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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Audit of the Timeliness of Department Payments Subject to the Prompt Payment Act

Report Number AUD/IP-09-24, September 2009

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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

Harold W. Geisel
Acting Inspector General

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Department of State's interest penalties increased dramatically in FY 2008 to $5.4 million, from $405,000 paid in FY 2006, because of increasingly late payments paid to its vendors. The Office of Inspector General (OIG) initiated this audit to assess the Department's compliance with the Prompt Payment Act (PPA). More specifically, it was to determine whether the Department successfully made payments to vendors in a timely manner, to examine the reasons for untimely payments where they occurred, to determine whether proper interest penalty payments were made on late payments, and to determine what actions management planned to take or had taken to correct deficiencies for payments that were not made timely.

PPA requires federal agencies to pay their bills timely, generally defined as within 30 days of receipt of a proper invoice. OIG randomly sampled the Department's domestic FY 2008 payments subject to PPA and found that 157 (56 percent) of the 279 sampled payments were not made timely.[1] Almost 80 percent of interest penalties were assessed against four of the Department's bureaus: Consular Affairs, Diplomatic Security, International Narcotics and Law Enforcement Affairs, and Information Resource Management. Of the Department's more than 5,000 vendors, 10 vendors received half of the penalties and 30 vendors received two thirds of the penalties. In addition, the Department should have paid interest penalties on 34 percent of its payments but paid penalties on only 24 percent of the payments sampled.

Interest penalties increased in FY 2008 primarily because of delays in processing invoices caused by the change to a new accounting system in May 2007. Initially, the Department was unable to process invoices for weeks after the implementation, and large backlogs occurred. The Department took several steps to resolve some of the problems that occurred during and after implementation of the new system. However, one significant problem that has not yet been resolved is the new Department requirement that invoices should be paid at a detailed level of cost (line item), whereas previously, invoices were paid at a broad level of cost (header). This new requirement has created more work for bureau personnel who approve and review

[1]Untimely payments are payments that are made earlier or later than the time periods established by federal laws and regulations. [Source: 31 U.S.C. chapter 39]

invoices, including additional responsibilities for contracting personnel who had not previously been required to review and approve invoices at this level of detail and who were not adequately trained for this task.

This new process continues to be one of the greatest factors causing delays in payments. The Department hired a consultant to review the procurement and payment processing problems that occurred with the change to the new system, and the consultant recommended that funding be established at the broader header level to simplify the contracting process. However, no corresponding change was made to simplify payment processing. While approving costs at the line-item, or detailed, level continues to create delays in processing for bureau personnel, the scope of this audit was not sufficient to determine whether the benefits of the change outweighed the costs and impacts of the change. Certain technical problems also occurred when the new system was implemented, and these problems have not yet been resolved, including issues related to the delivery date and the posting of refunds.

In addition, while segments of the process can be tracked, the Department does not have the means to track payments from the receipt of an invoice through the review, approval, and payment of the invoice. Reporting has improved, but it needs further enhancements. Further, the process requires many manual steps that increase delays in payment processing. In general, the bureaus that had more control over and oversight of the payment process had fewer late payments than those bureaus that had less control.

The Department paid interest penalties of $5.4 million in FY 2008 as a result of the untimely payments—an amount that could have been used for other Department programs. These penalties created problems for the vendors who do business with the Department, and, according to the independent consultant, the Department even lost vendors because of untimely payments.

OIG is recommending that the Bureau of Resource Management (RM) resolve outstanding problems with the new accounting system, implement a process or system to track all invoices from the receipt though the payment of the invoice, make the late payments report more timely, and add performance metrics to the late payments reports. RM should also develop a plan to further automate manual processes and establish policies and procedures to improve oversight. Finally, RM needs to resolve errors identified in this report as underpaid interest penalties and establish internal controls to ensure that documents supporting the calculation of the payment due date match the information in the Global Financial Management System.

Management Comments

In its response to the draft report (Appendix E), RM concurred with OIG's recommendations, but stated that it was "disappointed" that the report did not recognize recent reductions in the Department's FY 2009 late payment penalties, which RM stated were $1.17 million through August 2009. RM also said that the report did not include a full recognition of the challenges it faced during a "volatile period of business process change," including "perhaps the largest upgrade of Department software in a single installation and conversion" and "the increase in complexity, volume and Department-wide responsibilities in the payments arena" attributable to growth of the Department's mission and financial resources during the period.

RM stated that steps have been taken to address the report's recommendations. Specifically, RM stated that it has resolved technical problems with GFMS, explored the feasibility of using GFMS to track invoices throughout the entire payment process, reduced some of the manual steps previously required to process invoices, and continues to evaluate alternatives to fully implement electronic invoice processing. In addition, RM stated that it is working to provide bureaus with performance metrics, conduct additional training in FY 2010, resolve the interest penalty errors identified in the report, and enhance its quality work instructions and reference documents to improve controls over payments.

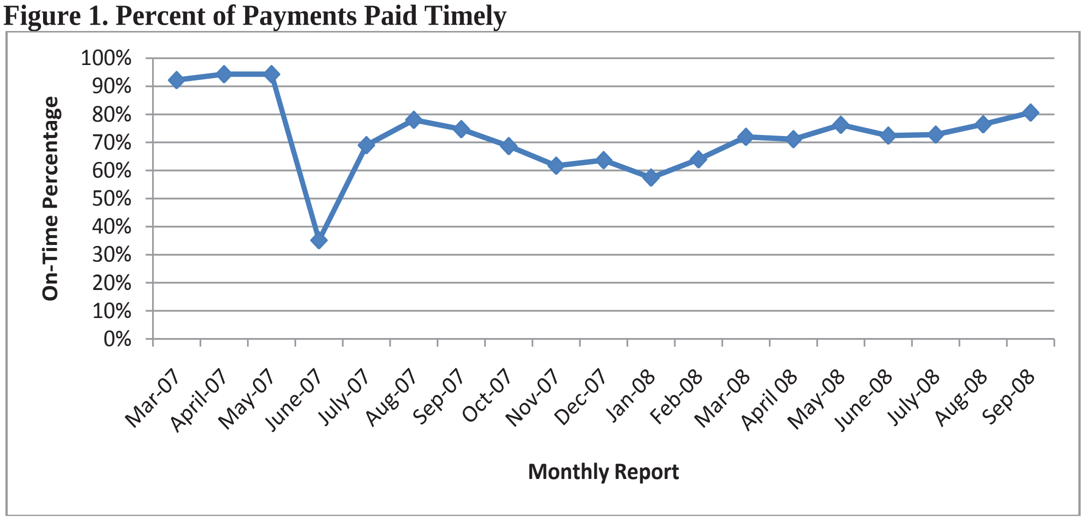
OIG considers all recommendations resolved and will close them when it receives and reviews the requested supporting documentation.

BACKGROUND

In 1982, Congress enacted the Prompt Payment Act[2] to require federal agencies to pay their bills on a timely basis and pay interest penalties when payments are made late. Of 24 federal agencies, the Department had the lowest percentage of payments made timely throughout FY 2008. For this period, the Department paid an average of 70 percent of its payments timely compared with 90 percent or more for the other 23 federal agencies reporting.

The Department reached a low of 35 percent of payments processed timely in June 2007, shortly after the Department changed to a new accounting system. For the preceding 3 months, the Department made an average of 94 percent of its payments timely. The Department has made progress in reducing the number of late payments since June 2007, as shown in Figure 1. However, it still averaged a timely payment rate of only 79 percent for the first quarter of FY 2009.

Figure 1. Percent of Payments Paid Timely

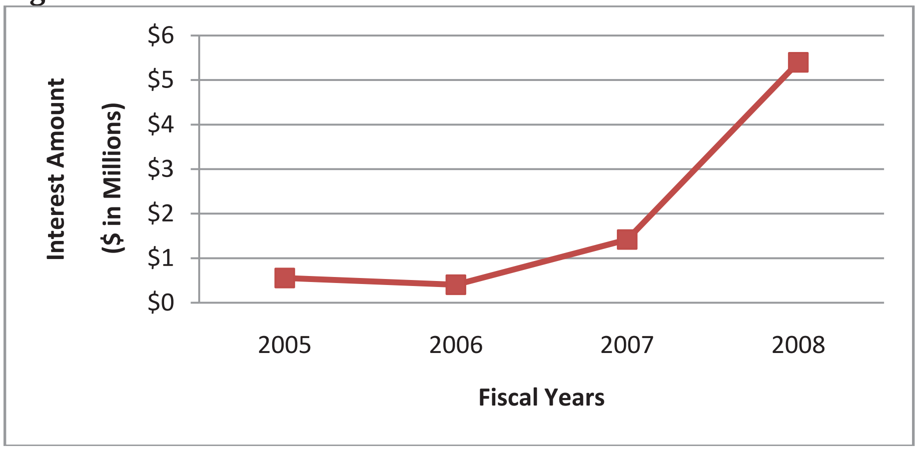


Source: OIG prepared.

The increase in late payments correlates to a dramatic increase in interest penalties of $5.4 million the Department paid in FY 2008, as shown in Figure 2. In FY 2007, the Department reported that it had paid $1.4 million in interest penalties. For FYs 2005 and 2006, the Department reported that it had paid interest penalties of $557,000 and $405,000, respectively.

[2] 31 U.S.C., chapter 39.

Figure 2. Amount of Interest Penalties Paid



Source: OIG prepared.

Processes and Systems for Processing Payments

The Bureau of Resource Management's (RM) Global Financial Services in Charleston, South Carolina, is responsible for receiving and processing the Department's domestic payments except for designated billing offices (DBO). When invoices are received in Charleston, the vendor claims group reviews the invoices to determine their validity. Improper invoices[3] are returned to the vendor, and proper invoices are sent to the bureaus for review and approval. After the bureau completes its review and approves the invoice for payment, it forwards the invoice, along with a statement of receipt and acceptance of goods and services and any other supporting documentation, to the Office of Claims by e-mail. This statement is received by Charleston and reviewed by a certifying officer, who approves the invoice for payment. (This process is detailed in Appendix B.)

The Department developed a goal of 25 days to process an invoice from the receipt of the invoice to the date it is sent to the Department of the Treasury for payment to ensure that payments are made timely. This goal is divided into time lines, with a specific number of days assigned to each step of the process, as shown in Figure 3.

[3]An improper invoice lacks the information required under 5 CFR 1315.9(b), including items such as the vendor name; the invoice date; and the description, quantity, and price of goods or services rendered.

Figure 3. Invoice Payment Timeline

Invoice Payment Timeline

U.S. State Department

Goal: Send Payment to Treasury by Day 25 To Avoid Prompt Pay Penalties

Task	Days	GFS	B&F	COR	GFMS	Treas.
Vendor invoice received	0	x				
Enter invoice and send to bureaus	1-3	x				
Receive, log, and send to COR to obtain approval	1		x			
Review, approve, and/or deny vendor invoice	2-5			x		
Determine funds availability	1-2		x			
Scan approval form and supporting documentation, and send complete package back to VC*	1		x			
Complete invoice, and enter payment	5	x				
Approve/reject payment voucher	2	x				
Disburse approved payment voucher	3-5				x	
Pay submitted claim	1-2					x

Page 29

*Vendor Claims Office

Source: RM Contracting Officer's Representative Conference (March 2008).

RM uses the Global Financial Management System (GFMS) to track and pay invoices. When Charleston first receives an invoice for payment, it creates a document in GFMS to record the receipt of the invoice, which allows RM to track the payment. The invoice receipt date is entered into GFMS at that time, and the invoice is then sent to the bureau. The bureaus are responsible for providing other significant dates, including the dates that goods and services are received and accepted. These dates are necessary to compute the payment due dates and are recorded on an invoice approval form that RM uses to input these key dates into GFMS. The Office of Claims then schedules the invoice for payment by the Treasury.

Several bureaus and offices are DBOs, which are responsible for receiving and processing their own payments, including the Bureau of Overseas Buildings Operations (OBO), the Foreign Service Institute (FSI), the Diplomatic Telecommunications Program Office, and the Office of Language Services. These DBOs receive, review, and approve their own invoices. A representative from RM then certifies and schedules payments from these offices.

Regulations Governing Payments Made by Federal Agencies

The Prompt Payment Act and other federal regulations govern the time that agencies have to make payments, and the amount of interest penalties that they must pay when payments are not made within the required time period. These regulations specify the invoice receipt date, the dates for the delivery and acceptance of goods and services, and the payment due dates, which are necessary to determine whether payments are made timely. OIG used the definitions included in the Prompt Payment Act and the Code of Federal Regulations to review supporting documentation for sampled payments. These were compared with the dates the Department used to calculate its payment due dates. These regulations also provide information on how to calculate a constructive acceptance date where necessary and determine the amount of interest penalties owed for payments that are late.

The Prompt Payment Act generally requires that payments be made within 30 days of receipt of a proper invoice for procurement contracts and vendor, utility, and Commodity Credit Corporation payments.[4] However, payments usually should not be paid earlier than 7 days prior to the due date[5] unless they are less than $2,500[6] or when an agency determines that the government benefits from accelerated payments.[7] Agencies must consider the cost of funds to the government when making early payment determinations. An invoice must be reviewed as soon as feasible after it is received to determine whether it is proper. A proper invoice will include the name of the vendor; the invoice date; the description, price, and quantity of goods or services actually rendered or delivered; and other required information. If the invoice is improper, an agency has 7 days to return the invoice to the vendor after receipt.[8]

[4] 31 U.S.C. § 3903(a)(1)(A)(B) and 5 CFR 1315.4(g)(h).
[5] 31 U.S.C. § 3903(a)(8).
[6] 5 CFR 1315.5(a).
[7] 5 CFR 1315.4(j).
[8] 5 CFR 1315.4(c)(1)(2) and (g)(4) and 5 CFR 1315.9(b).

To determine the payment due date, from which interest penalties begin to accrue for late payments, an agency must first determine the invoice receipt date. An agency is considered to have received an invoice on the later of the date on which the agency receives a proper invoice or the 7th day after the date that goods are actually delivered or performance of services is actually completed. Exceptions to this regulation include the following:

- when the agency accepted property or services before the 7th day or
- when the contract specifies a longer acceptance period

An agency must document the receipt of goods and services at the time of delivery, and acceptance must be performed as promptly as possible after receipt. Additionally, acceptance documents are required to have the receipt date recorded on them by the designated office.[9] The process for computing the due date is shown in Appendix C.

Performance Measurement

The Federal Government has established performance goals for payments made by federal agencies. Specifically, the U.S. Chief Financial Officers Council (CFOC) established two goals to measure federal agencies' performance in meeting the requirements of the Prompt Payment Act:

- a goal of 98 percent of payments made timely and
- a goal of less than $200 of interest penalties paid per $1 million in total payments.

Each agency reports monthly on its performance in meeting these goals. The agencies' performance statistics are then publicly reported at the Federal Interagency Databases Online (FIDO). FIDO captures key financial management indicators across the Federal Government to provide government managers, Congress, and other stakeholders information to assess the financial management health of the Federal Government. Tracking performance on indicators helps to guide financial management reforms and targets resources to areas where better stewardship is needed.

[9] 5 CFR 1315.4(d)(e).

Prior OIG Reports

In 1992, OIG reviewed and evaluated the efficiency and effectiveness of the Department's domestic vendor payment process, including its compliance with the Prompt Payment Act.[10] This review identified problems with the bureaus and the financial management office, including management control weaknesses, that caused late, early, and erroneous payments. Specifically, the bureaus did not (1) monitor their payment and obligation data to ensure that funds were available to pay invoices, (2) submit invoices within the 30-day period, (3) date stamp invoices upon receipt, and (4) provide adequate documentation for the receipt of goods and services. The Bureau of Finance and Management Policy (FMP), the forerunner to RM, also contributed to untimely payments because it did not:

- ensure that its staff followed written policies and procedures;
- identify and return defective invoices to vendors;
- match hard copies of purchase orders and contracts, invoices, and receiving reports to ensure that payments were proper;
- calculate interest penalties correctly; and
- implement an effective quality control program.

The 1992 report also identified problems in the Department's systems that contributed to errors and delays in processing invoices. OIG recommended that FMP provide guidance to the bureaus, and instruct them to monitor their payment and obligation data to ensure that funds were available to pay invoices. OIG also recommended that FMP provide interest penalty and other reports to the bureaus, provide additional training to its staff, implement a quality control program, and improve system and software problems.

[10] *Domestic Vendor Payments and Compliance With the Prompt Payment Act* (2-FM-011, March 1992).

In November 2000, OIG conducted another audit that included prompt payment issues.[11] This audit found that the Department had violated the Prompt Payment Act and recommended that it pay penalties owed.

In July 2007, OIG found that the Department did not have an effective process for reviewing and approving DynCorp invoices.[12] OIG recommended that the Department modify its existing policies related to reviewing and approving invoices and assess methods used by other bureaus or agencies to streamline the invoice review and approval process and implement these methods if possible.

The Department took corrective action to resolve all of OIG's recommendations for the 1992, 2000, and 2007 audits, and the recommendations were subsequently closed.

[11] *Inquiry Into the Procurement of Contractor Support for the International Affairs Global Resource Database* (01-PP-0002, Nov. 2000).

[12] *Independent Auditor's Report on the Application of Agreed-Upon Procedures Related to Selected DynCorp Invoices* (AUD/FM-07-41, July 2007).

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of this audit was to review the Department's compliance with the Prompt Payment Act. The primary objective of the audit was to determine whether the Department successfully made payments to vendors in a timely manner. OIG also examined the reasons for untimely payments when they occurred and determined whether proper interest penalty payments were made on those late payments. In addition, OIG reviewed the actions management had taken, or planned to take, to correct deficiencies for payments that were not made timely.

To gain an understanding of the requirements of the Prompt Payment Act, OIG reviewed the Act and other federal regulations implementing the Act, as well as the Foreign Affairs Manual, the Foreign Affairs Handbook, and Treasury guidance related to the Act. OIG also reviewed performance standards established by the CFOC and the Department to measure the timeliness of payments and obtained information about the Department's performance from FIDO.

OIG examined reports related to the Prompt Payment Act that it had previously issued and reports that other federal agencies and the Government Accountability Office had also issued. This review also included searching the Internet and the Department's Web site for information relevant to this audit. OIG also obtained and reviewed documents from Department officials that explained the processes and procedures they use to make domestic payments, as well as information about GFMS, which is used to process payments.

As part of OIG's review of internal controls, OIG traveled to the Global Financial Services Office in Charleston to observe its operations and interview Department personnel, including voucher examiners and certifying officers, responsible for receiving and processing payments. OIG also interviewed officials at several bureaus responsible for reviewing and approving payments. Specifically, OBO and FSI personnel described their processes and procedures and explained how they were able to keep late payments under 6 percent during the transition to GFMS. Conversely, representatives from the Bureaus of Administration (A Bureau), Consular Affairs (CA), Diplomatic Security (DS), and International Narcotics and Law Enforcement Affairs (INL) discussed the challenges they faced in trying to meet Department standards and actions they had taken to improve the efficiency of payment processing.

OIG obtained database files containing all Department vendor payments processed domestically during the first 10 months of FY 2008[13] (October 2007–July 2008) that the Department said were subject to Prompt Payment Act penalties. From these files, OIG tested timeliness in one category of payments called "P1," which represented 95 percent of the total payments. A random sample of 279 payments provided adequate results to project the rate of timely payments with a 95 percent confidence level. OIG also used these files to conduct analyses that identified the bureaus and vendors that had the largest amount of interest penalties. The sampling methodology is described in Appendix A.

OIG reviewed the definitions for the receipt, acceptance, invoice, and delivery dates included in GFMS and compared them with the definitions in the Prompt Payment Act to determine whether Department personnel had been provided adequate information to understand these "key" dates. OIG also obtained supporting documents from RM, including invoices, invoice approval forms, time sheets, and contracts, for each sampled item. These documents were reconciled to the dates entered into GFMS, which the Department uses in its payment calculations to determine whether payments were made in the time periods required by the Prompt Payment Act.

OIG's Office of Audits conducted this audit from July 2008 to February 2009 in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

On February 18, 2009, OIG provided RM officials with the results of the sampled items, including exceptions identified, and requested comments. RM officials said that they agreed with OIG's methodology but declined to comment on individual errors. OIG, in March 2009, also requested additional information from RM related to the issues discussed in this report, including invoice approval by line item, tracking systems, delivery dates, reporting, training, and automated processes. However, RM had not provided the requested information as of July 2009.

In September 2009, RM provided its response to the draft report. The response has been incorporated into the report as appropriate and has been included in its entirety as Appendix E.

[13]At the time of RM's response, this was the most current payment data available for FY 2008.

AUDIT RESULTS

During the first 10 months of FY 2008, the Department did not pay most of its invoices on time. Specifically, for 279 invoices sampled, OIG found that 157, or 56 percent, were not made timely. The Prompt Payment Act requires federal agencies to pay their bills timely. However, the Department had changed to a new accounting system in May 2007, which hindered its ability to pay invoices on time, and it did not provide sufficient oversight of and training to personnel involved in the payment processes. Other reasons for untimely payments included the lack of a system to track the receipt, review, approval, and payment of invoices; reports that were not timely or comprehensive; and reliance on manual processes for reviewing and approving payments. As a result of the untimely payments, the Department paid interest penalties of $4.6 million for the first 10 months of FY 2008—an amount that could have been used for other Department programs.

Majority of Payments Untimely

During the first 10 months of FY 2008, the Department processed 68,356 domestic "P1" payments, totaling $3.8 billion, that were subject to the Prompt Payment Act. However, OIG determined, based on the results of its sample, that the Department did not pay the majority of these payments timely. Specifically, 157 (56 percent)[14] of the 279 sampled payments were not made timely. Of the sampled payments, 132 (47 percent) were paid late[15] and 25 (9 percent) were paid early. Only 44 percent of the invoices were paid timely based on OIG's assessment, as shown in Figure 4.

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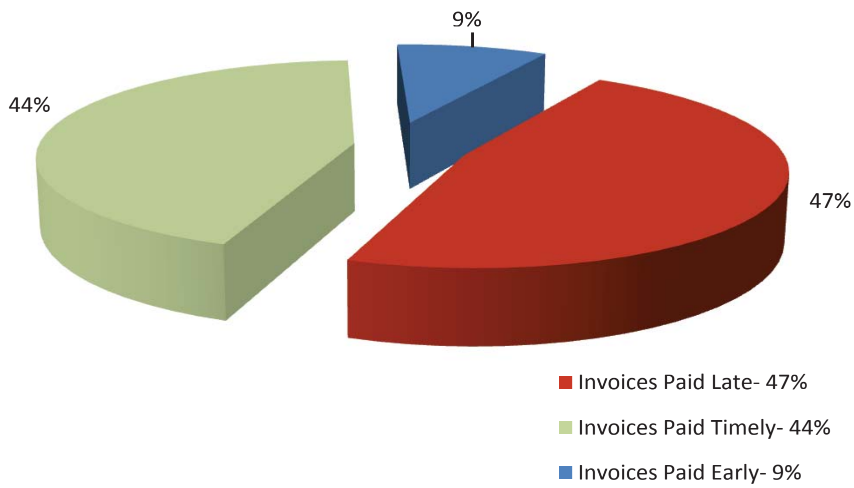
[14]OIG is 95 percent confident that the frequency of untimely payments for the universe lies between 50 percent and 62 percent. This results in a range of 34,494 to 42,436 untimely payments at the 95 percent level of confidence when these rates are applied to the universe of 68,356 payments.
[15]These 132 late payments consisted of 118 non-utility payments and 14 utility payments.

Figure 4: Timeliness of Sample Invoices



Source: OIG prepared.

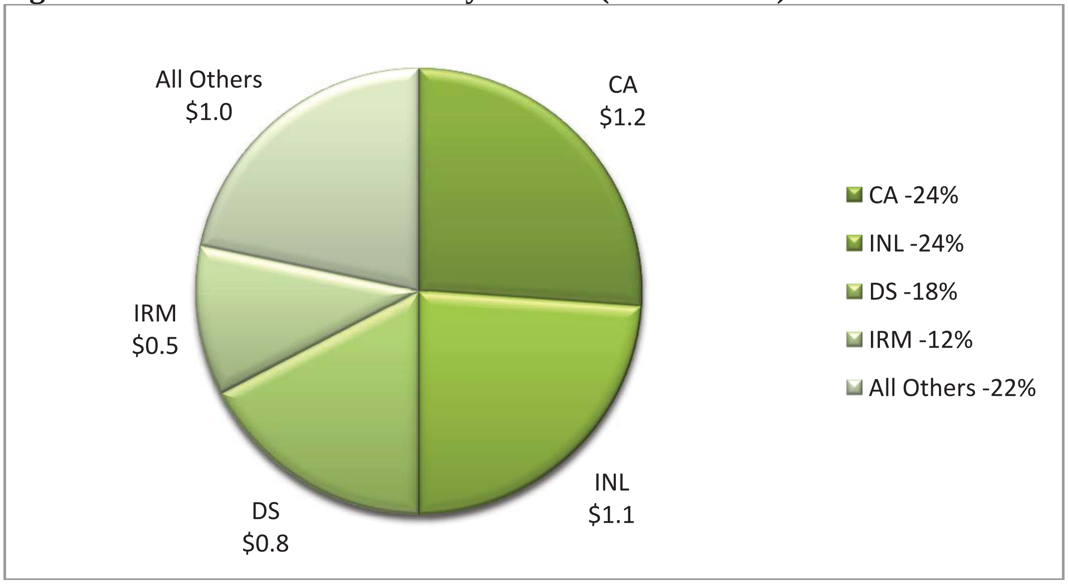
The percentage of timely payments is far short of the CFOC's standard that states that 98 percent of invoices should be paid timely in accordance with the Prompt Payment Act. The CFOC established a metric tracking system for federal agencies to track their financial performance against key indicators, including those related to the timeliness of payments. In order to achieve a fully successful rating, an agency must pay 98 percent or more of its invoices on time. To achieve a minimally successful rating, 97 percent to 98 percent of invoices must be paid timely. Any percentage of less than 97 percent is considered unsuccessful.

Few Entities Responsible for or Receive Majority of Penalties

OIG conducted additional analyses of the universe data to determine whether a particular bureau, or bureaus, paid a disproportionate amount of the total interest penalties, and whether certain vendors were receiving a disproportionate amount of interest penalties. OIG found that just four of 38 bureaus were responsible for $3.6 million, or almost 80 percent, of the $4.6 million in interest penalties paid in the first 10 months of FY 2008. Likewise, the Department paid $1.5 million (33 percent) of the $4.6 million in interest penalties[16] to just three vendors. Further, more than half of all interest penalties were paid to 10 vendors, and 68 percent of all interest penalties were paid to 30 vendors, as shown in Figures 5 and 6, respectively.

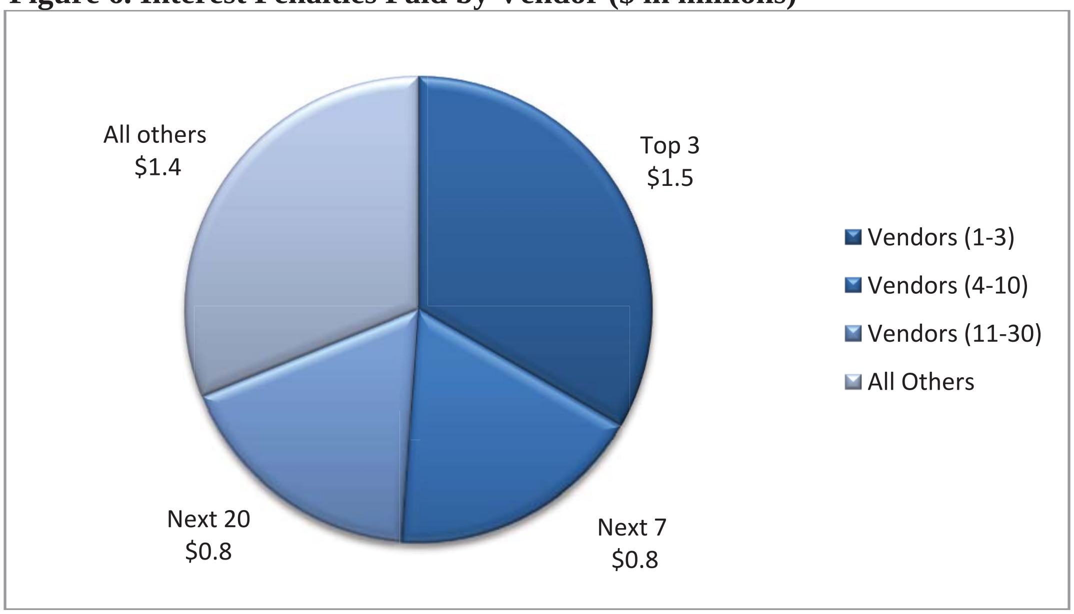
[16] The three vendors received approximately $1.5 million in interest penalties on $996 million in billed costs for the first 10 months of FY 2008, which is approximately $1,534 per million in interest penalties—seven times more than the CFOC goal of $200 per million.

Figure 5. Interest Penalties Paid by Bureau ($ in millions)



Source: OIG prepared.

Figure 6. Interest Penalties Paid by Vendor ($ in millions)



Source: OIG prepared.

Change to New Accounting System

The most significant reason for untimely payments was the Department's change to a new accounting system in May 2007. This created a number of problems that impacted timeliness, such as the shutting down of the system for weeks, changes in the approval process that required additional effort, and technical problems that have to be resolved.

Initial Implementation

When the Department initially implemented GFMS in May 2007, the percentage of payments disbursed on time decreased significantly—from 94 percent in May 2007 to 35 percent in June 2007, as depicted in Figure 1. GFMS replaced the Central Financial Management System as part of the Department's migration to a single worldwide accounting system to "improve operations and reduce costs by eliminating system redundancies and replacing obsolete and unsupported financial systems."[17]

The initial implementation created large payment backlogs that took months to resolve because the system was shut down for weeks after implementation. For example, an FSI official said that the implementation of GFMS caused a backlog of 10,000 invoices, and an INL official said that INL was unable to process payments for 3 or 4 months after the implementation. Other bureau officials told OIG that the interest penalties that their bureaus had paid were attributable to problems that occurred within RM's operations after the implementation.

In response, RM took several actions to mitigate the problems that occurred after implementation, including the following:

- establishing "Tiger Teams," made up of RM personnel, to assist some bureaus by providing training on claims processing and proper invoice review, approval, acceptance or rejection, and reviewing claims on-site;
- meeting with key vendors to coordinate their receivables and break "log jams" in the approval process;
- adding claims staff;

[17]Bureau of Resource Management FY 2007 Financial Report, November 2007.

- adding staff and management to answer vendor inquiries; and
- establishing a Washington, D.C.-based bureau payables support team in cooperation with the A Bureau, including three jointly funded positions, to provide on-site support at the bureaus to solve problems and break log jams in the invoice receipt and approval process.

These actions helped the Department increase timeliness to some degree, but other problems with GFMS continued to impact the timeliness of payments, including the change in the invoice approval process that occurred with the implementation of GFMS and technical problems with the system that impacted the approval process.

Change in the Invoice Approval Process

The move to GFMS changed the invoice approval process at the bureau level and required bureau personnel, particularly contracting officer's representatives (COR), to spend more time in reviewing and approving invoices. These changes required bureau personnel to approve invoices at a more detailed level than the previous review process had. A consultant whom the Department had hired to review this issue reported, in an action memorandum dated June 13, 2008, that "the single factor most responsible for the continuing and current difficulties was the change from managing and paying contracts at the header level to the much more complex system of managing at the individual contract line level."

This new process of reviewing and approving costs at the line-item level requires CORs to ensure that each line item of data on a contract has sufficient funding. Contracts can have numerous lines of cost data. For example, OIG reviewed an invoice that contained 55 lines of cost data. If contracts are modified, new lines are added for the modification, which may also include different fiscal years. Bureau representatives told OIG that this level of detail adds significantly more time to the review process. For example, the budget director at FSI determined that it takes 71 steps to process a payment when it previously took only 20 steps. A CA official said that CA used to process an invoice in 10 or 15 minutes but that invoices now can take more than a day to process, particularly invoices with multiple lines of cost.

This detailed line-item review process can also significantly delay payments when costs are incorrectly paid against the wrong line item. These mistakes must be resolved at the detailed line-item level. Future invoices that are sent for payment against that same line item will be rejected because all of the funds have been expended for that line item. To correct these initial mistakes, acquisitions staff must modify the obligation to increase funding for each underfunded line item, which takes more time. Incorrect charging can also occur when vendors send invoices with the wrong codes attached to supplies or services for which they are billing. For example, FSI officials stated that vendors sometimes sent invoices for a specific category of services but that the request for payment did not line up with the data in GFMS. The invoices then had to be sent back several times to the vendor to get the right services added. An INL official said that one vendor had a 97 percent rejection rate for its invoices. This vendor had consolidated all of the costs on the invoices, even though the contract required vendors to bill by specific task and amount.

Charleston has also created problems for the bureaus when they pay invoices at the broad header level and do not align the costs with the detailed line-item amount. Several bureau officials told us that Charleston did this when they wanted to get payments out quickly, which helped to avoid costly late payment penalties. However, the bureaus then have additional work to reconcile the costs to the itemized line amount after payment has been made. For example, INL officials told OIG that RM made a payment to one of INL's contractors in October 2007 and that INL personnel were still trying to reconcile that payment to the correct accounting lines in February 2009. An INL official said that RM did not ask INL for input but just posted the payments to any accounting lines that they could because RM was concerned about the contractor's solvency and wanted to get the payment out quickly.

Some of the largest interest penalties that were paid to specific vendors, shown in Appendix D, were attributable to this change to a line-item approval process. A DS program analyst said that DS did not always reject inaccurate invoices within the required 7-day period because an invoice might be transferred among staff members before a review revealed accounting line errors, especially invoices that contained multiple contract line items. DS receives multimillion dollar invoices with multiple lines that require a lengthy review process. For example, a 2009 Blackwater invoice totaling more than $15 million had 55 separate cost lines for training and other services. For the individual who processed some of these invoices, being a COR was an ancillary duty to normal programmatic duties. A DS official suggested that contracts be written so that invoices would be identical to what was written in the contract and reduce the time needed to review the invoice. CA officials said that an invoice for one of CA's vendors could require the time-consuming task of completing 20 invoice approval forms.

There may be reasons for this change in the approval process that are unrelated to prompt payments. Since OIG did not conduct a detailed review of this issue to assess the reasons for the change, OIG does not make any recommendations related to the change in the process. However, the section that follows discusses technical problems that occurred during the implementation and that have not yet been resolved.

Technical Issues That Impact the Approval Process

Bureau officials also told OIG about technical issues that caused delays in processing payments. Specifically, the Executive Director at FSI said that GFMS does not allow payments to be made after the delivery date posted in the system. That date is often the date included in the purchase order or contract. If bureaus receive goods or services after the posted delivery date and are then billed for those deliveries, the system will not allow the payment to post. FSI said that they now enter a delivery date in the system that is one year later than the date stated on the contract so that the payment can be processed.

An INL official said that one of INL's biggest challenges with GFMS involved the posting of refunds for contract awards that were converted from CFMS to GFMS and then trying to make payments against those same obligations. If the refund was not posted, the converted balance was insufficient; no mechanism is currently in place to allow subsequent payments to post.

Recommendation 1: OIG recommends that the Bureau of Resource Management resolve technical problems related to posting delivery dates and refunds in the Global Financial Management System.

Bureau Response and OIG Reply

In its response to the draft report, RM stated that it has addressed the technical issues related to the posting of delivery dates and refunds in GFMS. Based on this information, OIG considers this recommendation resolved. OIG will close the recommendation when it receives and reviews documentation of the changes made.

Inability To Track Invoices Throughout the Payment Process

There is no system to track an invoice through the receipt, review, approval, and final payment process, so Department personnel have to spend time manually tracking invoices in segments. This often adds additional time to the review and approval process. Although RM uses GFMS to track invoices that are sent to Charleston, it does not track invoices of less than $150,000 that are initially sent to the bureaus, and it also does not track invoices as they are processed within the bureaus.

RM officials said that RM is the entry point for 85 percent of all invoices.[18] RM has established several means to track invoices in portions of the process to monitor payment timeliness, but efforts are disjointed. In addition, some bureaus have added their own automated and manual systems to track invoices. There is not a standard system or process to track all invoices received by the Department through the entire payment process. Some of the methods currently used by RM and other bureaus include the following:

- An automated process based on the automated invoice document that is created when invoices are initially sent to Charleston. However, this tracking process does not include invoices received by the bureaus and is only for the Charleston portion of the process.

- A manual process to account for larger payments that are sent directly to the bureaus, rather than Charleston, by requiring bureaus to provide a list of invoices greater than $150,000 weekly to Charleston. The list includes the vendor name, invoice number, billed amount, invoice date, the award number for each invoice over $150,000, and the reason why the invoice is still in the bureau-approval process. However, this process excludes invoices of less than $150,000, and does not have a mechanism to ensure that all invoices greater than $150,000 are reported.

- An automated system, MetaStorm, to track invoices as they move through the A Bureau. MetaStorm combines the rules associated with a process to the tasks needed to complete the process. For example, the system can be used to track invoices through the payment process, prompting users when they need to perform a task. A Bureau officials said that the system incorporates prompt payment rules and that it will prompt users to complete approvals to meet deadlines.

[18] In the 2008 Agency Financial Report, the Department reported that it had made 108,123 domestic payments in FY 2008 that were subject to the Prompt Payment Act.

- Individual bureau-centered manual processes for tracking invoices within CA and OBO. Previously, OBO used an automated system to help it track invoices, but when GFMS was implemented, that system no longer worked.

Recommendation 2: OIG recommends that the Bureau of Resource Management implement a process or system to track the receipt, review, approval, and payment of all domestic invoices through the entire payment process.

Bureau Response and OIG Reply

In its response to the draft report, RM stated that it has conducted a "workflow pilot . . . to ascertain the feasibility of using additional GFMS features to track invoices throughout the entire payment process and to gather lessons learned." Based on this information, OIG considers this recommendation resolved. OIG will close the recommendation when it receives and reviews documentation of the workflow pilot and additional steps taken as a result of the pilot.

Management Reports Not Timely or Comprehensive

RM has not provided timely or comprehensive reports to the bureaus to help them assess and measure their performance in meeting Prompt Payment Act regulations. RM began to provide a weekly late payments report to the bureaus after the initial implementation of GFMS. The report includes a list of payments that are late, but the list is often not current. Bureau officials told us that the list includes invoices that have already been sent to Charleston, but that have not been recorded in the system. Bureau personnel have to review the list and determine which payments have been made and which are actually late, which results in wasting further efforts to research invoices that have already been paid.

In addition, the late payments report includes only the document number, the vendor name, and the amount of interest. It does not include the same information that the Department reports in FIDO—the percentage of invoices paid on time and the amount of interest paid in relation to total payments made by bureau. These comprehensive statistics would provide bureau managers with information that helps them measure their individual performance in meeting Prompt Payment Act goals.

Moreover, GFMS does not publish a status of obligation report, which had been available under the previous system. There is no single report in the system now that provides the same detailed information; instead, three separate reports must be reviewed to obtain the same information. As a result, the bureaus spend more time obtaining and delivering information related to processing payments.

One report that has proven useful is the award obligation status report, which was created in 2008. This report has helped CORs access information in GFMS that they need to approve invoices, including what has been funded by line item, without having to search through GFMS screens. One bureau official told OIG that this is the only report that the CORs need to process payments.

Recommendation 3: OIG recommends that the Bureau of Resource Management make the late payments report more current and add bureau performance metrics that include the percentage of invoices paid on time by the bureau and the amount of interest paid in relation to total payments made by the bureau.

Bureau Response and OIG Reply

In its response to the draft report, RM stated that it is working to provide bureaus with performance metrics that include the percentage of invoices paid on time and the amount of interest paid in relation to the bureaus' payments. RM also said that several reports currently available contain information that facilitates timely and accurate reporting. Based on this information, OIG considers this recommendation resolved. OIG will close the recommendation when it receives and reviews documentation showing that performance metrics are provided to the bureaus and that late payment information is easily obtained by bureau personnel.

Process Not Fully Electronic

The current process as depicted in Appendix B for receiving, reviewing, approving, and paying claims could be improved with increased automation. Currently, there are many manual steps that could be automated to provide a more seamless and timely process.

Most invoices arrive in Charleston by fax or mail, and are then processed manually by Charleston personnel as follows:

- Invoices are reviewed to ensure that they are proper.
- Improper invoices are sent back to vendors with an exception letter.
- Proper invoices are manually keyed into GFMS.
- Invoices are e-mailed, along with invoice approval forms, to the bureau mailboxes.
- E-mails are forwarded to the budget office and then to the COR for review and approval.

When invoices are sent by e-mail, delays can occur in processing if e-mails remain in someone's e-mail inbox for an extended period. The delays occur because only one person has access to the invoice at that point and that individual may not always be able to respond timely for various reasons. Invoices should be sent to a group e-mail address so that more than one person can access and process the invoices.

After an invoice is approved, it is e-mailed back to Charleston with supporting documents attached. Charleston receives these documents from the bureaus and verifies that the documents are complete and correct. If the invoice package is incomplete, a rejection form is e-mailed back to the bureau stating the reason for rejection. If the invoice package is complete, the documents are forwarded to another group within Charleston for payment.

A more efficient process would allow for these transactions to take place electronically within a single system, beginning with the vendors, who could directly input invoices electronically. The Government Paperwork Elimination Act requires federal agencies "to allow individuals or entities that deal with the agencies the option to submit information or transact with the agency electronically, when practicable."[19]

[19] 2 FAM 1151.3(e).

Further, the Paperwork Reduction Act requires agencies to manage information resources to increase program efficiency and effectiveness and improve the integrity, quality, and utility of information to all users within and outside the agency. [20] If the entire payment process were to be conducted electronically, the Department could eliminate the use of mail, faxes, and e-mails to transfer documents between Charleston and the other bureaus and within the bureaus. It would also reduce manual entry and improve accuracy overall. A DS financial officer said that standardizing invoices or implementing the electronic processing of invoices could improve timeliness.

Recommendation 4: OIG recommends that the Bureau of Resource Management develop a plan for automating its processes for receiving, reviewing, approving, and paying invoices.

Bureau Response and OIG Reply

In its response to the draft report, RM stated that it has reduced some of the manual steps previously required to process invoices and continues to evaluate alternatives to fully implement electronic invoice processing. Based on this information, OIG considers this recommendation resolved. OIG will close the recommendation when it receives and reviews documentation showing the manual steps that were eliminated and the ongoing efforts to move toward the electronic processing of invoices.

Bureaus With Greater Oversight and Authority Making Payments More Timely

OBO and FSI, which had greater oversight and control of the payments process, had significantly lower interest penalties and late payments than the bureaus with less oversight and a more decentralized structure. Just 4 percent of OBO's payments were late and less than 6 percent of FSI's payments were late in the first 10 months of FY 2008. Both bureaus combined paid interest penalties only on less than one tenth of one percent of the payments made.[21] Other bureaus with significant inter-

[20] 44 U.S.C. § 3506 (b)(1)(B)(C).
[21] OBO and FSI had $56,193.88 in interest penalties on payments valued at $768,971,873.82 (0.007 percent).

est penalty payments had late payment rates as high as 35 percent. Overall the Department paid interest penalties on 19 percent of payments processed and paid 0.067 percent of principal as interest.

OBO and FSI are DBOs, and they receive invoices directly. They also have authority to verify and process their own claims, differing from other bureaus that rely on Charleston to process their claims. Some advantages these bureaus have include the following:

- The financial staff and CORs are collocated at one site, which facilitates easier communication.
- The bureaus provide ongoing training for their financial staff and for CORs.
- Payments are certified at the bureau by RM personnel rather than being sent to Charleston.

The bureaus with less oversight of the payment process and decentralized operations had a larger number of late payments than the bureaus with more oversight of the process. The bureaus that paid the highest amount of interest penalties in FY 2008 were CA, INL, DS, and IRM. Combined, these bureaus were assessed $3.6 million, or 80 percent, of the total interest penalties paid in the first 10 months of FY 2008. Some of the difficulties encountered included the following:

- CORs often are not located in one place; thus it is more difficult to resolve problems when they occur.
- Vendor invoices are sent directly to Charleston before they are sent to the bureau contact person for approval. Often, bureau officials have to spend time rerouting misdirected invoices to the proper official.
- Approved invoices are sent back to Charleston for final approval and payment.
- There is not a centralized approach to handling invoices. For example, a DS official indicated that no one takes responsibility for tracking payments until there is a problem, IRM has the A Bureau overseeing parts of IRM's payment process and has resisted centralizing the entire operation, and an INL official said that INL's invoice process is "all over the place," and that there are "too many hands in the pot."

However, CA has taken action in FY 2009 to improve its timeliness, and OIG recognizes CA for its best practices, as described below.

Best Practice

CA made significant improvements in the timeliness of payments from FY 2008 to FY 2009 by helping CORs review and approve invoices and, in some cases, providing greater oversight of the process. These improvements led to a dramatic reduction of interest penalties in the first 4 months of FY 2009. In the first 10 months of FY 2008, CA incurred penalties of $1.1 million, but it has incurred penalties of only $13,000 in the first 4 months of FY 2009. CA accomplished this significant improvement by:

- establishing an e-mail inbox for CORs and vendors to send their questions and assigning two employees to monitor the e-mail inbox and respond to questions within 48 hours.
- establishing an e-mail notification system to e-mail individuals who are late in completing tasks needed to review and approve an invoice. Subsequent e-mails (2nd and 3rd) include more individuals at higher levels in the bureau. The fourth e-mail is directed to the executive director.
- attaching the Award Status Report to each invoice sent to CORs. This report provides information that is needed by CORs to process payments without their having to spend time obtaining this information from GFMS.
- allowing CORs to make partial payments. CA found that CORs were reluctant to send payments back to the vendors, so only the line items on the invoice that require a change are returned to the vendor while the correct line items are paid.

Recommendation 5: OIG recommends that the Bureau of Resource Management establish policies and procedures for bureaus to follow that improve oversight and internal controls over the receipt, review, transfer, and approval of invoices.

Bureau Response and OIG Reply

In its response to the draft report, RM stated, "The existing financial processing model (i.e., itemized line accounting, the GFMS system, current policies and procedures) provides the means to pay invoices on time when the degree of oversight, centralized operations, and COR effectiveness is higher." Based on its response, OIG considers this recommendation resolved. OIG will close the recommendation when it receives and reviews documentation showing the actions RM has taken to ensure that the bureaus are complying with required policies and procedures for providing adequate oversight of the payment process.

Training Insufficient

RM did not provide timely or sufficient training or guidance for financial personnel, CORs, and vendors prior to implementation of GFMS. Although financial staff received training shortly before implementation, they said that the training was conceptual rather than "hands on," and was not considered to be very useful in providing an effective understanding of the new processes. RM officials said that they had underestimated the learning curve for the new system. Consequently, Department staff was unprepared to effectively and efficiently implement the new system.

RM held a workshop for CORs in March 2008 that provided some useful information about GFMS. However, the workshop was held almost a year after implementation of the system, and bureau officials said that the training CORs received did not provide enough information about the new processes, especially since CORs were being asked to assume financial responsibilities that previously had been performed by budget personnel. CA officials said that the lack of training was the cause for high interest penalty payments to one vendor who was submitting incorrect invoices. Because the COR for this particular vendor did not understand the requirements, he was not sending improper invoices back to the contractor within the required 7-day period.

OBO and FSI have taken and are taking actions to help address training requirements. OBO held classes in the fall of 2008 to train its CORs in the payment process and is developing standard operating procedures for the payment process. FSI developed a training manual that includes information on how to determine the availability of funds in GFMS, what constitutes a proper invoice, descriptions of proper receiving and inspection reports, and an invoice checklist. The training manual has helped the staff gain a better understanding of the payment process and GFMS.

Recommendation 6: OIG recommends that the Bureau of Resource Management, in coordination with the Office of the Procurement Executive, assess the current training needs for contracting officer's representatives, financial personnel, and vendors with respect to invoice processing and accounting and develop and provide training to meet those needs.

Bureau Response and OIG Reply

In its response to the draft report, RM stated that it has conducted "more than one dozen COR training sessions" and that it plans to conduct additional courses in FY 2010. RM also stated that it has distributed a letter to vendors "regarding proper invoice submission" and has "provided assistance in writing a standard contract clause on vendor requirements for submitting a proper invoice." Based on RM's response, OIG considers this resolved. OIG will close this recommendation when it receives and reviews documentation showing the training courses conducted in FY 2010.

Untimely Payments Creating Significant Costs to the Department

The high occurrence of late payments resulted in interest penalties of $4.6 million for the first 10 months of FY 2008. Payments paid too early cost the Department the value of interest imputed for the early payment. For those 25 sample payments paid earlier than 7 days prior to the due date where the invoice amount exceeded $2,500, as discussed in the section "Majority of Payments Untimely," the Department lost $6,470 in imputed interest.[22]

A contractor hired by the Department to review the late payments issue said:[23]

> There are other significant but unmeasured costs to the Department beyond interest payment penalties. Some vendors will no longer do business with the Department; some smaller vendors, pushed to the edge of bankruptcy have had to take out bank loans to finance their receivables; and some vendors have had to delay payments to their subcontractors causing cascading

[22] Imputed interest is determined using the Treasury Current Value of Funds Rate in effect on the due date.
[23] Action Memo for Under Secretary Kennedy, "Review of GFMS and Late Payments," dated June 13, 2008.

problems. Other costs within the Department include adding or redirecting personnel resources to deal with both the processing issues and vendor problems and complaints. Every bureau that I have met with has added and/or transferred personnel resources to deal with these issues.

Majority of Interest Penalty Calculations Incorrect

The Department miscalculated the interest penalty for 79 (87 percent) of 91[24] non-utility payments that were due interest from the sample.[25] The underpayments were caused by incorrect calculations of late payment penalties by Department personnel. As a result, vendors were paid insufficient interest penalties of $8,114 as compared with $17,055 that should have been paid for the sampled items, and the Department's reporting of its late payment results was distorted. RM's Office of Claims should resolve interest penalty errors and establish procedures and internal controls to ensure that the information in GFMS matches the documents supporting the invoice receipt date and dates that goods and services are received and approved.

Interest Penalties Miscalculated

The Department miscalculated the interest penalties for 79 of 91 non-utility payments in the sample that were due interest. For 28 of these payments, more than 30 percent, the Department paid no interest when penalties were actually due. The Department had incorrectly determined that invoices were paid on time and thus paid no interest penalties.

The Department's interest penalty calculations are based on dates entered into GFMS, and these dates are often provided to RM by bureau personnel and included on the invoice approval form. OIG compared dates entered into GFMS with dates

[24]The 118 untimely non-utility payments included 27 payments where interest penalties were less than $1.00, which are not required to be paid in accordance with 5 CFR § 1315.10(c)(5).
[25]Utility payments are subject to the Prompt Payment Act but are not subject to interest penalties when they are assessed late payment fees. Therefore, utility payments were excluded from this interest penalty analysis.

shown in the supporting documents for events that affect interest penalty calculations—the invoice receipt date and the acceptance and delivery dates for goods and services. OIG based its interest penalty calculations on the supporting documents provided by the Department for the sampled items. However, these documents often did not reconcile to the dates that were shown on the invoice approval form or entered into GFMS, as shown in Table 1.

Table 1:GFMS Data Discrepancies in 79 Late Payments

Key Date	Number of Discrepanices	Percent of Total
Invoice Receipt Date	46	58%
Delivery Date	33	42%
Acceptance Date	45	57%

Source: OIG prepared. More than one discrepancy could occur per payment.

The Department's calculation of the payment due date, using these key dates—invoice receipt date, delivery date, and acceptance date—did not match OIG's calculations. Of the 79 sampled payments that OIG determined were paid late, the dates differed for 46 invoice receipt dates, 33 delivery dates, and 45 acceptance dates.

Invoice Receipt Date. The Department's invoice receipt date did not match OIG's determination of this date for 46 late payments reviewed. If the Department does not record the date the invoice is received, the actual date of the invoice must be used for the receipt date. There could be large variations between the invoice date and the date the invoice was actually received by the Department, which leads to larger interest penalties being paid than what were actually owed.

Delivery Date. The Department's delivery dates for 33 of the sampled invoices did not match the supporting documents. The delivery date is important because it is used to calculate a constructive acceptance date when the acceptance date is not available (delivery date plus 7 days). However, there was no evidence to show that the Department had calculated a constructive acceptance date where required. GFMS does not have a field for constructive acceptance date; thus it is unclear whether the dates that the Department used support actual or constructive acceptance.

Acceptance Date. The Department's acceptance dates for 45 of the sampled invoices due interest penalties did not match the supporting documents provided by RM. The acceptance date is required for the calculation of the payment due date. Acceptance should occur within 7 days of receipt of goods or services unless a different date is specified in the contract or purchase order.

For four of the sampled items,[26] RM did not provide supporting documentation for receipt, delivery, or acceptance dates. Supporting documents are required to ensure that payments are authorized; accurate; legal; and correct, and that the goods are actually received or services actually performed. Department personnel are required to forward this documentation, such as purchase orders, contracts, invoices, vouchers, and receiving reports, to the appropriate payment office to ensure compliance with the Prompt Payment Act.

Even the Department reported extremely high error rates in its annual Quality Assurance Review of payments made during FYs 2005, 2006, and 2007. For example, the Department reported that incorrect dates were entered into the accounting system for 65 percent of sampled items in FY 2005, 32 percent of sampled items in FY 2006, and 35 percent of sampled items in FY 2007. Other problems reported included the following:

- Incorrect acceptance dates were used.
- Invoices were not date stamped upon receipt.
- Dates that were not supported by any of the documentation were entered into the system.

The Department reported that these errors caused overpayments and underpayments of interest penalties.

OIG also concluded that the Department did not pay the proper amount of interest penalties to its vendors. For the 79 late payments, the Department paid only 52 percent of the total interest penalties owed, or $8,941, compared with $17,055 that should have been paid. Further, understating interest penalties distorts the performance metrics reported to the CFOC.

Recommendation 7: OIG recommends that the Bureau of Resource Management resolve the interest penalty errors identified in this audit for the 79 late payments in which interest penalties were underpaid.

[26]OIG did not receive supporting documents for these four items and therefore could not determine the data discrepancies or interest due. (See Appendix A.)

Recommendation 8: OIG recommends that the Bureau of Resource Management establish procedures and internal controls to ensure that the documents supporting the invoice receipt date and the dates that goods and services are delivered and accepted match the information in the Global Financial Management System.

Bureau Response and OIG Reply

In its response to the draft report, RM stated that it will resolve underpaid interest penalties for the 79 late payments and will "enhance" its current quality work instructions and reference documents to support the recording of the receipt date and the date that goods and services are delivered and accepted. Based on this information, OIG considers recommendations 7 and 8 resolved. OIG will close the recommendations when it receives and reviews documentation showing that the interest penalty errors have been resolved and that current policies and procedures have been enhanced.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Resource Management resolve technical problems related to posting delivery dates and refunds in the Global Financial Management System.

Recommendation 2: OIG recommends that the Bureau of Resource Management implement a process or system to track the receipt, review, approval and payment, of all domestic invoices through the entire payment process.

Recommendation 3: OIG recommends that the Bureau of Resource Management make the late payments report more current and add bureau performance metrics that include the percentage of invoices paid on time by the bureau and the amount of interest paid in relation to total payments made by the bureau.

Recommendation 4: OIG recommends that the Bureau of Resource Management develop a plan for automating its processes for receiving, reviewing, approving, and paying invoices.

Recommendation 5: OIG recommends that the Bureau of Resource Management establish policies and procedures for bureaus to follow that improve oversight and internal controls over the receipt, review, transfer, and approval of invoices.

Recommendation 6: OIG recommends that the Bureau of Resource Management, in coordination with the Office of the Procurement Executive, assess the current training needs for contracting officer's representatives, financial personnel, and vendors and develop and provide training to meet those needs.

Recommendation 7: OIG recommends that the Bureau of Resource Management resolve the interest penalty errors identified in this audit for the 79 late payments in which interest penalties were underpaid.

Recommendation 8: OIG recommends that the Bureau of Resource Management establish procedures and internal controls to ensure that the documents supporting the invoice receipt date and the dates that goods and services are delivered and accepted match the information in the Global Financial Management System.

ABBREVIATIONS

A	Bureau of Administration
BPM	Business Process Management
CA	Bureau of Consular Affairs
CFO	Chief Financial Officer
CFOC	U.S. Chief Financial Officers Council
CFR	Code of Federal Regulations
COR	Contracting Officer's Representative
CA	Bureau of Consular Affairs
DBO	Designated billing office
Department	Department of State
DS	Bureau of Diplomatic Security
FIDO	Federal Interagency Databases Online
FMP	Bureau of Finance and Management Policy
FSI	Foreign Service Institute
FY	Fiscal Year
GFMS	Global Financial Management System
INL	Bureau of International Narcotics and Law Enforcement Affairs
IRM	Bureau of Information Resource Management
MTS	Metric Tracking System
OBO	Overseas Buildings Operations
OIG	Office of Inspector General, Office of Audits
PPA	Prompt Payment Act
RM	Bureau of Resource Management
U.S.C.	United States Code

APPENDIX A

Sampling and Testing Methodology

The Office of Inspector General's (OIG) sampling objective was to determine whether the Department of State made payments to vendors in a timely manner. This work was conducted for domestic payments processed for the first 10 months of FY 2008 (October 2007–July 2008).

Population Analysis

Bureau of Resource Management (RM) officials provided OIG with two databases that they said included all payments subject to the Prompt Payment Act (PPA) for the first 10 months of FY 2008. The first database represented the principal portion of vendor payments for this time period. The second database represented only the interest penalty portion of the payments. RM officials said that the two files could be linked by a payment's unique identifiers—document type and document number.

The principal payment database consisted of 141,362 lines of data, totaling $7.1 billion. However, many payments were represented by multiple lines of data, and the database contained payments OIG found not to be subject to the PPA. Using the above unique identifiers and the vendor type field,[1] OIG determined that 89,903 payments, valued at $4 billion, that had been made in the first 10 months of FY 2008 were subject to PPA. These payments and related interest penalties, displayed in Table 1, consisted of five document types.[2]

[1]The "Vendor Type" field can be used to determine whether a payment is subject to PPA. OIG used the Global Financial Management System reference records to identify which Vendor Types had a Prompt Pay indicator.
[2]There are 26 document types, but, according to RM officials, only five types contain payments that are subject to PPA.

Table 1. Document Type Subject to the PPA

Document Types	# of Payments Subject to PPA	Dollar Amount of Payments Subject to PPA	% of Dollars to Total Subject to PPA	Dollar Amount of Interest Penalties Paid	% of Dollars to Total Interest Paid
MD - Medical Payment	1,817	$572,944	0%	$0	0%
P1 - Payment Vouchers	**68,356**	**3,794,222,976**	**95%**	**4,566,762**	**99%**
PX - Pay Vouchers without Ref Obligation - Domestic	18,641	186,872,500	5%	64, 587	1%
PZ - Payment Vouchers	144	4,310,842	0%	0	0%
T9 - Transportation Carriers	945	8,445,122	0%	1,557	0%
Total	89,903	$3,994,424,385*	100%	$4,632,907*	100%

*Total dollar amounts differ by $1 because of rounding.
Source: OIG prepared.

Of these five types, the "P1" documents accounted for 95 percent of the total dollar amount of payments subject to the PPA and 99 percent of interest penalties paid by the Department. OIG tested and projected to the 68,356 "P1" payments, totaling $3.8 billion, because this group represented the overwhelming majority of the payment population. OIG considered the remaining balances for the other four document types to be immaterial.

Sample Selection

OIG initially selected a statistical sample of 300 payments, totaling $123,213,501, to test the attribute of payment timeliness. The sample of 300 was reduced by 17 payments, valued at $108,348,554, that were mistakenly included in the PPA population but that were later determined (during OIGs initial sample testing phase) as not to be subject to PPA.[3] Also, OIG did not receive supporting documents for four payments, valued at $6,354, that were excluded from the original sample of 300. Therefore, OIG's results are based on a sample of 279 payments, valued at $14,858,593.

[3]The majority of this total was for payments made to the United Nations and nonprofit organizations.

Testing Methodology

To determine whether payments were made timely, OIG performed the steps outlined in Table 2 to test the sample for timeliness. The information in this table corresponds with the steps outlined in Appendix C.

Table 2. Determining Timeliness of PPA Payments

1. Determine starting period (clock start date):	OIG determined the clock start date using the **LATER** of the: - date stamp (may be annotated or electronically transmitted) or - acceptance date.
a. Receipt date of invoice by designated billing office (DBO);	Date stamped (annotation or electronically transmitted) when received by DBO. If not date stamped, then OIG used vendor invoice date.
b. Acceptance date of goods or services received by responsible bureau;	Acceptance date used by OIG was the **EARLIER** of actual acceptance indicated on supporting documents or constructive acceptance (calculated using delivery date plus 7 calendar days).
c. Delivery date for goods or services documented by responsible bureau personnel;	Delivery date used by OIG taken from supporting documents.
2. Determine payment due date.	Payment due date determined by adding 30 calendar days to clock start date (step #1).
3. Adjust payment due date for weekends or holidays.	Payment due date adjusted if it falls on weekend and holiday to the next business day. Department must make payment to vendor on next business day to use this adjustment criterion.
4. Compare payment due date (or adjusted due date with GFMS accomplished (disbursement) date.	OIG compared calculated payment due date (step #2 or step #3) to the accomplished date, and noted if payment was timely.

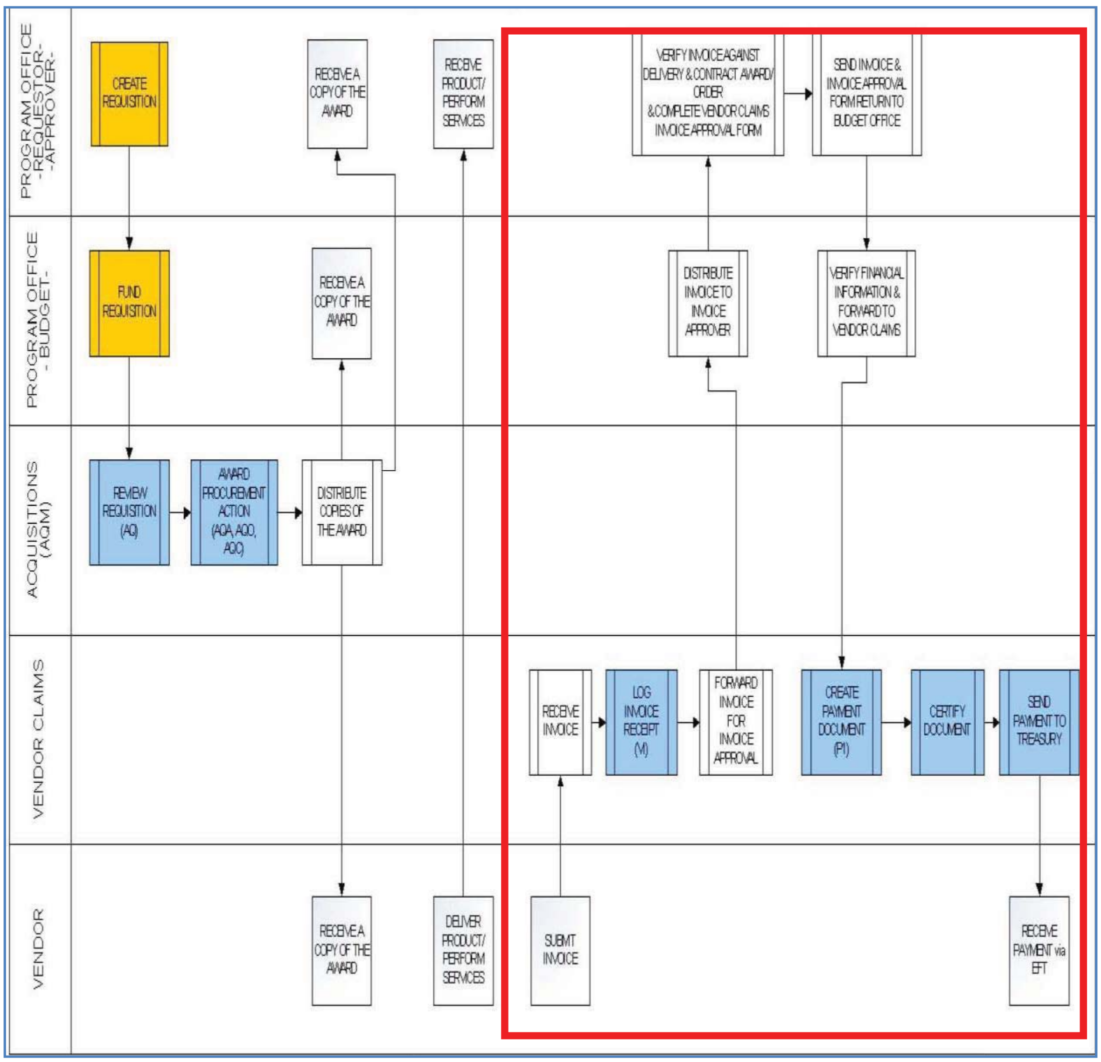
Source: OIG prepared.

APPENDIX B

Vendor Invoice Flow From Submission to Payment

The Bureau of Administration produced a diagram presenting the flow of an invoice from original submission by the vendor to receipt of payment by the vendor (see red box in Figure 1.) (The process depicts invoices sent to Global Financial Services in Charleston, South Carolina.) The diagram also displays interim actions taken and the responsible office for those actions.

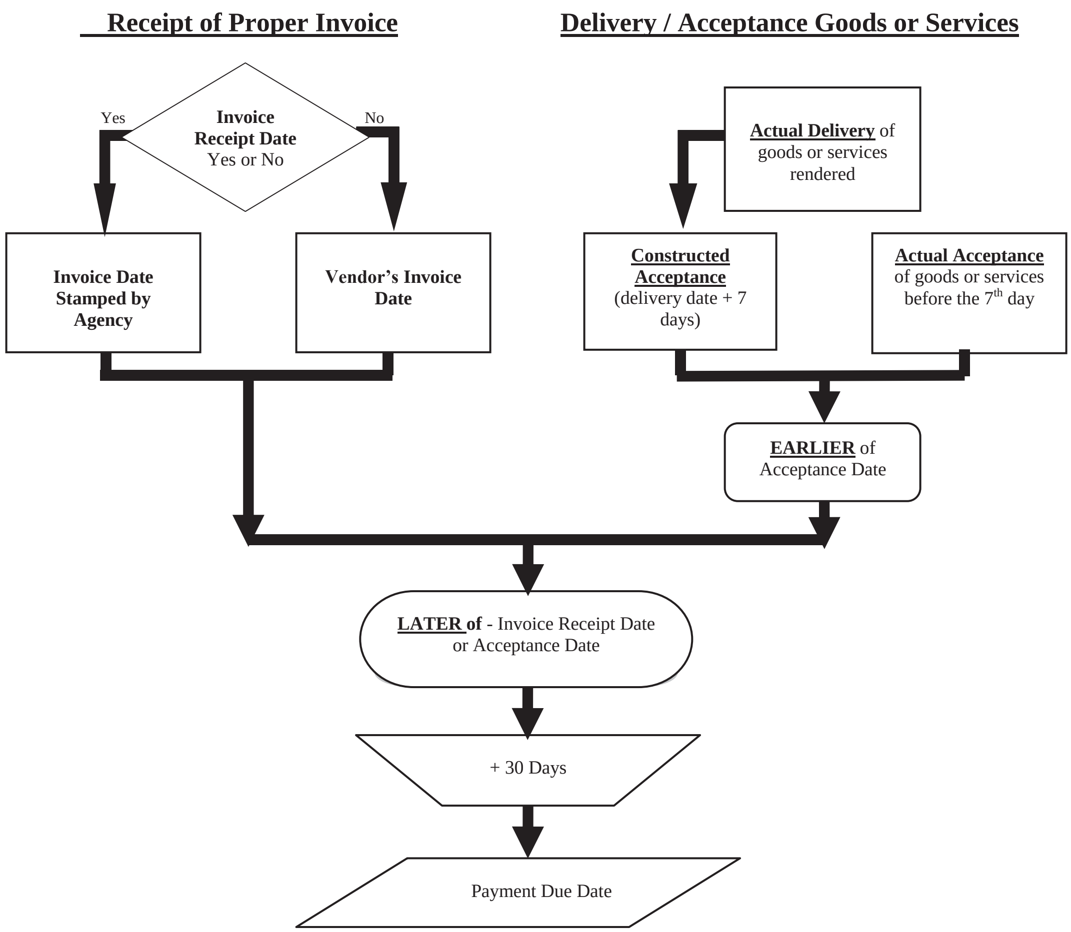
Figure 1. Diagram of Invoice Flow



Source: Bureau of Resource Management Conference (2008).

APPENDIX C

How the Payment Due Date Is Computed



APPENDIX D

Vendors That Received the Most Interest From October 2007 to July 2008

	Vendor	Interest Paid to Vendor	% of all Interest Paid
1	DynCorp International LLC	$ 837,705.77	18.34%
2	Stanley Associates Inc	$ 445,310.87	9.75%
3	Triple Canopy Inc	$ 244,295.11	5.35%
4	PAE-HSC	$ 209,477.14	4.59%
5	STG, INC	$ 129,618.73	2.84%
6	Harris Technical Services Corp.	$ 114,024.09	2.50%
7	Bearingpoint LLC	$ 101,407.42	2.22%
8	Mantech Security & Mission Assurance Corporation	$ 82,897.15	1.82%
9	SI International	$ 74,824.48	1.64%
10	Pro-Telligent LLC	$ 70,863.96	1.55%
11	Creative Information Tech	$ 69,479.99	1.52%
12	P A E Government Services Inc	$ 64,308.11	1.41%
13	Northrop Grumman IT / Civilian Agencies	$ 55,818.65	1.22%
14	IBM	$ 51,324.38	1.12%
15	Computer Sciences Corporation	$ 47,405.84	1.04%
16	TDT	$ 45,896.51	1.00%
17	Harding Security Associates	$ 45,840.67	1.00%
18	Enterprise Information Service	$ 44,812.05	0.98%
19	Blackwater Lodge Training	$ 40,313.12	0.88%
20	F M S	$ 36,472.40	0.80%
21	USIS Professional Services Division	$ 34,447.28	0.75%
22	W I N S	$ 34,041.09	0.75%
23	ITEQ-Bering Straits Solutions	$ 32,948.06	0.72%
24	EMCOR Government Services Inc	$ 32,674.54	0.72%
25	SAIC	$ 30,974.45	0.68%
26	AT&T Corp	$ 29,772.71	0.65%
27	MBR Computer Consultants	$ 29,762.02	0.65%
28	Geneva Software	$ 29,042.48	0.64%
29	Ronco Consulting Corporation	$ 28,838.35	0.63%
30	CACI Inc Federal	$ 27,978.02	0.61%
	Total Interest Paid	$ 4,567,177.19	

33.44%

50.59%

68.37%

Source: OIG prepared.

APPENDIX E

United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

SEP 1 4 2009

MEMORANDUM

TO: OIG – Harold W. Geisel

FROM: RM – James L. Millette

SUBJECT: Draft Report on the Audit of the Timeliness of Department Payments Subject to the Prompt Payment Act.

Thank you for the opportunity to comment on the draft report Audit of the Timeliness of Department Payments Subject to the Prompt Payment Act. The responses for this report's recommendations are provided below.

Improving the Department's payment processes has been a priority for the Bureau of Resource Management (RM) and our bureau partners for the last two years following our conversion to an integrated acquisitions and OMB-certified financial system. As a result, there is now more management oversight, reporting, coordination, training, internal controls and payment integrity on the Department's payment processes than ever before. Moreover, we are pleased to report that the Department has gotten back to "Green" on the Government-wide CFO metrics related to Prompt Pay.

In general, we concur with the Report's recommendations and attached are comments regarding these recommendations. However, we are disappointed that the report's snap-shot of prompt pay penalties, which indeed spiked in FY 2008, fails to put them into their full context of:

- the immense business process change and internal control improvements;
- the size of the system upgrade (perhaps the largest upgrade of Department software in a single installation and conversion); and
- the increase in complexity, volume and Department-wide responsibilities in the payments arena that RM experienced as a result of the growth in the Department's mission and financial resources during this period.

There is surprisingly no recognition in the Report that an integrated acquisitions and financial system environment with line-level payments provides a higher-standard of accountability, internal control and payment integrity over approximately 161,000 domestic line payments worth over $4.83 billion (year-to-date) to vendors subject to prompt pay. Requiring payment integrity at the line-level helps prevent and detect improper payments should contractors submit improper billings or have faulty billing systems. As the Executive Director for the International Narcotics and Law Enforcement Affairs (INL) noted during a particularly challenging period last year, the additional line-level detail in the financial system allowed INL to identify over $10 million in inaccurate billings and another $20 million through post-audits with one vendor, alone. Further, the Report does not recognize that the system upgrade is essential to establishing the technical platform needed to install future enhancements for electronic and streamlined processing of payments.

It is also unfortunate that this audit on prompt pay was conducted during a volatile period of business process change, with full recognition of the challenges, despite requests to postpone the review to a time when the OIG input could potentially be more meaningful. In addition, without the context of today's performance and operating environment, the data cited in the Report could be misleading. The prompt pay figures cited in the Report are now almost a year old, and the Report's introduction leads with the Department's prompt pay total of $5.4 million for FY 2008. It does not show a commensurate figure for FY 2009. While in fact, through August, the FY 2009 total for domestic vendor prompt pay stands at $1.17 million and has averaged about 61,680 over the last four months.

We strongly believe that the inclusion of these facts will strengthen and balance the report. RM, working with its A Bureau and other Department-wide partners, continues to make improvements that automate, standardize, and streamline the payments cycle across the entire Department, while continuing to ensure the rigor and accountability over the expenditure of Department and tax-payer dollars.

Again, RM appreciates the opportunity to comment on the report.

Attachments:
As stated

United States Department of State

Bureau of Resource Management

Attachment to the Response to the Draft Report on *Audit of the Timeliness of Department Payments Subject to the Prompt Payment Act*

Through the dedication, diligence and hard work of numerous Department of State employees and contractors, significant progress has been achieved in many areas to pay our invoices on-time and reduce interest penalties and improper payments. We have achieved the CFO Council's Performance Measure of less than 0.02% for interest paid of total payments in recent months in FY2009. Policies and procedures have been and continue to be refined. RM continues to support the development of Quality Work Instructions (QWI) and improve user training. These efforts have resulted in RM/GFS receiving ISO-9001:2000 accreditation in January 2009 and an upgrade to ISO-9001:2008 in July 2009. Such standardization and instruction have produced a more efficient workforce directly contributing to improved payment performance.

Several change requests and enhancements have been added to GFMS to facilitate timely and accurate invoice processing. Authorized users have on-demand access to a variety of GFMS queries and reports useful at different stages in the process. Data warehouse reports provide authorized users with interest-paid detail and summary information by bureau and vendor to help focus resources on possible areas of improvement.

In FY 09, an accounts payable reengineering project started and included a review of automated invoice and data intake solutions, a workflow invoice routing project in RM, the design of an enhanced invoice approval form with automated data update capabilities, and an evaluation of existing 3rd party support tools and technologies.

RM appreciates the diligence with which OIG conducted their review and in providing their findings. We would like to comment on several statements contained in OIG's Draft Report.

There are references to itemized line accounting contributing to payment delays. While some awards contain many lines, approximately 75% have 3 or fewer itemized lines, and 85% had five or fewer itemized lines. Furthermore, as stated in the OIG report, four of 38 bureaus were responsible for nearly 80% of interest penalties and nearly 70% of all interest penalties were paid to 30 vendors during the first 10 months of FY08. Conversely, bureaus such as OBO and FSI paid minimal interest penalties using GFMS, thereby highlighting that many variables contribute to paying invoices on-time, including the effectiveness and management controls of contracting officers representatives (CORs).

RM acknowledges that an invoice backlog occurred after GFMS implementation, but payments were processed in GFMS beginning in June 2007. The OIG report quotes an INL official as saying that "INL was unable to process payments for 3 to 4 months after the implementation of GFMS in May 2007." However, through July 31, 2007, 374 INL invoices were processed in GFMS.

In response to the need to provide a report similar to CFMS' Status of Obligation Report, the Award/Obligation Status Report was created. This report was initially implemented in GFMS on April 29, 2008. Based upon user feedback and the importance of this report, an enhanced version was quickly implemented on August 14, 2008. As stated in the OIG report, "One bureau official told OIG that this is the only report the CORs need to process payments."

Technical Issues That Impact the Approval Process

Recommendation 1: OIG recommends that the Bureau of Resource Management resolve technical problems related to posting delivery dates and refunds in the Global Financial Management System (GFMS).

There was a software defect in the OMB-certified system (named GFMS for Department of State) that prohibited creating a payment outside of the period of performance on the referenced award. This defect was reported on November 10, 2008. It was corrected in GFMS release version 6.0.9L3 which was placed into production on March 13, 2009.

RM is aware that due to the open balance condition when converting CFMS awards to GFMS, a credit to an obligation will not process in GFMS if the credit amount is greater than the expended amount on the obligation. However, the credit can be returned to the allotment and the funds re-obligated or reapportioned when necessary. For the most part, this method is acceptable given the rare occurrence of this specific data condition. Regardless, where this method is not acceptable, RM has established a procedure that is performed periodically to post the credit to the obligation. RM primarily performs this procedure for INL.

Inability To Track Invoices Throughout the Payment Process

Recommendation 2: OIG recommends that the Bureau of Resource Management implement a process or system to track the receipt, review, approval, and payment of all domestic invoices through the entire payment process.

Recommendation 4: OIG recommends that the Bureau of Resource Management develop a plan for automating its processes for receiving, reviewing, approving, and paying invoices.

RM recognizes the need for a comprehensive invoice tracking mechanism from invoice receipt through payment and the need to eliminate manual processes when feasible. In FY09, RM identified multiple areas of improvement and proactively launched improvement initiatives.

For example, to reduce manual steps during invoice processing, GFMS configuration was modified on July 1, 2009 to default the transaction type on payment documents. This modification eliminated the need for Vendor Claims personnel to manually enter a value on 99% of accounting lines on payment documents and decreased the risk of using an improper value when entered manually. Also RM has begun to identify potential automated invoice and data intake solutions and automated data update capabilities to further reduce manual processes, achieve improved data accuracy and realize greater operational efficiencies.

In addition, in March 2009, RM and LM implemented what is referred to as Header Level Commitment Funding. This enhancement will greatly reduce the total number of accounting line items on both the award and invoice/payment. This will reduce the overall level of effort required by COR's and payment staff in terms of vendor invoice approval moving forward.

Other FY09 efforts undertaken include a limited RM routing and workflow pilot conducted from August 2008 through April 2009 to ascertain the feasibility of using additional GFMS features to track invoices throughout the entire payment process and to gather lessons learned; consideration of an enhanced invoice approval form providing a consolidated view of financial data to simplify invoice processing particularly during the bureau review and approval steps; and consideration of existing solutions and technologies currently in use in the Department and other agencies (e.g., Kofax, Metastorm, Microsoft SharePoint, Vendor Self Serve, US Bank Platform, Electronic Voucher Manager (Mission Germany)). RM continues to evaluate alternatives to fully implement electronic invoice processing.

Management Reports Not Timely or Comprehensive

Recommendation 3: OIG recommends that the Bureau of Resource Management make the late payments report more current and add bureau performance metrics that include the percentage of invoices paid on time by the bureau and the amount of interest paid in relation to total payments made by the bureau.

Late payment information is currently provided and RM is working to provide bureaus with performance metrics that include the percentage of invoices paid on time and the amount of interest paid in relation to payments.

Several reports and queries currently exist to facilitate timely and accurate invoice processing. For example, authorized users have on-demand access to the Award/Obligation Status Report providing CORs with current GFMS data needed to approve invoices. Bureau Unpaid Invoice Reports are produced weekly, including bureau, vendor, invoice status, age category, and dollar amount; invoices that are past-due or are nearing the date when interest will begin accruing; and week-over-week comparison by bureau of invoice counts and invoice amounts. Datawarehouse reports provide authorized users with interest paid detail and summary information by bureau and vendor as of the previous day closing to help focus resources on possible areas of improvement.

Bureaus With Greater Oversight and Authority Making Payments More Timely

Recommendation 5: OIG recommends that the Bureau of Resource Management establish policies and procedures for bureaus to follow that improve oversight and internal controls over the receipt, review, transfer, and approval of invoices.

RM agrees that the degree of oversight and controls of payment processing in a bureau is a significant contributing factor to making timely payments as demonstrated by OBO, FSI and more recently CA. The existing financial processing model (i.e., itemized line accounting, the GFMS system, current policies and procedures) provides the means to pay invoices on time when the degree of oversight, centralized operations and COR effectiveness is higher

Training Insufficient

Recommendation 6: OIG recommends that the Bureau of Resource Management, in coordination with the Office of the Procurement Executive, assess the current training needs for contracting officer's representatives, financial personnel, and vendors with respect to invoice processing and accounting and develop and provide training to meet those needs.

More than one dozen COR training sessions were conducted from February 2008 through September 2008, including nine (9) individual bureau COR sessions. These sessions focused on the Requisition to Check/Payment Process and the role of each group within this process. Heavy emphasis was placed on the role of the COR and the overall invoice approval process. The sessions included demonstrations of tools, such as the Award/Obligation Status Report, available to assist CORs approve invoices. Training materials and exercises were updated to reflect the then-current GFMS 6.0.9L release and business processes. Also bureau-specific examples were used in the invoice approval process to reinforce the training and to answer specific and relevant bureau questions. Five additional training sessions are tentatively being scheduled for FY10 to be conducted in both Washington, DC and Charleston, SC.

Prior to implementing GFMS in May 2007, and again in early 2008 prior to the aforementioned COR training, a letter was distributed to vendors regarding proper invoice submission. RM also provided assistance in writing a standard contract clause on vendor requirements for submitting a proper invoice.

Interest Penalties Miscalculated

Recommendation 7: OIG recommends that the Bureau of Resource Management resolve the interest penalty error identified in this audit for the 79 late payments in which interest penalties were underpaid.

RM will resolve underpaid interest penalties for the 79 late payments, as needed.

Recommendation 8: OIG recommends that the Bureau of Resource Management establish procedures and internal controls to ensure that the documents supporting the invoice receipt date and the dates that the goods and services are delivered and accepted match the information in the GFMS.

Quality Work Instructions (QWIs) and reference documents have been written and institutionalized as evidenced by RM/GFS attaining ISO-9001 accreditation. RM will work to enhance these materials as necessary to support the recording of invoice receipt date and the dates that the goods and services are delivered and accepted.

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and resources hurts everyone.

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