Late Vendor Payment Study
Executive Summary

Background

The objective of the late vendor payment study was to identify and provide solutions for procedural problems that cause late vendor payments.

Random samples were selected for each department from late payments in FY2003 including samples from each program number within the department. The size of the sample selected from each department ranged from 25 to 100 based on its late payment rate.

Data was collected from each payment voucher to help determine where processing delays occur within the department and to identify common mistakes made in processing payments.

Each department's fiscal office staff was interviewed as were the staff responsible for processing payments in divisions, programs and attached agencies. During the interviews procedures were examined, problems identified and solutions discussed.

A summary report to the comptroller and reports detailing findings and recommendations specific to each department were prepared. A disk containing resource documents accompanies each report.

Findings and Conclusions

The initial analysis of the late payment data for Fiscal Year 2003 shows 42,288 late payments statewide. This translates to a late payment rate is 13.8% for the state overall. The department rates vary from a low of 0% to a high of 30.41 %.

An analysis of the sample data revealed that DAGS's accounting staff does an excellent job in processing payments. They take an average of only four days out of their allotted ten to process payments. This reduces the number of late payments considerably.

Major issues identified are:

1. Support of the Director has a significant impact on compliance with fiscal guidelines and procedures. The staff must know that prompt payment of vendor invoices is a priority, and the director fully supports consequences for late submittal.

2. Most departments do not provide clear guidelines for prompt payment or consequences for late payment. Guidelines are an important part of the payment process. Each division, branch, program or agency should know what is expected of them in the payment process, and the consequences for non-compliance.

3. In the sample, procurement violations were unresolved for periods of six months or more. No guidelines are provided for the time allowed to submit an SPO Form 16 (Report of Findings and Corrective Action and Request for After the Fact Payment Approval). Guidelines are an important step in determining accountability and in assessing consequences.

4. Nearly all departments had a problem establishing a correct aging start date (ASD) which is the date the 30-day period allowed for prompt payment begins. The programs did not always clearly state the "invoice received" date and the "goods/services received" date on the invoice. These are the two dates required to establish the ASD.

5. Some departments experienced late payments due to employees on vacation or sick leave. An invoice sitting on a vacationing employee's desk can delay payment by up to a month.

6. Other issues identified included handling of vendor billing errors, bundling multiple months' invoices on one payment voucher, handling of multi-funded invoices, documentation of receipt of goods and misplaced invoices.

Recommendations

1. Directors should make all divisions, branches, programs and agencies aware of their full support for the fiscal office policies concerning the priority of prompt payment of vendor invoices. The weight of the directors' office should be behind all consequences for late payment.

2. All departments should provide guidelines for prompt vendor payment to divisions, branches, programs and agencies. A late payment explanation form should accompany all payments submitted outside of guidelines. Departments should provide consequences for repeated late submittals.

3. Departments should handle procurement violations in an expeditious manner. Recommended new guidelines require the department to submit an SPO Form 16 to the State Procurement Office no more than five working days from discovery of the violation. The department should provide consequences for non-compliance with these guidelines.

4. Departments should train all responsible parties in the proper method to establish the dates required in processing payments. Invoices should be date stamped upon receipt at the program to identify the "invoice received" date. The actual date the goods are received or the services satisfactorily performed should be the "goods/services received" date. The ASD should be determined using the later of those two dates or, if applicable, the later date of receipt of any other documents required for payment.

5. All departments should require cross training of employees to ensure payments are processed in a timely manner. Before employees leave on vacation or sick leave, they should turn over all pending invoices to a supervisor. Other staff members should share their responsibilities during the absence.

6. DAGS Accounting Division should provide training to the fiscal office staff of all departments covering the problem areas identified in this study. The department's fiscal office is then responsible for training their divisions, branches, programs and agencies

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The DAGS Pre-Audit staff were unfailingly available to provide the correct statute, the chapter in the accounting manual or simply the commonly accepted practice to help resolve problems identified in this study.