
Department of Education's Compliance with the Prompt Payment Act

FINAL AUDIT REPORT



ED-OIG/A17-E0008
September 2005

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.



U.S. Department of Education
Office of Inspector General
Financial Statements Internal Audit Team
Washington, DC

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE INSPECTOR GENERAL

SEP 28 2005

MEMORANDUM

To: Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer

From: Helen Lew *Helen Lew*
Assistant Inspector General for Audit Services
Office of Inspector General

Subject: Final Audit Report
Department of Education's Compliance with the Prompt Payment Act
Control Number ED-OIG/A17-E0008

Attached is the subject final report that covers the results of our review of the Department of Education's (Department) compliance with the provisions of the Prompt Payment Act during the period January 1, 2004 through September 30, 2004. An electronic copy has been provided to your Audit Liaison Officer. We received your comments generally concurring with the findings and recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Greg Spencer at 202-245-6015.

Enclosure

Electronic Distribution List:

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EXECUTIVE SUMMARY

In 1982, Congress enacted the Prompt Payment Act, Public Law 97-177 to require federal agencies to pay their bills on a timely basis, pay interest penalties when payments are made late, and take discounts only when payments are made by the discount date. The Office of Management and Budget's (OMB) implementing regulations for prompt payment requirements are set forth in 5 C.F.R. Part 1315.

The objectives of our audit were to determine (1) the Department of Education's (Department's) compliance with the provisions of the Prompt Payment Act (Act) and (2) the adequacy of its internal controls to ensure compliance with the Act.

During the period January 1, 2004 through September 30, 2004, the Department did not comply with the provisions of the Act and did not have adequate internal controls to ensure compliance with the Act. Our audit disclosed that (1) incorrect receipt dates were used to calculate invoice payment due dates, (2) adjustments to the payment process are needed to comply with the Act and Department policy, and (3) annual quality control procedures need to be developed and reviews need to be conducted. As a result, we project that about 3,100¹ invoice payments during the review period had underpaid interest. In addition, we estimate that the total amount of the interest underpayments during the review period was no less than \$175,135 and no more than \$353,055.²

To correct the weaknesses identified, we recommend that the Chief Financial Officer:

- Develop a special use report that identifies all receipt dates recorded as of the 1st, 2nd or 3rd day of a month. The report should be prepared and reviewed early enough in the month by procurement staff to ensure invoices needing prior period adjustments have time to be properly processed and paid in accordance with the Act.
- Prepare a written reminder to procurement staff regarding the requirements for properly annotating the date of receipt of invoices, and what dates should be used as receipt dates in the Department's systems.
- Cease combining current and overdue invoices.
- Develop a process, prior to implementation of Oracle 11i, that would monitor and correct the recording and paying of invoices associated with (a) multiple receipt purchase orders or (b) multiple lines with different receipt dates. In addition, ensure the Oracle 11i

¹ We are 90% confident that 3,134 invoices (no less than 2,355 invoices and no more than 4,008 invoices) had interest underpayments.

² We are 90% confident that the amount of interest underpayments was \$264,095 +/- 34%.

implementation incorporates the necessary functionality for properly recording and paying amounts associated with these types of invoices.

- Strengthen controls over the invoice approval process to ensure timely request of payment.
- Implement controls to ensure compliance with the Department's policy to process payment of invoices at least three business days, but no more than seven business days, prior to the due date to ensure timely payment by Treasury.
- Calculate and pay interest based on the Treasury settlement date when invoices are not paid on time.
- Develop policy and procedures to ensure that an annual quality control validation review is performed to confirm that controls are effective and processes are efficient.

The Department generally concurred with our findings and recommendations, with one exception. The Department stated they agree with our reasoning to develop a process, prior to implementation of Oracle 11i, that would monitor and correct the recording and paying of invoices associated with (a) multiple receipt purchase orders or (b) multiple lines with different receipt dates. However, after consideration of the upcoming conversion to Oracle version 11i, the Office of the Chief Financial Officer (OCFO) determined that modification to the present Oracle code would not be economically practical for the Department.

We agree that it may not be economically practical for the Department to make modifications to the present Oracle code. However, the problem of using incorrect receipt dates to calculate invoice payments still persists when paying invoices associated with multiple receipt purchase orders or multiple lines with different receipt dates. Our recommendation is for the Department to develop an appropriate process, which could include manual reviews, special use reports or other procedures that would monitor the problem and allow for corrections until Oracle 11i is implemented.

The entire text of the Department's response is included as an enclosure to this report.

BACKGROUND

In 1982, Congress enacted the Prompt Payment Act, Public Law 97-177 (Act) to require federal agencies to pay their bills on a timely basis, pay interest penalties when payments are made late, and take discounts only when payments are made by the discount date. OMB's implementing regulations for prompt payment requirements are set forth in 5 C.F.R. Part 1315. The regulations apply to procurement contracts, and vendor, utility and Commodity Credit Corporation payments. They do not apply to interagency payments; late interest penalties regulated by state, local, or foreign governments; payments to subcontractors; and travel reimbursements to federal employees. In determining the payment due date, unless otherwise specified, the payment is due either: (1) on the date specified in the contract, (2) in accordance with discount terms when discounts are offered and taken, (3) in accordance with accelerated payment methods, or (4) 30 days from the date of receipt of a proper invoice.

Office of the Chief Financial Officer (OCFO) *Procedure for Receiving Goods and Services in the Contracts and Purchasing Support System* (CO-008) outlines the Department's business process for receipt of goods and services, and it provides the Department's policy on payments. It is the policy of the Department to make payments on all goods and services by the 30th day after the receipt of a proper invoice/voucher and satisfactory contractor performance whichever is later. Payments made after the 30th day in such cases must be paid with interest.

OCFO Procedure for Administrative Payment Operations (CO-045) provides the procedures for paying invoices and vouchers submitted by contractors. OCFO requires that invoices and vouchers submitted by contractors must be processed and paid timely in accordance with Federal Acquisition Regulations (FAR) Subpart 32.9, Prompt Payment.

AUDIT RESULTS

The Department did not comply with the provisions of the Act and did not have adequate internal controls to ensure compliance with the Act. Our audit disclosed that (1) incorrect receipt dates were used to calculate invoice payment due dates, (2) adjustments to the payment process are needed to comply with the Act and Department Policy, and (3) annual quality control procedures need to be developed and reviews need to be conducted. As a result, we project that about 3,100³ invoice payments during the review period had underpaid interest. In addition, we

³ See footnote 1.

estimate that the total amount of the interest underpayments during the review period was no less than \$175,135 and no more than \$353,055.⁴

Finding No. 1 – Incorrect Receipt Dates Used to Calculate Invoice Payment Due Dates

The Department used incorrect invoice receipt dates to determine the payment due dates for 23 of the 112 invoice payments tested.⁵ Our testing identified four reasons why incorrect receipt dates occurred:

- Thirteen of the 23 invoice payments were not paid within 30 days because the contracting officers did not consistently follow the Department's procedures for making prior period adjustments for invoices received in one month, but processed in the receipt system the next month. As a result, the Oracle Financial system calculated the payment due date using the 1st day of the month the invoice was processed as the receipt date, rather than the prior month date on which the invoice was received. The prior period adjustment procedures are used as the system does not allow a prior month's date to be entered as a receipt date in a current month.
- Procurement staff did not use the contractor's invoice date as the receipt date for two of the 23 invoices payments when the procurement staff did not annotate the invoice with the date of receipt. As a result, interest was not calculated or paid on the overdue invoices.
- Two payments reviewed were comprised of several overdue invoice amounts along with current invoice amounts. These were then paid using the most current invoice receipt dates. As a result, interest was not calculated or paid on the overdue invoices.
- An incorrect receipt date was used for seven of the 23 invoice payments because the current Oracle application's functionality can not match directly to a receipt line item. Instead, the functionality only matches to a purchase order line item. This has resulted in incorrect due dates when a purchase order is associated with multiple receipts and when an invoice is matched to multiple line items with different receipt dates. Oracle can not determine the correct receipt date and schedule all matched invoices for payment based on their original receipt dates.

FAR § 32.904 provides that the due date for making an invoice payment is the later of the 30th day after the designated billing office receives a proper invoice from the contractor or the 30th day after the Government's acceptance of supplies delivered or services performed.

⁴ See footnote 2.

⁵ The detail on the invoice payments sum to 24 because one invoice payment had two occurrences that caused the use of incorrect receipt dates.

5 C.F.R. Part 1315.4 states,

“an invoice shall be deemed to be received: (1) On the later of: (i) For invoices that are mailed, the date a proper invoice is actually received by the designated agency office if the agency annotates the invoice with date of receipt at the time of receipt. For invoices that are electronically transmitted, the date a readable transmission is received by the designated agency office, or the next business day if received after normal working hours; or (ii) The seventh day after the date on which the property is actually delivered or performance of the services is actually completed . . . (2) On the date placed on the invoice by the contractor, when the agency fails to annotate the invoice with date of receipt of the invoice at the time of receipt (such invoice must be a proper invoice).”

In addition, 5 C.F.R. § 1315.10(a)(1) states that interest will be calculated from the day after the payment due date through the payment date.

Recommendations:

To comply with the Act we recommend that the Chief Financial Officer:

- 1.1 Develop a special use report that identifies all receipt dates recorded as of the 1st, 2nd or 3rd day of a month. The report should be prepared and reviewed early enough in the month by procurement staff to ensure invoices needing prior period adjustments have time to be properly processed and paid in accordance with the Act.
- 1.2 Prepare a written reminder to procurement staff regarding the requirements for properly annotating the date of receipt of invoices, and what dates should be used as receipt dates in the Department’s system.
- 1.3 Cease combining current and overdue invoices.
- 1.4 Develop a process, prior to implementation of Oracle 11i, that would monitor and correct the recording and paying of invoices associated with (a) multiple receipt purchase orders or (b) multiple lines with different receipt dates. In addition, ensure the Oracle 11i implementation incorporates the necessary functionality for properly recording and paying invoices associated with these types of invoices.

Department of Education Response:

The Department concurred with recommendations 1.1 through 1.3. With respect to recommendation 1.4, the Department stated:

“We concur with the reasoning behind this recommendation. However, after careful analysis and weighted consideration of the upcoming conversion to Oracle version 11i, OCFO has determined that modification to the present Oracle code would not be economically practical for the Department. The cost and timeliness of this modification

would greatly limit the value of such a task due to the fact that the new Oracle 11i functionality scheduled for implementation next fiscal year will fully address this recommendation. Oracle 11i will facilitate the management of the receipt of goods and services at a line item level thereby enabling the ability to monitor and correct the proper recording and paying of invoices associated with (a) multiple receipt purchase orders or (b) multiple lines with different receipt dates. Investment in the modification of existing Oracle code would result in costly and complex Configuration Management issues and greatly increase the risk of error in the Oracle conversion process.”

Office of Inspector General Comments:

We agree that it may not be economically practical for the Department to make modifications to the present Oracle code. However, the problem of using incorrect receipt dates to calculate invoice payments still persists when paying invoices associated with multiple receipt purchase orders or multiple lines with different receipt dates. Our recommendation is for the Department to develop an appropriate process, which could include manual reviews, special use reports or other procedures that would monitor the problem and allow for corrections until Oracle 11i is implemented.

Finding No. 2 – Adjustments to Payment Process Needed to Comply with Prompt Payment Act and Department Policy

The Department did not comply with its policy and procedures to process invoices for payment at least three business days prior to the invoice’s due date. The procurement staff did not approve the invoice in a timely manner for two of the 112 invoice payments reviewed. In addition, the Department did not comply with the Act’s implementing regulations that require the use of the Treasury settlement date as the date of payment for calculating interest. The Department’s systems are programmed to calculate interest based on the Department’s payment request date, rather than the Treasury settlement date. As a result, for six of the 112 payments reviewed the Department either did not pay the appropriate amount of interest or did not pay any interest to vendors when interest was due.

The FAR, §32.906 states, “(a) The Government will not make invoice payments earlier than seven days prior to the due dates specified in the contract . . . (b) The designated payment office (1) Will mail checks on the same day they are dated; (2) For payments made by EFT, will specify a date on or before the established due date for settlement of the payment at the Federal Reserve Bank . . .”

OCFO Procedures that Work - Procedure for Processing Contract and Purchase Order Payments (CM-01) Step 2- Determining which approved payments are sent to Treasury requires the Administrative Payments System Administrator to pay all approved payments at least three business days prior to the due date but no more than seven business days from the due date.

5 C.F.R. § 1315.10(a)(1) states “Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date.” Section 1315.2(z) defines payment date as “the date on which a check for payment is dated or the date of an electronic fund transfer (EFT) payment (settlement date).” Section 1315.2 (ee) defines settlement date as “the date on which an EFT payment is credited to the vendor’s financial institution.”

OCFO Procedures that Work - Administrative Payment Operations (CO-045) states “An interest penalty is automatically paid when the invoice/voucher is paid after the due date, unless the invoice/voucher was not proper and the contractor was notified within seven days of receipt of that invoice/voucher.”

Recommendations:

To improve the Department’s invoice payment process and strengthen financial management, we recommend that the Chief Financial Officer:

- 2.1 Strengthen controls over the invoice approval process to ensure timely request of payment.
- 2.2 Implement controls to ensure compliance with the Department’s policy to process payment of invoices at least three business days, but no more than seven business days, prior to the due date to ensure timely payment by Treasury.
- 2.3 Calculate and pay interest based on the Treasury settlement date when invoices are not paid on time.

Department of Education Response:

The Department concurred with each of the above recommendations.

Finding No. 3 – Annual Quality Control Procedures Need to be Developed and Reviews Need to be Conducted

The Department has not performed annual quality control validation reviews to ensure controls are effective and that processes are efficient. Although, the procurement staff monitors invoices on a weekly basis through a *Posting Hold Report* and a *Summary of CPO Invoices on Hold and Unapproved Report*, the Department is not fulfilling its responsibility to conduct annual quality control validation reviews and does not know whether controls are in place and operating as intended. Due to the lack of effective controls, we project that about 3,100 invoice payments during the review period had underpaid interest. We estimate based on a 90% confidence level that the total amount of the interest underpayments during the review period was no less than \$175,135 and no more than \$353,055.

5 C.F.R. § 1315.3(a) states “Ensuring that internal procedures will include provisions for monitoring the causes of late payments and any interest penalties incurred, taking necessary corrective action, and handling inquiries.”

5 C.F.R. § 1315.3(b) states “Administrative activities required for payments to vendors under this part are subject to periodic quality control validation to be conducted no less frequently than once annually. Quality control processes will be used to confirm that controls are effective and that processes are efficient. Each agency head is responsible for establishing a quality control program in order to quantify payment performance and qualify corrective actions, aid cash management decision making, and estimate payment performance if actual data is unavailable.”

Recommendation:

To fulfill its responsibilities for prompt payment we recommend that the Chief Financial Officer:

- 3.1 Develop policy and procedures to ensure that an annual quality control validation review is performed to confirm that controls are effective and processes are efficient.

Department of Education Response:

The Department concurred with the above recommendation.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine the Department’s compliance with the provisions of the Act and determine the adequacy of its internal controls to ensure compliance with the Act. To accomplish our objective, we gained an understanding over the invoice receipt and payment process. We reviewed the Act, FAR, and applicable Departmental policies and procedures. We conducted interviews with various components within OCFO regarding the receipt and payment of invoices and reviewed official contract and purchase order files located in six Principal Offices and one Advisory Board. We conducted follow-up interviews with Federal Student Aid (FSA), OCFO/Contracts and Acquisitions Management (CAM) and OCFO/Financial Systems Operations (FSO), when necessary.

In selecting invoices to review, we requested that the Department provide us with a data extract file of all invoice payments during the period January 1, 2004 through September 30, 2004. In response to our request, the Department provided a data extract file containing over 11,000 invoice payments totaling approximately \$951.5 million.

The data extract file provided by OCFO/FSO was tested to assess the reliability of the information, including:

- reviewing the Department's invoice payments summarized by month (January 2004 through September 2004) to the Department's external reporting to OMB's Federal Interagency Databases Online (FIDO);
- tracing 20 invoice payments generated from OCFO/CAM's active award list to the data extract file; and
- reviewing the reasonableness of field contents (alpha and numeric) in the data extract file.

Based on our assessment, we concluded that the data was sufficiently reliable for use in meeting the audit objectives.

Using the data extract, the audit universe was stratified into four sampling strata. Each defined strata included approximately 25% of the absolute dollar amount of invoice payments from the \$951.5 million invoice universe. We tested a stratified random sample of 112 invoices payments totaling approximately \$302.2 million. We traced the sample items back to source documentation to determine whether interest was due for the invoice under the Act and the correct amount was paid. For errors identified we determined the cause, impact on sample size, and projected the errors to the population. We recalculated interest payments for sample items where interest was paid by using Treasury's on-line prompt payment calculator to determine if the correct interest amount was paid and the correct interest rate was used.

As part of our review we gained an understanding of the internal control, policies and practices applicable to the Department's administration over the invoice receipt and payment process.

Our audit focused on payments made from January 1, 2004 through September 30, 2004. We conducted fieldwork at the Department's offices located in Washington, DC. We held an exit conference with Department officials on July 18, 2005. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL OFFICER

SEP 6 2005

MEMORANDUM

TO: Greg Spencer
Director
Financial Statements Internal Audit Team

FROM: Danny Harris 
Deputy Chief Financial Officer

SUBJECT: Audit of U.S. Department of Education Compliance with the Prompt Payment Act (Audit Control Number: ED-OIG/A17-E0008)

Thank you for providing your Draft Audit Report entitled *Department of Education's Compliance with the Prompt Payment Act (ED-OIG/A17-E0008)*, dated July 2005. We have reviewed the draft and generally concur with your findings and recommendations. However, in consideration of efforts currently underway and of specific circumstances relating to some recommendations, a few exceptions have been noted. We look forward to working with your team to ensure the most appropriate resolution to all the issues you have identified.

The following are your individual findings and recommendations, along with our respective response:

Finding No. 1 – Incorrect Receipt Dates Used to Calculate Invoice Payment Due Dates

You stated, "The Department used incorrect invoice receipt dates to determine the payment due dates for 23 of the 112 invoice payments tested."

Recommendations:

To comply with the Act we recommend that the Chief Financial Officer:

- 1.1 Develop a special use report that identifies all receipt dates recorded as of the 1st, 2nd or 3rd day of a month. The report should be prepared and reviewed early enough in the month by procurement staff to ensure invoices needing prior period adjustments have time to be properly processed and paid in accordance with the Act.

We concur with this recommendation. The Financial System Operations Division will prepare a query for use by Contracts and Acquisitions Management (CAM), Federal Student Aid, and program executive officers to identify potential prior month receipts requiring adjustments to the receipt date. In addition, OCFO will revise current operating procedures to ensure the appropriate use of this report.

- 1.2 Prepare a written reminder to procurement staff regarding the requirements for properly annotating the date of receipt of invoices, and what dates should be used as receipt dates in the Department's system.

We concur with this recommendation. CAM will update current operating procedures to address the proper annotation of receipt of invoices and distribute by written communication to all contracting personnel.

- 1.3 Cease combining current and overdue invoices.

We concur with this recommendation. CAM will update current operating procedures to ensure that contracting personnel are aware that it is improper to combine contract payment requests for any purpose.

- 1.4 Develop a process, prior to implementation of Oracle 11i, that would monitor and correct the proper recording and paying of invoices associated with (a) multiple receipt purchase orders or (b) multiple lines with different receipt dates. In addition, ensure the Oracle 11i implementation incorporates the necessary functionality for properly recording and paying invoices associated with these types of invoices.

We concur with the reasoning behind this recommendation. However, after careful analysis and weighted consideration of the upcoming conversion to Oracle version 11i, OCFO has determined that modification to the present Oracle code would not be economically practical for the Department. The cost and timeliness of this modification would greatly limit the value of such a task due to the fact that the new Oracle 11i functionality scheduled for implementation next fiscal year will fully address this recommendation. Oracle 11i will facilitate the management of the receipt of goods and services at a line item level thereby enabling the ability to monitor and correct the proper recording and paying of invoices associated with (a) multiple receipt purchase orders or (b) multiple lines with different receipt dates. Investment in the modification of existing Oracle code would result in costly and complex Configuration Management issues and greatly increase the risk of error in the Oracle conversion process.

Finding No. 2 – Adjustments to Payment Process Needed to Comply with Prompt Payment Act and Department Policy

You stated, “The Department did not comply with its policy and procedures to process invoices for payment at least three business days prior to the invoice’s due date. The procurement staff did not approve the invoice in a timely manner for two of the 112 invoice payments reviewed. In addition, the Department did not comply with the Act’s implementing regulations that require the use of the Treasury settlement date as the date of payment for calculating interest. The Department’s systems are programmed to calculate interest based on the Department’s payment request date, rather than the Treasury settlement date. As a result, for six of the 112 payments reviewed the Department either did not pay the appropriate amount of interest or did not pay any interest to vendors when interest was due.”

The FAR, §32.906 states, “(a) The Government will not make invoice payments earlier than seven days prior to the due dates specified in the contract . . . (b) The designated payment office (1) Will mail checks on the same day they are dated; (2) For payments made by EFT, will specify a date on or before the established due date for settlement of the payment at the Federal Reserve Bank . . .”

OCFO Procedures that Work - Procedure for Processing Contract and Purchase Order Payments (CM-01) Step 2- Determining which approved payments are sent to Treasury requires the Administrative Payments System Administrator to pay all approved payments at least three business days prior to the due date but no more than seven business days from the due date.

5 C.F.R. § 1315.10(a)(1) states “Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date.” Section 1315.2(z) defines payment date as “the date on which a check for payment is dated or the date of an electronic fund transfer (EFT) payment (settlement date).” Section 1315.2 (ee) defines settlement date as “the date on which an EFT payment is credited to the vendor’s financial institution.”

OCFO Procedures that Work - Administrative Payment Operations (CO-045) states “An interest penalty is automatically paid when the invoice/voucher is paid after the due date, unless the invoice/voucher was not proper and the contractor was notified within seven days of receipt of that invoice/voucher.”

Recommendations:

To improve the Department’s invoice payment process and strengthen financial management, we recommend that the Chief Financial Officer:

- 2.1 Strengthen controls over the invoice approval process to ensure timely request of payment.

We concur with this recommendation. CAM will reinforce to contracting personnel through operating procedures and written communication, the importance of timely processing of invoices. CAM will continue to monitor invoice processing through the reporting tools currently at its disposal.

- 2.2 Implement controls to ensure compliance with the Department's policy to process payment of invoices at least three business days, but no more than seven business days, prior to the due date to ensure timely payment by Treasury.

We concur with this recommendation and will ensure that compliance with the Department's existing policy is adhered to. Presently, all invoice payments are required to be swept for processing at least three business days, but no more than seven business days prior to the due date to ensure timely payment by Treasury. Greater emphasis will be placed on monitoring this function.

- 2.3 Calculate and pay interest based on the Treasury settlement date when invoices are not paid on time.

We concur with this recommendation and are already in the process of modifying the FMSS software to account for the one-day processing period required for transfer of funds following the payment release by the Department until receipt by the recipient's financial institution.

Finding No. 3 – Annual Quality Control Procedures Need to be Developed and Reviews Need to be Conducted

You stated, "The Department has not performed annual quality control validation reviews to ensure controls are effective and that processes are efficient. Although, the procurement staff monitors invoices on a weekly basis through a Posting Hold Report and a Summary of CPO Invoices on Hold and Unapproved Report, the Department is not fulfilling its responsibility to conduct annual quality control validation reviews and does not know whether controls are in place and operating as intended. Due to the lack of effective controls, we project that about 3,100 invoice payments during the review period had underpaid interest. We estimate based on a 90% confidence level that the total amount of the interest underpayments during the review period was no less than \$175,135 and no more than \$353,055. "

Page 5

5 C.F.R. § 1315.3(a) states "Ensuring that internal procedures will include provisions for monitoring the causes of late payments and any interest penalties incurred, taking necessary corrective action, and handling inquiries."

5 C.F.R. § 1315.3(b) states "Administrative activities required for payments to vendors under this part are subject to periodic quality control validation to be conducted no less frequently than once annually. Quality control processes will be used to confirm that controls are effective and that processes are efficient. Each agency head is responsible for establishing a quality control program in order to quantify payment performance and qualify corrective actions, aid cash management decision making, and estimate payment performance if actual data is unavailable."

Recommendation:

To fulfill its responsibilities for prompt payment we recommend that the Chief Financial Officer:

- 3.1 Develop policy and procedures to ensure that an annual quality control validation review is performed to confirm that controls are effective and processes are efficient.

We concur with this recommendation. Although numerous informal controls are now in place and used by OCFO to ensure that payments are accurate and timely, OCFO will establish formal policy and procedure to assure that prompt payment processes are validated no less frequently than annually.

If you have any questions or would like to discuss the response in more detail, please do not hesitate to contact me at 202-401-0896.

Thank you.

cc: Glenn Perry
Greg Robison
Charles Miller
Gail Cornish
Cynthia Bond
Jean Vinglas
Randy Prindle
Marge White
Dawn Dawson
Lwanda Rosemond
Richard Dipasquale