



# Memorandum

Date . JUL 15 1996

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

Subject Compliance With the Prompt Payment Act by the National Institutes of Health  
(A-15-94-00032)

To Leamon M. Lee, Ph.D.  
Associate Director for Administration  
National Institutes of Health

The attached final report presents the results of the Office of Inspector General's review of Compliance with the Prompt Payment Act by the National Institutes of Health (NIH). The report contains recommendations to improve NIH's compliance with the Prompt Payment Act by increasing the number of invoices paid on-time and decreasing the amount of interest penalties for late payments.

In responding to our draft audit report, NIH generally agreed with our recommendations. The NIH's comments are presented as Appendix C 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  
NATIONAL INSTITUTES OF HEALTH**



**JUNE GIBBS BROWN  
Inspector General**

**JULY 1996  
A-15-94-00032**

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Subject

Compliance With the Prompt Payment Act by the National Institutes of Health  
(A-15-94-00032)

To

Leamon M. Lee, Ph.D.  
Associate Director for Administration  
National Institutes of Health

This final report provides you with the results of our review of Compliance With the Prompt Payment Act (Act) by the National Institutes of Health (NIH).

## EXECUTIVE SUMMARY

### OBJECTIVES

The audit objectives were to determine whether NIH:

- pays bills on-time, remits interest penalties when payments are made late, 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

The NIH:

- ▶ made late payments for 20 percent of the 657,058 invoices in Fiscal Year (FY) 1994 that were subject to the Act. It incurred interest penalties of \$242,221. This occurred because quality controls in the NIH payment process needs to be streamlined. Specifically, the Accounts Payable Section:
  - is responsible for both date stamping and processing invoices for payment, thus providing this section the opportunity to process invoices late without detection;
  - does not necessarily date stamp invoices with the date the invoices are received. In addition, NIH does not track invoices with a unique identification number to assist in identifying misplaced invoices and invoice processing delays; and

- diverts accounting technicians' time from (a) reviewing invoices upon receipt to (b) following up on invoices previously reviewed to determine whether the goods have been received and authorizing payment once the technicians have matched the receiving report with the invoice and purchase order, a task which could be performed electronically;
- ▶ underpays interest penalties primarily because penalties are calculated through the payment request date rather than the actual payment date as required by the Office of Management and Budget (OMB);
- ▶ does not assure that discounts advantageous to the Government are recorded and taken. Accounting technicians judgmentally determine whether discounts should be taken and manually calculate the discount amounts. This could be done more effectively and efficiently by electronically (1) comparing discount terms to the Department of Treasury's Current Value of Funds and (2) taking discounts when advantageous;
- ▶ reports appear accurate but are cumbersome to validate because the NIH payment system does not track the receipt of goods by invoice; and
- ▶ does not conduct quality assessments of the reliability of its payment process.

## **RECOMMENDATIONS**

We are recommending that NIH improve quality controls in its payment process to:

- requiring that invoices be processed within the established OMB time frames and date stamped in an office other than the Accounts Payable Section; and that the payment system automatically authorizes payment after the purchase order, invoice, and report of receipt of goods are reconciled;
- computing interest penalties through the payment date as required by the Act; and
- recording and making discount determinations automatically by electronically comparing discount terms with the Department of Treasury's Current Value of Funds.

We are also recommending that NIH routinely assess the reliability of its payment process as required by the Act. The NIH generally agreed with our recommendations. Comments by NIH are addressed in this report and are included in their entirety in Appendix C.

## **AGENCY ACTIONS UNDERWAY OR PLANNED**

The NIH is exploring ways to improve its payment performance under the Prompt Payment Act. It has entered into a contract with Martin Marietta to review the accounts

payable process and identify improvements that NIH can make to its accounts payable process. In the meantime, we believe that NIH should take immediate action to implement our recommendations and correct deficiencies in its payment process.

## **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, 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 the OMB Circular A-125, "Prompt Payment," dated December 12, 1989 (Circular).

Payments subject to the Act are processed through the NIH Administrative Data Base (payment system). This database was established in 1982 as part of the NIH Delegated Procurement Program (DELPRO) to automate the purchase of goods and services and improve the acquisition process. Purchase orders and receiving report information are recorded in the payment system, maintained on-line and then matched against the vendor invoice before payment for the purchase is authorized.

The requisition and receipt of goods and services is accomplished through the NIH Institutes, Centers and Divisions (ICD). Within each ICD, there may be several delegated procurement offices.<sup>1</sup> Each procurement office has (1) an Ordering Official who is responsible for making purchases and recording the receipt of goods in the payment system, (2) an Approving Official who is responsible for following-up, weekly, on unpaid invoices, and (3) a Receiving Official who is responsible for physically receiving or inspecting the goods and services.

The payment of goods and services is accomplished through the Accounts Payable and the Disbursing Services Section of the NIH Office of Financial Management. Invoices are date stamped, reviewed, recorded in the payment system and approved for payment in the Accounts Payable Section. Payment schedules certifying requests for payment are prepared by the Disbursing Services Section. This section forwards the requests to the Department of Treasury for payment.

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<sup>1</sup>The NIH has over 25 ICD's and over 115 delegated procurement offices.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives**

The objectives of this audit were to determine whether NIH:

- (1) has an adequate payment process for paying bills on-time; remitting interest penalties when payments are made late; 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 random sample of paid invoices and a judgmental sample of unpaid invoices to gain an understanding of the NIH payment process. The purpose of our sample was to assess internal controls and not to make estimates to the universe based on the sample units. The details of our sample selection are presented in Appendix A.

### **Methodology**

We reviewed (1) quality controls in the payment process used by NIH to pay invoices, remit interest penalties, and take discounts that are advantageous to the Government; and (2) the accuracy of reports used to support payments and show progress made with respect to complying with the Act. We also inquired into whether NIH has a quality assurance program to assess the reliability of its payment process.

Our review included (1) an observation of quality controls used in processing invoices for payment; (2) an evaluation of paid and unpaid invoices, receiving reports, paid invoice histories, purchase order histories, and Prompt Payment Status Reports for FY 1992, 1993 and 1994; and (3) an evaluation of written policies and procedures for the Accounts Payable Department and the DELPRO system.

We held discussions with the NIH Accounts Payable staff, the former and current Assistant Director of Finance, and ordering officials and approving officers at various NIH ICDs. We also held discussions with officials from the Department's Assistant Secretary for Management and Budget on its observations of NIH's compliance with the Act. Our review of internal controls was limited to only those controls which we considered necessary to satisfy our objectives.

Our audit was conducted in accordance with generally accepted Government auditing standards, from July 1994 through October 1995 at the NIH offices in Bethesda, Maryland.

## FINDINGS IN DETAIL

In FY 1994, the NIH reported that it made 80 percent of its payments on-time as compared to the OMB established performance standard of 95 percent<sup>2</sup>. The NIH also reported interest penalties for FY 1994 of \$242,221, an increase from FY 1992 reported interest penalties of \$41,955.

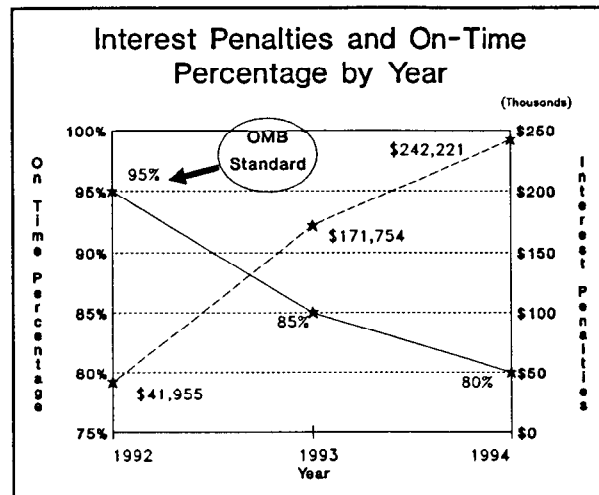
The NIH pays only 80 percent of its bills on-time because it does not assure that invoices are reviewed<sup>3</sup> and the receipt of goods are recorded within the time frames established by OMB; it underpays interest penalties primarily because penalties are calculated through the payment request date rather than the actual payment date as required by OMB; and it does not assure that discounts advantageous to the Government are taken because accounting technicians judgmentally determine whether discounts should be taken and manually calculate the discount amounts, rather than electronically (1) comparing discount terms to the Department of Treasury's Current Value of Funds Rate and (2) taking discounts when advantageous. The NIH reports appear accurate but are cumbersome to fully validate because the NIH payment system does not track receipt of goods by invoice.

The NIH does not conduct quality assessments of the reliability of its payment process. Such an assessment should result in identification and correction of the problems we identified.

Our audit showed that inefficiencies in NIH's system of processing invoices have led to slow payment of invoices, thus resulting in reported interest penalties totaling \$242,221 for FY 1994. Appendix B provides a breakdown of interest penalties by ICD.

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

- NIH's payment process,
- the accuracy of NIH reports, and



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

<sup>3</sup>Reviewing an invoice is when an accounting technician determines if the invoice is a proper invoice as required by the Circular. NIH performs this review when the invoice is recorded in the payment system.



- whether NIH 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, and a related Federal internal control standard, with conditions we found at NIH.

### Requirements

Section 4.b.(1) of OMB Circular A-125 requires **date stamping of invoices on the date they are received** by the billing office.

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

Sections 4.b.(2) and (3) of the Circular allow **up to 7 days** after receipt of an invoice to either return

### Conditions We Found

We found during our observation of mail room operations on October 4, 1994, a date of September 28, 1994 that was posted on a box of about 230 invoices that had not yet been stamped. These invoices were under the desk of an Accounts Payable mail clerk who had gone on vacation. The former Chief of Accounts Payable acknowledged the **absence of timely date stamping procedures**.

The central NIH mail room receives invoices, places them in boxes with the date of receipt written on a Post-It™ note, and delivers the boxes to the Accounts Payable mail room twice per business day. Staff in the Accounts Payable mail room told us they open the envelopes and date stamp the invoices with the date of the Post-It™ note on the box.

The same individual supervises both the NIH Accounts Payable mail room operations where invoices are date stamped and the accounting technicians who review and record the invoices. Accounting technicians also occasionally date stamp invoices. This is a separation of duties problem because the Accounts Payable staff has the opportunity to manipulate receipt dates stamped on invoices to make it appear that they were processed promptly. **Lack of separation of these key duties is not consistent with Standards for Internal Controls in the Federal Government.**

Of the 31 paid invoices we reviewed to determine whether the NIH payment process is adequate, we found that **18 invoices were neither accepted for payment nor returned within 7 days after the date**

deficient invoices to vendors or **accept the invoices for payment.**

**stamp date.** We could not determine when some of the other 13 invoices were accepted for payment because NIH's payment system does not show the date when invoices were entered into the system, which is also generally the date of acceptance for payment, according to the former Chief of Accounts Payable. The availability of such a date could be helpful in (1) tracking invoices to assure that invoices are processed within 7 days of the date of receipt by NIH and (2) future assessments of NIH's payment process.

Of the 36 unpaid invoices we reviewed to determine why they had not been paid, 18 were date stamped from between 30 and 500 days prior to our request to review them. At the time of our request the **invoices were waiting for an accounting technician to determine whether the invoices should be paid.** The invoices were paid after we requested them for review.

The NIH accounting technicians enter invoices into the payment system as the invoices are reviewed. They also make a payment request if the receipt of goods has been recorded in the payment system. Other invoices (i.e., invoices where receipt of the goods has not been recorded) are placed in an unpaid invoices file until the accounting technicians **manually** perform subsequent follow-up to determine the status of receiving for the respective invoices. If follow-up discloses that receipt of the goods has been recorded, the accounting technicians **manually** (1) authorize payment by making a payment request and (2) remove the invoice from the unpaid invoices file. As we previously noted, of the 36 unpaid invoices we requested for review, 15 had actually been paid but accounting technicians had not taken them out of the unpaid invoice file and 18 could have been processed for payment but were awaiting a determination by an accounting technician that they should be paid.

The NIH officials explained that reviews of invoices were not timely because about half of the accounting technicians' time is diverted from reviewing incoming invoices to processing payment requests after manually determining when goods are reported as received. These officials also explained that if the payment system would automatically match invoices with

receiving information, the accounting technicians' time could be used, more effectively, to process more incoming invoices for payment on-time.

A request, by the Office of Accounting Operations, to have the payment system automatically process invoices for payment after the receipt of goods has been recorded was made to NIH's Office of Computer Research Technology on October 18, 1994. As of October 1995, the request had not been implemented, however, NIH has been discussing the necessary changes required to automatically match invoices with receiving reports.

Section 4.c. of the Circular allows **up to 5 days to report receipt of goods** to an agency's payment office.

Of the 31 paid invoices we reviewed to determine whether the NIH payment process is adequate, we found that **9 receiving reports were not recorded for between 11 and 165 days after the goods were received.** Another report involved recording the receipt of goods for all services under a 24 month contract, only 6 months into the contract period. Although the related invoice we reviewed was paid in the correct amount, recording the services as received when they were not actually received places NIH at risk of paying for services and not receiving them. Of the remaining 21 invoices, the receipt of goods was recorded within 5 days as required by the Circular for 20 invoices and a receiving report was not required for 1 invoice because it involved training.

The NIH DELPRO procedures require that ICD officials: (1) record receiving in the payment system when the goods are received, and (2) review unpaid invoice data weekly and take action to obtain proper receiving information.

Where receipt of the goods has not been recorded, the Accounts Payable staff told us their undocumented procedure is to:

- ▶ request receiving information from ICDs 12 days after the receipt of the invoice;
- ▶ provide a report of unpaid invoices to the ICDs until the invoice is paid; and

- ▶ at 25 - 30 days after the invoice is received, notify the vendor that the goods have not been received and, therefore, the invoice will not be paid.

Allowing 12 days before requesting ICDs to record receipt of goods could result in noncompliance with the OMB requirement that goods be recorded within 5 days after they are received.

Some NIH officials attribute delays in processing invoices, and thus occurrence of interest penalties, to the ICDs not recording the receipt of goods in a timely manner. Appendix B provides a breakdown of interest penalties by ICD and the following section contains further discussion of interest penalties on invoices paid late.

Section 7.a.(2) of the Circular provides that **interest penalties** on invoices that are paid late **will generally be computed from the day after the due date** (day 31 after both the invoice and the goods have been received) **through the payment date**. Interest penalties of less than one dollar need not be paid.

Of the 31 invoices we reviewed, 12 were paid late and 10 required payment of interest penalties of over a dollar. In all 10 cases, **NIH considered interest penalties through the payment request date instead of the payment date** which occurred about 5 days later. We were unable to estimate the total amount of interest underpayments because we did not sample for this specific attribute.

**Interest computations** in 5 of the 10 invoices were also based on an **incorrectly recorded receiving report** (3 invoices) or date stamp date (2 invoices). The former Chief of Accounts Payable told us that a supervisor spot checks invoices after payment information is recorded in the payment system, but we found no evidence that any of the data entered into the payment system for the 31 invoices we reviewed had been validated by NIH. The current Assistant Director of Finance concurred with the need to improve the process for validating payment information but would prefer to perform validations on a sampling basis rather than validating all invoices.

Section 4.m. of the Circular specifies that **discounts will be taken whenever economically justified**. Section 8040.30 of the

The **NIH** policies and procedures state that personnel are expected to go to extraordinary lengths to take big discounts, but that it is not cost effective to devote special handling time to take smaller discounts. These **procedures require an accounting technician to**

Department of Treasury's Financial Manual states that agency payment systems will incorporate procedures that **take advantage of cash discounts as a matter of routine and eliminate any need for special handling.** This section also states that economic justification should take into consideration a comparison of discount terms with the Current Value of Funds Rate.

**analyze each discount offered and make a judgment of whether a discount is economical.** The NIH could require that discounts be recorded and electronically compared with the Department of Treasury's Current Value of Funds Rate to determine whether discounts are economical. The NIH officials explained that delays in recording the receipt of goods and processing invoices for payment prohibits the NIH from taking discounts that are advantageous to the Government.

The current Assistant Director of Finance concurred that all available discounts should be taken where advantageous to the Government. He stated that when possible discounts should be recorded in the payment system at the time the purchase order is recorded. Accounting technicians should verify that all discounts offered on the invoice are recorded in the payment system.

#### **Reasons For Differences Between Requirements and Conditions We Found**

- The NIH has not developed policies and procedures requiring that invoices be date stamped on the date they are received and tracked with a unique identification number that would help to identify (1) misplaced invoices, (2) delays in processing individual invoices, and (3) opportunities to improve the overall system of processing invoices for payment.
- The responsibility for both date stamping invoices and processing invoices for payment are in Accounts Payable.
- Accounting technicians' time is diverted from reviewing invoices as they come in to following up on invoices previously reviewed to determine whether the goods have been received. This task could be performed electronically, thus increasing timeliness of payments and reducing interest penalties for late payment of invoices. The Office of Financial Management is consulting with NIH's Office of Computer Research Technology on implementation of a process for performing this task electronically.
- The ICDs are not routinely recording the receipt of goods within 5 days of receipt of the goods. The Accounts Payable Section waits until 12 days after an invoice is received before it notifies the ICDs that the receipt of goods has not been recorded. These delays, as well as the lack of automatically processing invoices after the receipt of goods has been recorded, have resulted in an increased number of late payments, and thus, an increase in interest payments. We believe the ICDs should be notified the day after the invoice is received.

- The NIH routinely computes interest penalties through the payment request date rather than the payment date. Also, because the NIH has not established policies and procedures for validating data entry, errors that occur during data entry go unnoticed and affect the calculation of interest penalties. We believe that all payment data should be validated either for all invoices or for a sample of invoices. If invoices are validated on a sample basis, evidence should be maintained that shows how the invoices were selected, what payment information was validated, what corrections were made, and how the sample results were used to analyze errors and correct system deficiencies.
- The NIH does not have a system for systematically (1) identifying available discounts and (2) taking discounts when advantageous to the Government.

### RECOMMENDATIONS

To improve performance in paying invoices on time, and better assure that interest is calculated correctly and that discounts are taken when advantageous to the Government, we recommend that NIH:

1. revise its policies, procedures, and practices for processing invoices to require that invoices be (a) tracked with a unique identification number from receipt of the invoice through payment; (b) date stamped on the date of receipt; (c) reviewed within 7 days of receipt; and (d) promptly returned to the vendor if the invoice is found to be deficient and unpayable;
2. move the responsibility of date stamping invoices from Accounts Payable to another office within the Office of Financial Management to separate control of the receipt and processing of invoices received for payment;
3. implement a process to (a) pay invoices electronically after matching purchase orders, invoices, and receiving reports and (b) delete invoices from the unpaid invoices file after the invoice is paid;
4. revise its procedures to require that on the day after the invoice is received, Accounts Payable staff request the ICDs to follow-up on whether the goods have been received;
5. revise its payment system to compute interest penalties through the payment date and establish policies and procedures to validate the accuracy of data entered into the payment system; and
6. revise its payment system to (a) require that all available discounts be recorded in the payment system and (b) electronically compare discount terms to the Department of Treasury's Current Value of Funds Rate to determine whether discounts are economical.

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

The NIH concurred with all of the above recommendations except that it did not concur with the specific approach proposed in Recommendations 1.(a) and 4.

The NIH recognized that the approach proposed in Recommendation 1.(a), to use a unique identification number to track invoices, is used in other agencies. However, it stated that implementation and use of unique identification numbers would not insure an improvement in the NIH payment system and that costly system modifications would be required to incorporate a process of tracking invoices in this way. The NIH believes that the totality of other steps it is taking will result in notable improvements in this area. The steps noted in the NIH comments did not specify what alternative to use of unique identification numbers that NIH will employ to monitor invoices to identify:

(1) backlogs before they result in untimely payments; and (2) opportunities to streamline operations while assuring compliance with Circular A-125. Until NIH implements a system for monitoring the processing of invoices, we believe that NIH will continue to be at risk of incurring interest penalties for late payment due to untimely invoice processing and for not paying the correct amounts of interest penalties that are due.

The NIH noted that implementation of Recommendation 4, that Accounts Payable staff request ICD follow-up the day after the invoice is received, would be burdensome and might not produce the desired result. As an alternative it indicated that it was initiating a method for alerting the ICDs that invoices have arrived through such methods as follow-up dunning notices and telephone calls to ICDs. The alternative noted by NIH appears to be responsive to the intent of our recommendation.

### **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**

For the 31 paid invoices we reviewed, we were able to trace original documentation and original entry into the payment system and believe that the payment system accurately reports progress under the Act. We had substantial difficulty tracing information through the payment system in some instances and could not achieve the assurance we could have achieved had the NIH payment system been designed to track the receipt of goods by invoice rather than by line item on the purchase order.

Our earlier recommendation (# 3) that NIH implement a process to pay invoices electronically after matching purchase orders, invoices, and receiving reports would require a change in the payment system to track the receipt of goods by invoice rather than by line item on

the purchase order. Effective implementation of this recommendation would facilitate tracing of information through the payment system.

## ASSESSMENT OF THE PAYMENT PROCESS

### Requirement

### Conditions We Found

Section 3.e. of OMB Circular A-125 requires agencies to establish a systematic performance measurement system. The system must (a) provide a reliable way to estimate payment performance, (b) provide managers information about problems and (c) assist in targeting corrective action. We believe that **an effective system for measuring payment performance under the Act must encompass assessment of all the following areas: (a) authorizing purchases and recording the receipt of goods, (b) processing invoices and payments, (c) computing and paying correct interest penalties, and (d) taking available discounts when advantageous to the Government.**

The NIH does not have a quality assurance program that (1) systematically measures performance of its Accounts Payable system, (2) provides managers with information about problems, and (3) assists in targeting corrective action. As a result, the NIH is not identifying and correcting deficiencies in its payment process.

The NIH states in its reports, required by the Act, that it uses on-site reviews required by its DELPRO system to satisfy the Act's requirement for a performance measurement system. The DELPRO policies and procedures require an annual on-site review of the **procurement system** at each of the NIH procurement offices to verify that receiving reports and purchase orders exist and are recorded in the payment system in a timely and proper manner. The DELPRO reviews can, therefore, be useful in assessing performance in the area of authorizing purchases and receiving goods and services.

We found that the NIH DELPRO annual on-site review assesses only **(a) authorizing purchases and recording the receipt of goods. It does not assess (b) processing invoices and payments, (c) computing and paying correct interest penalties, and (d) taking available discounts when advantageous to the Government.**

### Reason For Differences Between Requirements and Conditions We Found

The former Chief of Accounts Payable and the former Assistant Director of the Office of Financial Management acknowledged that NIH does not conduct reviews of its Accounts Payable system, nor has it established a performance measurement system for assessing the reliability of its payment process.



### **RECOMMENDATION**

7. We recommend that NIH comply with the Prompt Payment Act by establishing a program to assess the performance of its payment process and provide a reliable way to estimate payment performance.

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

The NIH concurred with our recommendation and assigned the responsibility for assessing and reviewing prompt payment performance to the Chief Financial Officer Branch within the Office of Financial Management.

### **OTHER MATTERS**

The NIH also has under discussion the possibility of paying for small purchases without first having evidence that the goods were received, as allowed by the Act. We believe that (1) problems with recording the receipt of goods in a timely manner should be corrected and (2) a follow-up process should be established to confirm that goods paid for were received before implementation of a system where payments are made without evidence that the goods had actually been received.

Appendices

**DESCRIPTION OF SAMPLE SELECTION**  
**Sample of Paid Invoices**

To determine whether NIH paid its invoices on-time, correctly calculated interest penalties, took available discounts that were advantageous to the Government, and accurately reported payments in the payment system, we selected a sample of paid invoices from payment schedules where the supporting payment documentation had not been sent to storage. When we selected our sample on October 11, 1994, supporting documentation<sup>1</sup> for payments made prior to August 11, 1994 had been placed in storage. We randomly selected 2 payment schedules from the schedules that were paid during September 1994.

Fifteen invoices were randomly selected from a NIH Payment schedule dated September 9, 1994. These invoices were selected by counting the number of vendor payments on the schedule (448), randomly selecting a starting vendor number (11) and then selecting every 29th vendor to achieve our sample size of 15 invoices ( $448/15 = 29$ ). We then selected the first paid invoice for the vendor selected.

Sixteen invoices were randomly selected from a NIH Payment schedule dated September 22, 1994. These invoices were selected by counting the number of vendor payments on the schedule (598), randomly selecting a starting vendor number (10) and then selecting every 39th vendor to achieve our sample size of 15 invoices ( $598/15 = 39$ ). We then selected the first paid invoice for the vendor selected. Because of rounding, the actual resulting sample size was 16 invoices.

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<sup>1</sup>Supporting documentation included the disbursement voucher, vendor invoice stamped with the date of receipt, and in some cases, the purchase order and/or receiving report.

**DESCRIPTION OF SAMPLE SELECTION**  
**Sample of Unpaid Invoices**

To determine whether the accounting technicians performed follow-up on unpaid invoices, we judgmentally selected, from the NIH Unpaid Invoice file, 36 invoices that had not been scheduled for payment. As of October 2, 1994, this file contained 29,601 invoices which had not been scheduled for payment. To select our sample, we used the summary schedule for the Unpaid Invoice File. This schedule showed the number of unpaid invoices by reason for non-payment and accounting unit.

We determined that a sample size of 30 invoices was appropriate. However, because we judgmentally selected our invoices by accounting unit within each reason for non-payment and rounded up to the nearest whole number when our calculations<sup>2</sup> produced a fraction, our sample size increased to 36 invoices.

	<u>Number of Invoices</u>	<u>Percentage of Total</u>	<u>Sample Items Selected</u>
Goods were not Received	4,804	16%	6
Partial Receipt of Goods	5,270	18%	6
Invoice may be an Error	293	1%	3
No Purchase Order	322	1%	1
Invoice is Payable but Payment has not been Authorized	<u>18,912</u>	<u>64%</u>	<u>20</u>
Total	<u>29,601</u>	<u>100%</u>	<u>36</u>

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<sup>2</sup>Our calculations involved multiplying the percentage of invoices by reason for non-payment with the percentage of invoices within each accounting unit. An accounting unit consists of 5 to 11 accounting technicians. The Accounts Payable Section is divided into 4 accounting units that process invoices for payment.

**Reported Interest Penalties  
Fiscal Year 1994**

Institute, Center or Division (ICD)	Reported Interest Penalties <sup>1</sup>
National Institute on Alcohol Abuse and Alcoholism	\$1,600
National Institute of Arthritis and Musculoskeletal & Skin Disease	1,600
National Institute of Dental Research	2,100
Office of the Director	2,600
National Institute of Neurological Disorders and Stroke	3,100
National Center for Human Genome Research	3,600
National Institute of Diabetes and Digestive and Kidney Diseases	3,900
National Library of Medicine	3,900
National Institute of Drug Abuse	4,000
National Institute on Deafness & Other Communication Disorders	4,200
National Eye Institute	5,100
National Institute on Aging	6,500
Buildings & Facilities	8,000
National Institute of Mental Health	8,300
National Heart Lung and Blood Institute	9,100
National Institute of Environmental Health Sciences	10,800
National Institute of Child Health & Human Development	20,600
National Institute of Allergy and Infectious Diseases	21,500
National Cancer Institute	28,000
NIH Management Fund <sup>2</sup>	41,900
NIH Service and Supply Fund <sup>3</sup>	49,000
Total Interest Penalties for ICDs Reporting Less than \$1,000 in FY 1994	<u>2,800</u>
 Total Interest Penalties Reported for FY 1994	 <u><u>\$242,200</u></u>

<sup>1</sup>Interest Penalties are rounded to the nearest \$100.

<sup>2</sup>The management fund finances a variety of centralized research, support, and administrative activities that cannot be directly identified with an ICD. Costs are assessed to the individual ICDs on a formula basis.

<sup>3</sup>The service and supply fund finances a variety of centralized research, support, and administrative activities that can be identified to specific ICDs. Costs are charged to the ICD on a fee-for-service basis.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service

National Institutes of Health  
Bethesda, Maryland 20892

MAY 29 1996

**TO:** Joseph J. Green  
Assistant Inspector General  
for Public Health Service Audits

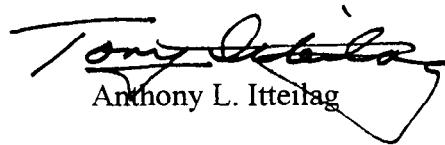
**FROM:** Deputy Director for Management, NIH

**SUBJECT:** NIH Comments to the Office of Inspector General (OIG) Draft Report  
*Compliance with the Prompt Payment Act by the National Institutes of Health,*  
A-15-94-00032

Attached are the NIH's comments on your findings and recommendations contained in the subject report.

The report identified certain problems which affected NIH's compliance with the Prompt Payment Act. The Office of Financial Management (OFM) has since implemented procedural and policy changes which address many of these problems and will improve NIH's level of compliance. Additionally, the NIH community is working towards bringing about other significant changes and improvements in meeting the requirements of the Prompt Payment Act. These changes are described more fully in the NIH comments to the specific OIG recommendations.

Thank you for bringing these matters to our attention. You can be assured that further improvements in this area are a high priority and will continue to have my personal attention.

  
Anthony L. Ittekkag

Attachment

**National Institutes of Health (NIH) Comments on the Office of Inspector  
General (OIG) Draft Report *Compliance with the Prompt Payment Act by the  
National Institutes of Health, A-15-94-00032***

General Comments

This report identifies problems with the NIH's compliance with the Prompt Payment Act (Act) and addresses initiatives undertaken by NIH and its Office of Financial Management (OFM) to improve its level of compliance. The OFM has implemented, and continues to assess procedural and policy changes which will address many of the problems and ultimately improve the payment system. However, improving compliance to an acceptable level requires the support and commitment of NIH components beyond OFM.

The OFM is taking steps to ensure that all NIH components involved in voucher payments are aware of potential problem areas and are working jointly to bring about improvements. For example, OFM has worked with the Office of Procurement Management to identify ways to improve the timeliness of entering the certification of the receipt of goods and services into the administrative data base (ADB) used to make most vendor payments. In addition, mechanisms are in place to allow personnel from NIH's Institutes, Centers, and Divisions (ICDs) to review invoices on the day following input into the ADB.

While identifiable improvements have been made, NIH management acknowledges that further efforts are necessary. Such efforts are underway and will be pursued as vigorously as possible given competing resource demands and increasing administrative workloads.

OIG Recommendation:

To improve performance in paying invoices on time, and better assure that interest is calculated correctly and that discounts are taken when advantageous to the Government, we recommend that NIH:

1. Revise its policies, procedures, and practices for processing invoices to require that invoices be (a) tracked with a unique identification number from receipt of the invoice through payment; (b) date stamped on the date of receipt; (c) reviewed within 7 days of receipt; and (d) promptly returned to the vendor if the invoice is found to be deficient and unpayable.

NIH Comment

We concur with all except the specific approach set forth in recommendation 1(a):

1(a). We concur with the intent of the OIG recommendation, but not the specific approach. Implementing the use of a unique identification number for tracking invoices would cause an additional and undue burden on OFM's Accounts Payable Branch. Although the practice of

using invoice controls numbers (ICNs) is practiced in other agencies, this practice would not insure an improvement in the NIH payment system. System modifications would be required to incorporate the ICN as a meaningful tool. At this time, modifications of the magnitude necessary would be too costly and would not necessarily guarantee an effective tool. We believe that the totality of the other steps we are taking will result in notable improvements in this area.

1(b). We concur. In accordance with the Act, invoices are being date stamped in the primary designated payment office. The OFM is issuing to other designated payment offices, instructions which require these offices to date stamp the invoices upon receipt.

1(c). We concur. Within available resources, invoices are now date stamped and reviewed within seven days of receipt in the designated payment office. Every effort is being made to return defective invoices to the vendor within the seven day time frame established by the Act.

1(d). We concur. If an invoice is not in compliance with prompt payment rules [OMB Circular A-125] or the Federal Acquisition Regulations, Part 52.232-25 [Prompt Payment], the invoice will be returned. The Accounts Payment Branch is using its return letter to notify vendors of problem invoices. Within available resources, invoices are being returned promptly upon recognition of a defect, thereby stopping the prompt payment clock.

#### OIG Recommendation

2. Move the responsibility of date stamping invoices from Accounts Payable to another office within OFM to separate control of the receipt and processing of invoices received for payment.

#### NIH Comment

We concur. The responsibility for date stamping now resides in the mail room or in the designated paying office indicated on the purchase order or contract. Prior to the issuance of this draft report, OFM had taken the initiative to move this responsibility from the Accounts Payable Branch. The OFM is using contractors to date stamp and distribute mail to the appropriate offices.

#### OIG Recommendation

3. Implement a process to (a) pay invoices electronically after matching purchase orders, invoices, and receiving reports and (b) delete invoices from the unpaid invoices file after the invoice is paid.

#### NIH Comment

We concur. The OFM has requested a systems enhancement that will allow automated matching

of invoices and receiving reports. Progress on the implementation of this enhancement will be monitored by the Director, OFM. In addition, the NIH investigated the cause of problem of paid invoices remaining on the unpaid invoices file and has taken corrective action to ensure that paid invoices are deleted.

#### OIG Recommendation

4. Revise its procedures to require that on the date after the invoice is received, Accounts Payable staff request the ICD to follow-up on whether the goods have been received.

#### NIH Comment

We concur with the intent of this recommendation but not the specific approach, since its implementation would place an extremely burdensome requirement on NIH and might not produce the desired result. However, actions are being taken to correct the problems leading to this recommendation as follows.

The OFM will, on a regular basis, remind the ICDs that receiving reports and/or certifications must be entered into the ADB or forwarded to OFM promptly. Automated mechanisms currently exist that allow ICD personnel to review invoices on the day following input to the ADB.

We are aware that, although the ADB's unpaid invoice screen is currently available to all DELPRO users for their review, it does not guarantee that users will access the system. Therefore, by the end of May 1996, NIH will initiate a method for alerting the ICDs that invoices have arrived. Such methods may include, but will not be limited to, follow-up dunning notices and telephone calls to the ICDs.

As necessary, the Deputy Director for Management, NIH, will follow up with ICD Executive Officers to assure compliance throughout NIH.

#### OIG Recommendation

5. Revise its payment system to compute interest penalties through the payment date and establish policies and procedures to validate the accuracy of data entered into the payment system.

#### NIH Comment

We concur. In accordance with the Act, interest will be paid from the date deemed late until payment is scheduled by the Department of Treasury. The NIH will modify its existing systems and procedures to ensure that interest is calculated and paid correctly.



OIG Recommendation

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

NIH Comment

6(a). We concur. Currently the procurement offices have the ability to enter/input payment discount terms as text on a purchase order and in the ADB. The OFM has requested that they ensure that this input occurs.

6(b). We concur. In accordance with the Act the OFM has investigated and requested an impact analysis on the systems modifications required to correct this problem. The OFM will carefully monitor the progress on the implementation of this software modification. Implementation of this recommendation will require extensive reprogramming of the ADB.

OIG Recommendation

7. Comply with the Prompt Payment Act by establishing a program to assess the performance of its payment process and provide a reliable way to estimate payment performance.

NIH Comment

We concur. The responsibility for assessing and reviewing prompt payment performance has been assigned to OFM's Chief Financial Officer Branch. This office will report quarterly on the OFM's progress toward improving its prompt payment compliance.