



U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

**AUDIT OF THE ADMINISTRATION OF THE
PROMPT PAYMENT ACT IN THE
U.S. OFFICE OF PERSONNEL MANAGEMENT**

Report No. 4A-CF-00-11-067

Date: September 13, 2012

--CAUTION--

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AUDIT REPORT

**AUDIT OF THE ADMINISTRATION OF THE
PROMPT PAYMENT ACT IN THE
U.S. OFFICE OF PERSONNEL MANAGEMENT**

Report No. 4A-CF-00-11-067

Date: September 13, 2012



Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

<p style="text-align: center;">AUDIT OF THE ADMINISTRATION OF THE PROMPT PAYMENT ACT IN THE U.S. OFFICE OF PERSONNEL MANAGEMENT</p>
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Report No. 4A-CF-00-11-067

Date: September 13, 2012

The Office of the Inspector General (OIG) has completed a performance audit of the Administration of the Prompt Payment Act (PPA) in the U.S. Office of Personnel Management (OPM). The objectives of our audit were to determine if OPM is in compliance with the PPA and to validate the prompt payment information presented in OPM's fiscal year (FY) 2011 Annual Performance Report (APR).

Our audit was conducted from September 8, 2011 through May 15, 2012 at OPM headquarters in Washington, D.C. We determined that OPM needs to strengthen controls to ensure compliance with the PPA. Our audit identified six areas requiring improvement.

1. **Inaccurate/Incomplete CBIS Information** **\$1,630**

Sixty-six out of the 75 FY 2011 invoices we reviewed had incomplete or inaccurate information in the Consolidated Business Information System (CBIS).

2. **Inaccurate Interest Payments** **\$3,959**

We determined that for 10 out of 25 invoices received prior to FY 2011 and paid late, no interest was assessed or paid.

3. **Improper Invoices Processed for Payment** **Procedural**

OPM processed improper invoices for payment. We determined that 67 out of 75 invoices in our sample were missing some of the

required attributes of a proper invoice and should have been deemed improper and returned to the vendor.

4. **Unallowable Early Payments**

Procedural

During our review we identified 26 invoices that were coded in CBIS as *immediate* or *fast pay*. We determined that these invoices did not meet *accelerated* or *fast pay* method requirements as described in the PPA.

5. **Purchase Card Payment Dates**

Procedural

OPM is not calculating the date most advantageous to the Government to pay the purchase card invoices, as required by the PPA.

6. **FY 2011 Annual Performance Report – Incorrect Calculation for Prompt Payment Act**

Procedural

Facilities, Security, and Contracting calculated the percentage of payments made within the PPA Guidelines incorrectly for FY 2011.

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I. INTRODUCTION AND BACKGROUND

Introduction

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of the Administration of the Prompt Payment Act (PPA) in the U.S. Office of Personnel Management (OPM). The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

Background

The PPA requires “Federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date.” To implement the Act, the Office of Management and Budget (OMB) incorporated the prompt payment rules into 5 Code of Federal Regulations (CFR) Part 1315.

The PPA governs the time that agencies have to make payments. The PPA states that payment is due on (1) 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 after the start of a payment period, when a proper invoice is received. The PPA also governs the amount of interest penalties that must be paid when payments are not made within the required time period. Interest on late payments is automatically calculated in OPM’s Consolidated Business Information System (CBIS).

The key offices involved in OPM's prompt payment process during our audit were Facilities, Security and Contracting (FSC) and the Office of the Chief Financial Officer (OCFO).

OPM requires vendors to submit their invoices directly to the OPM prompt pay mailbox. The prompt pay mailbox is a Microsoft outlook function. The prompt pay "clock" starts ticking only after the vendor's invoice arrives in OPM's official prompt pay mailbox and the Invoice Processing Team (IPT) in FSC has determined it to be a proper invoice. The IPT has seven days to determine if the invoice contains the appropriate attributes and is considered proper. Improper invoices are returned to the vendor for correction. Proper invoices are entered into CBIS by the IPT and then forwarded to the appropriate program office and FSC’s Contracting Office for their review and approval so that the invoice can move along the process for payment. If a *Deliverable Receipt Form*, which shows that goods/services have been received and accepted, is attached to the invoice it is also entered into CBIS as a scanned document.

CBIS contains a field labeled “Payment Terms” that identifies when the invoices should be paid. The invoice due date and interest on late payments is automatically calculated by CBIS based on the date that a proper invoice is received. During fiscal year (FY) 2012, the prompt payment function was transferred from FSC to the OCFO.

The PPA also provides guidance to Federal agencies on when to make payments for the government-wide commercial purchase cards. When a government purchase card is used, the vendor providing the goods or service to OPM is paid by JP Morgan Chase, who provides the credit card to OPM. OPM then reimburses JP Morgan Chase in accordance with the terms and conditions of the government commercial credit card contract and the PPA.

The FY 2011 Annual Performance Report (APR) is one in a series of reports used to convey budget, performance, and financial information to constituents. OPM reports the annual performance measure of the percentage of payments made within PPA guidelines in the APR in order to improve its financial management process, which includes its implementation of a new financial system. The implementation of the OPM financial system is critical to the agency's ability to ensure compliance with guidelines for the PPA and other essential areas to support their efforts in achieving strategic and high priority performance goals. FSC was responsible for the prompt payment performance measure data reported in the FY 2011 APR and the OCFO's Budget and Performance Office prepares and publishes the APR.

In FY 2004, the OIG conducted a performance audit of OPM's Administration of the PPA. The final report was issued in 2007 and included 12 recommendations in 5 areas requiring improvement: (1) Inaccurate Prompt Payment Due Dates and Untimely Payments, (2) Incorrect Interest Calculations, (3) Unallowable Early Payments, (4) Lack of Policies and Procedures on Accounts Payable Activities, and (5) Lack of Quality Controls on Payments to Vendors and No Use of Management Reports on Payments Generated from the Government Financial Information System (OPM's prior financial system).

We have closed all of the open findings from the prior audit except for the following: (1) Inaccurate Prompt Payment Due Dates and Untimely Payments and (2) Unallowable Early Payments.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our audit were to determine if OPM was in compliance with the PPA and to validate the prompt payment information presented in OPM's FY 2011 APR.

The recommendations included in this final report address these objectives.

Scope and Methodology

Our performance audit was conducted in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit covered vendor invoices received from February 1, 2011 to September 30, 2011 to test OPM's prompt payment process. We also selected a sample of invoices received prior to FY 2011 to ascertain that interest was calculated accurately.

We performed our audit fieldwork from September 8, 2011 to May 15, 2012 at OPM headquarters located in Washington, D.C.

To accomplish the audit objectives noted above, we:

- Reviewed the PPA and other Federal Regulations implementing the PPA;
- Interviewed OPM officials to gain an understanding of OPM's policies and procedures;
- Traced invoice data in CBIS to supporting documentation;
- Reviewed vendor attributes to determine if the invoice was a proper invoice per the PPA;
- Re-calculated the payment due dates;
- Re-calculated interest on late payments; and,
- Reviewed supporting documentation of prompt payment information represented in OPM's FY 2011 APR.

In planning our work and gaining an understanding of the internal controls over OPM's administration of the prompt payment process, we considered, but did not rely on, the internal control structure to the extent necessary to develop our audit procedures. These procedures were mainly substantive in nature, although we did gain an understanding of management procedures and controls to the extent necessary to develop our audit objectives. The purpose of our audit was not to provide an opinion on internal controls, but merely to evaluate controls over the processes that were included in the scope of our audit. Our audit included such tests of vendor invoices and other procedures as we considered necessary under the circumstances. The results of our tests indicate that with respect to the items tested, OPM needs to strengthen controls to ensure that it is in compliance with the PPA.

In conducting our audit we used Interactive Data Extraction Analysis software to select two random samples for review and testing. Samples were selected as follows:

- For our first sample, we selected 75 out of 16,119 vendor invoices from February 1, 2011 to September 30, 2011 to test OPM's prompt payment process.
- For our second sample, we selected 25 out of 1,486 vendor invoices received prior to FY 2011 and paid late to ascertain that interest was calculated accurately.

The results from our samples were not projected to the population.

III. AUDIT FINDINGS AND RECOMMENDATIONS

1. Inaccurate/Incomplete CBIS Information

\$1,630

Sixty-six out of the 75 FY 2011 invoices we reviewed had incomplete or inaccurate information in CBIS. We determined that invoices did not have supporting documentation for receipt and acceptance of goods/services. In addition, information recorded in CBIS, such as the invoice number, date and amount; *AP terms date* (invoice receipt date); and payment terms, did not agree to supporting documentation. Details were provided to the OCFO separate from this report.

5 CFR Part 1315.9 lists documentation that agencies are required to have to support the payment of invoices and interest penalties. Examples of that documentation include: payment due date(s) and all the attributes of a proper invoice (i.e., invoice date, invoice number and payment terms).

5 CFR Section 1315.9(c) also states, “The following information from receiving reports, delivery tickets, and evaluated receipts is required as payment documentation: (1) Name of vendor; (2) Contract or other authorization number; (3) Description of goods or services; (4) Quantities received, if applicable; (5) Date(s) goods were delivered or services were provided; (6) Date(s) goods or services were accepted; (7) Signature (or electronic alternative when supported by appropriate internal controls), printed name, telephone number, mailing address of the receiving official, and any additional information required by the agency.”

The Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* states that management is responsible for developing control activities, which “are the policies, procedures, techniques, and mechanisms that enforce management’s directives. ...Control activities occur at all levels and functions of the entity. ...[and] include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, ... and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.”

By not recording the date that goods/services are received and accepted, OPM may be processing invoice payments without verifying that the goods/services were received. In addition, incorrect data in CBIS causes prompt payment due dates to be miscalculated. For this sample, we determined that 17 invoices were paid late and interest was incorrectly assessed, resulting in \$1,630 in interest underpayments and \$105 in interest overpayments.

Recommendation 1

We recommend that the OCFO implement internal controls to ensure that invoice information, specifically the date a proper invoice is received in the prompt pay mailbox and payment terms, is accurately recorded in CBIS and that appropriate supporting documentation is maintained.

OCFO's Response:

“We concur with this recommendation. We will send reminders to the staff to reiterate that the date the invoice is received in the prompt payment mailbox is the date to record into CBIS rather than the date they enter the invoice.”

OIG Comment:

While the OCFO concurs with our recommendation their response only addresses the invoice receipt date. The OCFO does not address the other items, incomplete or inaccurate information in CBIS, as discussed in our finding. In addition, we believe that sending a reminder to the staff is a weak internal control and additional steps should be taken to ensure that the correct invoice receipt date is recorded in CBIS.

Recommendation 2

We recommend that the OCFO ensure that all program offices accept goods/services in a timely manner and that the receipt and acceptance date is accurately recorded in CBIS.

OCFO's Response:

“We concur with this recommendation. OCFO Shared Services currently uses reports to monitor the program offices' progress; however it is ultimately the program offices' responsibility to ensure they perform this important task on a timely basis.”

Recommendation 3

We recommend that the OCFO pay vendors underpaid interest of \$1,630, plus any additional accrued interest, for the invoices we identified.

OCFO's Response:

“We concur with this recommendation. OCFO Shared Services will review these 17 invoices and the supporting documentation. We will make payments accordingly.”

2. Inaccurate Interest Payments

\$3,959

We determined that no interest was assessed or paid for 10 out of 25 sampled invoices received prior to FY 2011 that were paid late. Details were provided to the OCFO separately from this report.

5 CFR Part 1315.10(a) states that “Agencies will use the following procedures in calculating interest due on late payments: (1) 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; ... (3) For up to one year, interest penalties remaining unpaid at the end of any 30 day period will be added to the principal and subsequent interest penalties will accrue on that amount until paid;

(4) When an interest penalty is owed and not paid, interest will accrue on the unpaid amount until paid; ... (7) Interest penalties of less than one dollar need not be paid; ... (9) Interest calculations are to be based on a 360 day year.”

5 CFR Part 1315.3(a) also states that each agency head is responsible for “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.”

As of April 26, 2012, \$3,959 in interest penalties are due to the vendors and interest is still accruing on the unpaid interest.

Recommendation 4

We recommend that the OCFO determine why interest was not calculated and paid on the 10 invoices we identified and that they also pay the \$3,959 plus any additional accrued interest for the 10 invoices to the vendors.

OCFO’s Response:

“We concur with this recommendation. CFO determined that we did not pay these vendors interest and as a result we paid 9 of the 10 vendors in the amount of \$1,780.32. We determined that we owed one vendor \$.49. According to the PPA paragraph 3902(c)(1), a business is entitled to an interest penalty of \$1.00. [T]he \$.49 is below the threshold. OCFO will provide supporting documentation for these 10 invoices to close this recommendation.”

OIG Comment:

The OCFO’s response that they paid interest in the amount of \$1,780.32 is different from our recommendation that they pay \$3,959 plus any additional accrued interest. Once we receive the documentation from the OCFO we will review it to determine why the differences exist.

Recommendation 5

We recommend that the OCFO ensure that all invoices received prior to FY 2011 and paid late are properly assessed and paid interest, in accordance with 5 CFR Part 1315.

OCFO’s Response:

“We concur with this recommendation. OCFO is aware that we did not make interest payments for approximately 300 invoices. As a result, in October, November, and December 2011 interest penal[t]y payments were made on these invoices. OCFO will provide supporting documentation for these invoices to close this recommendation.”

Recommendation 6

We recommend that the OCFO strengthen their internal controls to ensure interest is being correctly assessed and paid on late payments.

OCFO's Response:

“We concur with this recommendation. OCFO Shared Serv[ic]es recently hired a team lead for its Accounts Payables unit. The team lead will conduct a monthly quality assurance review on invoices to ensure that staff is following the PPA.”

3. Improper Invoices Processed for Payment

Procedural

OPM processed improper invoices for payment. We determined that 67 out of 75 invoices in our sample were missing some of the required attributes and should have been deemed improper and returned to the vendor; however, the invoices were processed for payment through CBIS.

Details were provided to the OCFO separate from this report.

The *Federal Acquisition Regulation (FAR), Subpart 32.9* states that a proper invoice must include the following items:

- “(i) Name and address of the contractor.
- (ii) Invoice date and invoice number. (Contractors should date invoices as close as possible to the date of mailing or transmission.)
- (iii) Contract number or other authorization for supplies delivered or services performed (including order number and contract line item number).
- (iv) Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.
- (v) Shipping and payment terms (*e.g.*, shipment number and date of shipment, discount for prompt payment terms). Bill of lading number and weight of shipment will be shown for shipments on Government bills of lading.
- (vi) Name and address of contractor official to whom payment is to be sent (must be the same as that in the contract or in a proper notice of assignment).
- (vii) Name (where practicable), title, phone number, and mailing address of person to notify in the event of a defective invoice.
- (viii) Taxpayer Identification Number (TIN). ...
- (ix) Electronic funds transfer (EFT) banking information.”

OPM's Contracting Group modified all current contracts and solicitations to incorporate all of the FAR requirements, as well as stating that a proper invoice must also include “the vendor's certification that their EFT banking information in the Central Contractor Registration is current, accurate and complete as of the date of the invoice.”

The *FAR* also states that if the invoice is improper, an agency has seven days after receipt to return the invoice to the vendor noting the invoice's defects that prevent payment.

Processing invoices that do not contain all of the appropriate attributes necessary for payment may result in OPM making improper payments to vendors.

Recommendation 7

We recommend that the OCFO improve internal controls to ensure that invoices contain all necessary attributes before processing them for payment.

OCFO's Response:

“We concur with this recommendation. In compliance with the Memorandum of Understanding “Realignment of Invoice Processing Team,” the OCFO developed a training plan for the Invoice Team based on the knowledge gaps observed while performing the invoice processing. The training took place beginning March 26, 2[0]12 and was completed in May 2012. Mandatory CBIS Invoice Processing training was provided for the entire team to standardize the procedures for processing invoices, therefore reducing entry errors, increasing understanding, and eliminating repetitive invoice holds. ...”

4. Unallowable Early Payments

During our review we identified 26 invoices that were coded in CBIS as *immediate* or *fast pay*. We determined that these invoices did not meet *accelerated* or *fast pay* requirements as described in the PPA. Specifically:

- OPM's *immediate* pay category does not comply with PPA's *accelerated* pay definition.
- 8 invoices were coded as *fast pay*; however, there was no documentation (e.g., contract, invoice) to support that these invoices should have been paid earlier than the standard 30 days after a proper invoice was received.
- Based on the information recorded in CBIS, the 8 *fast pay* invoices did not meet fast payment requirements outlined in the PPA. For example, 4 of the invoices were over \$30,000 without support from the agency head, which is one of the four conditions that must be met for fast payments. Details for the fast pay invoices were provided separate from this report.

There are no controls in CBIS to prevent early payments that do not meet the *accelerated* or *fast pay* method requirements. For example, invoices over the fast pay dollar threshold were paid early and CBIS does not indicate whether those invoices received special approval or whether vendors are considered small businesses and meet the requirements of being paid early.

5 CFR Section 1315.4(j) states that “An agency shall make payments no more than seven days prior to the payment due date, but as close to the due date as possible, unless the agency head or designee has determined, on a case-by-case basis for specific payments, that earlier payment is necessary. ... An agency may use the “accelerated payment methods” in section 1315.5 when it determines that such earlier payment is necessary.”

5 CFR Section 1315.5 states the following requirements for accelerated payment methods: “(a) A single invoice under \$2,500. Payments may be made as soon as the contract, proper invoice, receipt and acceptance documents are matched except where statutory authority prescribes otherwise and except where otherwise contractually stipulated (e.g., governmentwide

commercial purchase card.) Vendors shall be entitled to interest penalties if invoice payments are made after the payment due date. (b) Small Business (as defined in FAR 19.001)... . (c) Emergency payments. Payments related to emergencies and disasters... .”

5 CFR Section 1315.6(a) states “In limited situations, [Fast] payment may be made without evidence that supplies have been received. Instead, a contractor certification that supplies have been shipped may be used as the basis for authorizing payment. Payment may be made within 15 days after the date of receipt of the invoice.” This payment procedure may be employed only when all of the four conditions are present: “(1) Individual orders do not exceed \$25,000 (except where agency heads permits a higher amount on a case-by-case basis); (2) Deliveries of supplies are to occur where there is both a geographical separation and a lack of adequate communications facilities between Government receiving and disbursing activities that make it impracticable to make timely payments based on evidence of Federal acceptance; (3) Title to supplies will vest in the Government upon delivery to a post office or common carrier for mailing or shipment to destination or upon receipt by the Government if the shipment is by means other than the Postal Service or a common carrier; and (4) The contractor agrees to replace, repair, or correct supplies not received at destination, damaged in transit, or not conforming to purchase requirements.”

The dollar threshold for Fast Payment was increased by the *FAR section 13.402(a)*, which states “Individual purchasing instruments do not exceed \$30,000, except that executive agencies may permit higher dollar limitations for specified activities or items on a case-by-case basis.”

GAO’s *Standards for Internal Control in the Federal Government* states that, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained.”

GAO’s *Standards for Internal Control in the Federal Government* also states that management is responsible for developing control activities, which “are the policies, procedures, techniques, and mechanisms that enforce management’s directives. ... Control activities occur at all levels and functions of the entity. ... [and] include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, ... and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.”

Governmentwide imputed interest is being lost due to OPM’s early payments that should not be taken.

Recommendation 8

We recommend that the OCFO define their payment terms in the same manner as outlined in the PPA and FAR.

OCFO's Response:

“We concur with this recommendation. OCFO will set up a meeting with OPM’s Contracting office to discuss the "terms" generally used in a purchase order. We also, will provide our invoice team additional training as to when to use different payment terms.”

Recommendation 9

We recommend that the OCFO implement internal controls to ensure invoices are properly classified in CBIS and that appropriate documentation is maintained to support that the relevant criteria for accelerated and fast pay have been met.

OCFO's Response:

“We concur with this recommendation. In compliance with the Memorandum of Understanding “Realignment of Invoice Processing Team,” the OCFO developed a training plan for the Invoice Team based on the knowledge gaps observed while performing the invoice processing. The training took place beginning March 26, 2012 and was completed in May 2012. Mandatory CBIS Invoice Processing training was provided for the entire team to standardize the procedures for processing invoices, therefore reducing entry errors, increasing understanding, and eliminating repetitive invoice holds.

OCFO will follow-up with staff to ensure that they understand the criteria for accelerated and fast pay.”

5. Purchase Card Payment Dates

OPM is not calculating the date most advantageous to the Government to pay the purchase card invoices, as required by the PPA. OPM pays governmentwide commercial purchase cards daily, without an analysis of the total costs and total benefits to the Federal Government.

5 CFR Section 1315.8 states that “Agencies shall determine governmentwide commercial purchase card payment dates based on an analysis of the total costs and total benefits to the Federal government as a whole, unless specified in a contract. When calculating costs and benefits, agencies are expected to include the cost to the government of paying early. This cost is the interest the government would have earned, at the Current Value of Funds rate, for each day that payment was not made. Agencies may factor in benefits gained from paying early due to, for example, streamlining the payment process or other efficiencies.” A rebate formula is provided in section 1315.17 and at the Prompt Payment website at www.fms.treas.gov/prompt/index.html.

5 CFR Section 1315.12(a) states that “All individual purchase card invoices under \$2,500 may be paid at any time, but not later than 30 days after the receipt of a proper invoice. Matching documents is not required before payment. The payment due date for invoices in the amount of \$2,500 or more shall be determined in accordance with § 1315.8.”

5 CFR Section 1315.17(a)(1) states that “Agencies shall determine credit card payment dates based on an analysis of the total benefits to the Federal government as a whole. Specifically,

agencies should compare daily basis points offered by the card issuer with the corresponding daily basis points of the government's Current Value of Funds (CVF) rate. If the basis points offered by the card issuer are greater than the daily basis points of the government funds, the government will maximize savings by paying on the earliest possible date. If the basis points offered by the card issuer are less than the daily points of the government funds, the government will minimize costs by paying on the Prompt Payment due date or the date specified in the contract."

By not calculating the costs and benefits, OPM is not determining the cost to the government paying early, which includes the interest the government would have earned for each day the payments were not made.

Recommendation 10

We recommend that the OCFO perform a cost to benefit analysis to determine the governmentwide commercial purchase card payment dates, as required by the PPA.

OCFO's Response:

"We concur with this recommendation. OCFO Shared Services will produce a cost benefit analysis according to *5 CFR Part 1315.17*."

6. FY 2011 Annual Performance Report – Incorrect Calculation for Prompt Payment Act

FSC calculated the percentage of payments made within the PPA Guidelines incorrectly for FY 2011. Specifically the dollar value of payments made within PPA Guidelines was used to calculate the percentage, instead of the number of payments made within PPA Guidelines.

In addition, FSC does not have controls in place to ensure that the information reported in the APR is accurate. When we requested support for the PPA reporting, FSC did not have the supporting documentation and had to retrieve the information, including the methodology, from its contractor, Dakota Consulting. FSC and the OCFO's Budget and Performance Office did not analyze or review the information from its contractor for accuracy prior to the prompt payment results being reported in the FY 2011 APR.

OPM's FY 2011 Annual Performance Report states that the performance measure used for the PPA is the "Percentage of payments made within Prompt Pay Act guidelines", which is defined as "The number of payments made within prompt payment guidelines divided by the total number of payments. Payments meeting Prompt Pay Act Guidelines include both on-time payments and late payments made with interest."

GAO's Standards for Internal Control in the Federal Government states that management is responsible for developing control activities, which are the policies, procedures, techniques and mechanisms that enforce management's directives. Control activities occur at all levels and functions of an entity and include a wide range of activities, such as approvals, authorizations, verifications, reconciliations, performance review, and the creations and maintenance of related

records which provide evidence of executions of these activities, as well as appropriate documentation. Some examples of control activities are: reviews by management at the functional or activity levels, controls over information processing, proper execution of transactions and events, and appropriate documentation.

GAO's *Standards for Internal Control in the Federal Government* also states that "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. ... All documentation and records should be properly managed and maintained."

The FY 2011 results were overstated by 0.61 percent. OPM reported actual results as 98.90 percent; however, the percentage should have been 98.29 percent.

Recommendation 11

Since comparative data is shown in the APR, we recommend that the OCFO recalculate the PPA percentages for prior years and show corrections in the FY 2012 APR.

OCFO's Response:

"We concur with this recommendation. OCFO will recalculate the PPA percentages for FY 2011 to show the correct amounts for that year in the FY 2012 APR."

Recommendation 12

We recommend that OPM improve internal controls over its prompt payment reporting process to ensure the integrity of prompt payment data reported in the APR. These controls should include verification and validation of the prompt payment information, prior to reporting it in the APR.

OCFO's Response:

"We concur with this recommendation. OCFO will verify and validate the data that is being reported in the APR beginning with FY 2012."

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Internal Audits Group

[REDACTED], Auditor
[REDACTED], Auditor
[REDACTED], Auditor
[REDACTED] Auditor-in-Charge
[REDACTED], Senior Team Leader
[REDACTED], Chief



Chief Financial
Officer


UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

JUL 12 2012

MEMORANDUM FOR: MICHAEL ESSER
ASSISTANT INSPECTOR GENERAL FOR AUDITS

WILLIAM W. SCOTT, Jr.
CHIEF, INTERNAL AUDITS GROUP

FROM: DENNIS COLEMAN 
CHIEF FINANCIAL OFFICER

SUBJECT: OIG DRAFT AUDIT REPORT
Audit of the Administration of the Prompt Payment Act in
the OPM Audit Report Number – 4A-CF-00-11-067, dated
June 13, 2012

Thank you for the opportunity to respond to your review of OPM's administration of the Prompt Payment Act (PPA). OPM is aware of the importance of paying their bills timely, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date.

During FY 2012 the invoice processing component of the PPA function was transferred from Facilities, Security and Contracting (FSC) to the Office of the Chief Financial Officer (OCFO). The invoice process initiates when the vendor's invoice arrives in OPM's electronic mailbox and the invoice team determines that the invoice is proper. According to PPA the invoice team has seven days to determine if the invoice meets the criteria to be considered a proper invoice. Improper invoices should be returned to the vendor explaining the discrepancy and proper invoices are routed to the program offices for approval. Once the program office approves the invoice and there are no variances, the invoice is routed to the certifying officer to review and validate for disbursements to the U.S. Treasury for payment and posted into Consolidated Business Information System (CBIS).

Your audit is an important facet to improving our processes and we greatly appreciate the work you have done. We concur with all 12 recommendations in the draft report as discussed below.

Responses to the individual recommendations are detailed as follows.

Response to Recommendation 1

We concur with this recommendation. We will send reminders to the staff to reiterate that the date the invoice is received in the prompt payment mailbox is the date to record into CBIS rather than the date they enter the invoice.

Recommendation 2

We recommend that the office of the CFO ensure that all program offices accept goods/services in a timely manner and that the receipt and acceptance date is accurately recorded in CBIS.

Response to Recommendation 2

We concur with this recommendation. OCFO Shared Services currently uses reports to monitor the program offices' progress; however it is ultimately the program offices' responsibility to ensure they perform this important task on a timely basis.

Recommendation 3

We recommend that the office of the CFO pay the \$1,630 plus any additional accrued interest for the invoices we identified to the vendors.

Response to Recommendation 3

We concur with this recommendation. OCFO Shared Services will review these 17 invoices and the supporting documentation. We will make payments accordingly.

Recommendation 4

We recommend that the office of the CFO determine why interest was not calculated and paid on the 10 invoices we identified and that they also pay the \$3,959 plus any additional accrued interest for the 10 invoices to vendors.

Response to Recommendation 4

We concur with this recommendation. CFO determined that we did not pay these vendors interest and as a result we paid 9 of the 10 vendors in the amount of \$1,780.32. We determined that we owed one vendor \$.49. According to the PPA paragraph 3902(c)(1), a business is entitled to an interest penalty of \$1.00. the \$49 is below the threshold. OCFO will provide supporting documentation for these 10 invoices to close this recommendation.

Recommendation 5

We recommend that the CFO ensure that all invoices received prior to FY 2011 were properly assessed and paid interest, in accordance with 5 CFR Part 1315.

Response to Recommendation 5

We concur with this recommendation. OCFO is aware that we did not make interest payments for approximately 300 invoices. As a result, in October, November, and December 2011 interest penalties payments were made on these invoices. OCFO will provide supporting documentation for these invoices to close this recommendation.

Recommendation 6

We recommend that the office of the CFO strengthen their internal controls to ensure interest is being correctly assessed and paid on late payments.

Response to Recommendation 6

We concur with this recommendation. OCFO Shared Serves recently hired a team lead for its Accounts Payables unit. The team lead will conduct a monthly quality assurance review on invoices to ensure that staff is following the PPA.

Recommendation 7

We recommend that OPM improve internal controls to ensure that invoices contain all necessary attributes before processing them for payment.

Response to Recommendation 7

We concur with this recommendation. In compliance with the Memorandum of Understanding “Realignment of Invoice Processing Team,” the OCFO developed a training plan for the Invoice Team based on the knowledge gaps observed while performing the invoice processing. The training took place beginning March 26, 2012 and was completed in May 2012. Mandatory CBIS Invoice Processing training was provided for the entire team to standardize the procedures for processing invoices, therefore reducing entry errors, increasing understanding, and eliminating repetitive invoice holds.

OCFO found that during invoice processing, a standard methodology was not being used when entering invoices, addressing validation and rejection issues, and resolving various hold scenarios. The former FSC employees did not have a foundational awareness of OPM's entire Procure to Pay lifecycle, which is essential to understanding the impact and significance of invoice processing.

Recommendation 8

We recommend that the office of the CFO define their payment terms in the same manner as outlined in the PPA and FAR.

Response to Recommendation 8

We concur with this recommendation. OCFO will set up a meeting with OPM's Contracting office to discuss the "terms" generally used in a purchase order. We also, will provide our invoice team additional training as to when to use different payment terms.

Recommendation 9

We recommend that the office of the CFO implement internal controls to ensure invoices are properly classified in CBIS and that appropriate documentation is maintained to support that the relevant criteria for accelerated and fast pay has been met.

Response to Recommendation 9

We concur with this recommendation. In compliance with the Memorandum of Understanding "Realignment of Invoice Processing Team," the OCFO developed a training plan for the Invoice Team based on the knowledge gaps observed while performing the invoice processing. The training took place beginning March 26, 2012 and was completed in May 2012. Mandatory CBIS Invoice Processing training was provided for the entire team to standardize the procedures for processing invoices, therefore reducing entry errors, increasing understanding, and eliminating repetitive invoice holds.

OCFO will follow-up with staff to ensure that they understand the criteria for accelerated and fast pay.

Recommendation 10

We recommend that OPM perform a cost to benefit analysis to determine the governmentwide commercial purchase card payment dates, as required by the PPA.

Response to Recommendation 10

We concur with this recommendation. OCFO Shared Services will produce a cost benefit analysis according to 5 CFR Part 1315.17.

Recommendation 11

Since comparative data is shown in the APR, we recommend that the office of the CFO recalculate the PPA percentages for prior years and show corrections in the FY 2012 APR.

Response to Recommendation 11

We concur with this recommendation. OCFO will recalculate the PPA percentages for FY 2011 to show the correct amounts for that year in the FY 2012 APR.

Recommendation 12

We recommend that OPM improve internal controls over its prompt payment reporting process to ensure the integrity of prompt payment data reported in the APR. These controls should include verification and validation of the prompt payment information, prior to reporting it in the APR.

Response to Recommendation 12

We concur with this recommendation. OCFO will verify and validate the data that is being reported in the APR beginning with FY 2012.