteria defined in Circular A-125 and states that the Department should begin planning for the Inspector General to validate the QC process. PFM does not understand the basis for OMB's low 1991 rating and we have sent a letter to OMB requesting an explanation.

A review of FY 1992 second quarter prompt pay reports indicates that the amount of interest penalties incurred by the Department has increased approximately 49% from last year. Even though one bureau accounts for most of the departmental increase, other bureaus reported relatively large percentage increases from the previous year. PFM is concerned that inadequate control procedures in bureau operations may be a contributing reason for the increase in interest penalties.

In response to the above developments, PFM requests that each bureau conduct a thorough review of its payment processes and Prompt Payment Act QC procedures. The purpose of this review is to: 1) ensure that adequate controls are in place to achieve timely processing of payments, 2) determine if the QC requirements cited in Section 3.e. of OMB Circular A-125 are being met, and 3) assess whether the quality control program of the bureau meets the GSA model. Also, PFM requests that statistical sampling components of the QC process be conducted with a sample size that is set by a confidence level of at least 95%.

Please indicate the results of your review on the June 30, 1992, quarterly prompt payment act report submission. If it is determined that your bureau is not in compliance with the QC requirements, please provide an action plan for achieving compliance. The June 30 report is due to PFM by July 20, 1992.

Should you have questions or require additional information concerning this subject, please contact Linh Luu on (202) 208-6295.

Stephen J. Warholy

Attachment

Prior Financial Administration Memorandums
on this subject:
No. 88-65, dated August 2, 1988 - Inactive
No. 89-34, dated May 17, 1989 - Active

JUL 18 1988

MEMORANDUM FOR (SEE DISTRIBUTION)

FROM: Joseph R. Wright, Jr.
                Deputy Director

SUBJECT: Reporting on Implementation of the Prompt Payment
                Act

While agencies have made progress in implementing the Prompt
Payment Act of 1982, concerns continue in Congress, the vendor
community, the General Accounting Office, and the Inspectors
General that payments are not being made promptly and that data
reported to OMB and Congress are not valid. Because of these
concerns, amendments to the Prompt Payment Act (S. 328) to
improve agency implementation are likely to be enacted shortly.

Our first priority continues to be to ensure that agency
reports to OMB are accurate. We issued the FY 1988 reporting
requirements on March 14, 1988. Since then, the President's
Council on Integrity and Efficiency (PCIE) has recommended that
the major agencies establish routine procedures to assure the
quality of prompt payment reports. The PCIE found that problems
are caused at the operational level. Clerks processing invoices
for payment fail to follow established procedures and
miscalculate due dates. As a result, even automated payment
systems are unable to pay on time and interest penalties are not
paid when required. The clerks' errors go undetected because
their work receives very little supervisory review.

The PCIE recommends that departments and agencies establish
quality control programs to assess performance of payment clerks
and provide a reliable way to estimate payment performance. The
PCIE also recommends that the quality control program used by the
General Services Administration (GSA) be the model for other
agencies.

Any agencies that have not already done so should institute
the quality control procedures recommended by the PCIE. Attached
is documentation provided by GSA; questions about the GSA
material should be directed to John Gregg or Larry Bedker, on
566-0897. When agencies submit their FY 1988 reports to OMB, due
November 30, 1988, they should also provide a detailed
description of their quality control programs.

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Agencies need to implement two additional PCIE recommendations vital to assuring timely payments and accurate reporting:

o   Agency certifying officers or other supervisors must review payment decisions for compliance with the Prompt Payment Act; and

o   Where necessary, training on prompt payment requirements must be provided to accounting clerks and payment center supervisors.

If there are questions, your staff should contact Suzanne Duval at (202) 395-6107.

Attachment

<u>Executive Agencies Required to Institute Quality Control Procedures for Prompt Payment Reports to OMB</u>

Distribution:

Department of Agriculture: John J. Franke, Jr.
Department of Commerce: Katherine M. Bulow
Department of Defense: Robert W. Helm
Department of Education: Bruce M. Carnes
Department of Energy: Lawrence F. Davenport
Department of Health and Human Services: S. Anthony McCann
Department of Housing and Urban Development: Judith L. Hofman
Department of the Interior: Henry Ventura
Department of Justice: Harry H. Flickinger
Department of Labor: Thomas C. Komarek
Department of State: Ronald I. Spiers
Department of Transportation: Jon H. Seymour
Department of the Treasury: Jill Kent
Agency for International Development: R. T. Rollis, Jr.
Environmental Protection Agency: Charles Grizzle
General Services Administration: Paul Weiss
National Aeronautics and Space Administration: Manuel Peralta
Office of Personnel Management: Mark J. Barnes
Small Business Administration: John F. Moffitt
United States Information Agency: Henry E. Hockeimer
Veterans Administration: David A. Cox

GENERAL SERVICES ADMINISTRATION

Policy

(2) <u>Statistical sampling</u>. Each Finance Division must conduct a daily sample of the payments they process (see figure 10-2.4). The information gathered is used to satisfy external reports required by the Office of Management and Budget (OMB), the General Accounting Office (GAO), the Department of the Treasury, and the Congress. Sampling is also an effective tool for determining that proper documentation, certification, and other payment requirements are met. Records of the samples must be kept as they will be reviewed and analyzed during regional reviews (see figure 10-2.5 for suggested format). The sample requirements are as follows:

(a) It must be done by the certifying officer or a designated accountant and can be done on a rotation basis.

(b) For regular payments, each due date/start date and discount terms must be calculated independently of the paying technician's calculations. Consistently incorrect calculations by a paying technician must be brought to the attention of the technician's supervisor for corrective action.

(c) All sampled payments are to be averaged together and reported as one percentage. Each sampled payment system must be weighted to balance the frequency of payments in determining the overall percentage (see figure 10-2.6 for an example).

(d) The "systematic" sampling technique is used. This involves selecting every Kth item from the sampling unit, where K is arrived at by dividing the field size by the sample size. For example, if a payment schedule contains 200 invoices and the sample size is 10, a sampling interval of 20 is appropriate. Therefore, select the 20th, 40th, 60th, ... 200th invoices for the sample.

(e) Every other travel voucher is to be sampled, not to exceed five per schedule.

	Region	
	6	7
Regular NEAR Payments	10	10
ADDLIB	10	
Supply Operations AUTOPAY	10	
Motor Pool AUTOPAY		10
TAPS	10	
Travel	5	5

Figure 10-2.4.   Regional daily sample requirements

Daily Payment Sample
and
Treasury Cash Management Review
Payment Detail

Payment System_____   Schedule Number_____

Date of Sample_____   Date of Treasury Check_____

Act Number	Invoice Number	Vendor Number	Coded Start/Due Date	Early	On-Time	Late	Late Payment Reason	Payment Amount

                    Number   %

Early

On-Time

Late   _____   _____

Total   Sampled By:_____

Figure 10-2.5. Format for capturing sample data

Sampled payments are averaged and weighted together. Each payment system (fig. 10-2.4) is weighted to balance the frequency of payments in determining overall percentage. To arrive at the weighted percentage, determine the total number of invoices paid, then calculate the percentage each system comprises of the total payments. Multiply each percentage by the percentage of payments made on time in each payment system. Total all of the percentages and you arrive at the weighted percentage of on time payments. Use the same procedure for early and late payments. For example, your monthly sample includes 2,000 regular NEAR payments and 3,000 Supply Operations AUTOPAY payments and on time percentages of 90% and 80%, respectively. The weighted percentage is determined as follows:

1. Compute the total number of invoices paid.

Regular NEAR payments	2,000
Supply Operations AUTOPAY	3,000
Total paid	5,000

2. Determine the percentage each payment system comprises of the total payments.

Regular NEAR payments	2,000 ÷ 5,000 = .40
Supply Operations AUTOPAY	3,000 ÷ 5,000 = .60

3. Multiply the percentage each payment system comprises of the total payments times the percentage of payments made on time for each system.

Regular NEAR payments	.40 x .90 = .36
Supply Operations AUTOPAY	.60 x .80 = .48

4. Add the total of step 3 to arrive at the weighted percentage of invoices paid on time.

Regular NEAR payments	.36
Supply Operations AUTOPAY	.48
Weighted on time percentage	.84 or 84%

Figure 10-2.6. Example of weighting sampled payments

Instructions for Accounting Operations
(Note: Calculate all percentages to three decimal places.)

Item No.	Instructions/Remarks
I.	Invoices Paid
IA.	Provided by the regions.
IA1.	The number of invoices not subject to the Prompt Payment Act (PPA) and OMB Circular A-125 is developed from the daily sample. (Note: Payments under tariff's are counted as subject to the PPA.) Take the number of invoices that were initially selected for review and were skipped because they are not subject to the PPA, divided by the total number of invoices subject to the PPA. (For example if 200 invoices are reviewed and 13 were skipped for a total of 213 invoices the appropriate percentage is 13/200 or 6.500%.) Take this percentage and multiply it by the total number of invoices paid in a payment system. Repeat for all payment systems to determine the total invoices not subject to the PPA.
IA2.	The number of invoices subject to the PPA is computed by taking the difference between IA and IA1 above.
IB.	Total disbursements
	Total $'s disbursed for the month includes all commercial payments, government payments made by check (mainly DOD), government travel and the imprest.
IB1.	The dollar amount not subject to the PPA is developed from the daily sample. For each payment system, take the average dollar value of the invoices that were initially selected for review and were skipped because they were not subject to the PPA and multiply it by the number of invoices in IA1 above. Repeat for all payment systems to determine the dollar amount not subject to the PPA.
IB2.	The dollar amount subject to the ACT is calculated by taking IB minus IB1.
II.	Pay invoices on due date Goal: The goal is to pay a minimum of ___% of the invoices on the due date.

IIA.   .. Invoices paid on due date
                      Checks dated on the due date or within two days
                      prior to the due date are considered paid on
                      time.

                      %:   Developed from the daily sample.   Remember
                      to weight each payment system to balance the
                      frequency of payments in determining the overall
                      percentage.

                      Number: Apply the % to the total number of
                      payments subject to the PPA in IA2.

IIB.   Invoices paid late:
                      Checks dated one or more days after the due date
                      are considered paid late. Invoices paid after
                      discount periods, but paid in accordance with IIA
                      above are considered paid on time. If a discount
                      is cost effective, and lost, then the amount lost
                      is to be reported in Section III below.

IIB.(1-3)   Fill each section according to the instructions
                      below.

                      %:   Take the percentage paid late for a payment
                      system, multiply by the same weighed percentage
                      used in IIA. This is the total weighted
                      percentage paid late for the system. From this
                      percentage determine the percentage late for each
                      of the three categories. Repeat for all payment
                      systems to determine the total percentage paid
                      late for all systems.

                      Total $ Amount: Developed from the daily sample.
                      Add up the total dollars sampled in the category
                      for a payment system, then divide by the number
                      of invoices sampled. (For example if there are 4
                      invoices paid 1 to 7 days late and their total is
                      $7000 the average used will be $1750.) Multiply
                      the number of invoices paid late (computed below)
                      and multiply it by this average $ amount. Repeat
                      for all payment systems to determine total $'s
                      paid late for all systems.

                      No. Developed from the daily sample. For each
                      payment system, apply the percentages in IIB to
                      invoices paid subject to the PPA. Repeat for all
                      payment systems to determine the number paid
                      late.

IIC.   <u>Detail of invoices paid in the grace period (by reason).</u>

Remember to weight each payment system to balance the frequency of payments in determining the overall percentage for each reason.

IID.   <u>Invoices paid early</u>

Checks dated 3 or more days before due date are considered paid early.

<u>%:</u> Same method as in IIB using invoices paid early.

<u>Total $ Amount:</u> Same method as in IIB using invoices paid early.

<u>No.</u> Same method as in IIB using invoices paid early.

IIE.   <u>Invoices paid over 15 days late for which no interest was paid.</u>

IIE.(1-3)   <u>Total $ Value:</u> This is calculated by taking the average dollar value of interest that was not paid on the invoices in the sample multiplied by the number calculated below. Repeat for all payment systems to determine total $ value.

<u>Number:</u> Each of these categories will be computed by taking the number of occurrences within the sample divided by the number of invoices sampled multiplied by the total number of invoices subject to the PPA in IA2. Repeat for all payment systems to determine the total.

III.   <u>Discounts Earned and Lost</u>
<u>Goal:</u> Realize ___% of the dollar value of economical discounts.

IIIA.   <u>NEAR:</u> BCD will obtain information from FR42DS.

IIIB1.   <u>Manual to be recorded on the reports</u>: Reported by Regions. Be sure payment is booked properly to update next month's Auto. Report BCD will reduce this month's manual adjustments from next month's automated report.

IIIB2.   <u>Manual not to be recorded on the reports</u>: If the discount will be booked so it will not show on the discounts earned and lost report next month BCD will not reduce next months automated report by this amount.

IV.   Interest Penalties/Late Charge Payments

           *Interest penalty payment: FR423E report.

            Total $'s disbursed: Reported by regions.

           *$ of interest per million dollars disbursed.

            Note: * Items will be completed by Central
            Office, Financial Information Control Division
            (BCD).

V.   Invoices over 30 days old:

            The detail of invoices over 30 days old is based
            upon the number of invoices on hand at the end of
            the month which were "clocked in" over 30 days
            ago. Fill in totals in Section V. Grand total
            by reason should equal grand total by
            Service/Staff Offices.

VI.   Number of payments per payment system.

            Provide the number of payments per payment system
            that was used for weighting the samples. This
            total should agree with the number in IA.

Office of Finance
Monthly Reporting Statistics
Accounts Payable Branch, Region _____
For the Month/Year of _____

I) Number of Invoices

                                                    Number

    A. Total number of invoices paid   _____
        1. Invoices not subject to the PPA   _____
        2. Invoices subject to the PPA

                                                $ Amount

    B. Total disbursements
        1. Dollar amount not subject to the PPA _____
        2. Dollar amount subject to the PPA   _____

II) Pay Invoices on Due Date

    Goal: Pay a minimum of ___% of invoices on the due date.

	%	Total $ Value	No.
A. Invoices paid on due date	___		_____
B. Invoices paid late			
1) 1-7 day(s) late	___	_____	_____
2) 8-15 days late	___	_____	_____
3) Over 15 days late	___	_____	_____
C. Detail of Invoices paid in the grace period (by reason)			
1. No Purchase Order	___		
2. No Receiving Report	___		
3. Contract Disputes	___		
4. Finance Problems	___		
5. Late Certified Invoices	___		
D. Invoices paid early			
1) 3 or more days before due date	___	_____	_____

    E. Invoices paid over 15 days late for which no interest was paid

	Total $ Value	No.
1. Because amount was less than $1.00	_____	_____
2. Tech error in determining start date	_____	_____
3. Other _____	_____	_____
4. Total	_____	_____

III) <u>Discounts Earned and Lost</u>

    Goal: Realize____% of the dollar value of
             economical discounts.

		Earned Amount	Lost Amount
* A.	Near (Automated Report)	_____	_____
B.	Manual (to be recorded on the automated reports)	_____	_____
C.	Manual (not to be recorded on the automated reports)	_____	_____
D.	Total	_____	_____

IV) <u>Interest Penalties/Late Charge Payments</u>

	Interest Penalty Payment	Total $'s disbursed	$ Per Million
*A. Near	_____	_____	_____

V)   Number of Invoices on hand (EOM) over 30 days old   _____

   <u>Detail of Invoices Over 30 days</u>

<u>By Reason</u>		<u>By Service/Staff Offices</u>	
No Purchase Order	_____	PBS	_____
No Receiving Report/	_____	FSS	_____
Approval from service		IRMS	_____
Contract disputes	_____	ASD	_____
Finance problems	_____	FPRS	_____
		Finance	_____
		Other Staff Offices	_____
Total	_____	Total	_____

VI. Number of payment per payment system.

Payment System   Number

_____   _____
_____   _____
_____   _____
_____   _____

Total (must equal IA)   _____

Note:

* Items will be completed by Central Office, Financial
  Information Control Division (BCD)