



U.S. GOVERNMENT PRINTING OFFICE
OFFICE OF INSPECTOR GENERAL

FINAL REPORT
14-21

Review of Prompt Payment of Invoices on Hold

September 23, 2014

Date

September 23, 2014

To

Chief Financial Officer

From

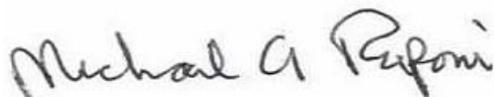
Inspector General

Subject

Final Report – Review of Prompt Payment of Invoices on Hold
Report Number 14-21

Enclosed please find the subject final report. Please refer to the “Results in Brief” for the overall audit results. Our evaluation of your response has been incorporated into the body of the report. We consider management’s comments responsive to the recommendation. The recommendation is resolved and will remain open for reporting purposes pending completion of the proposed actions.

We appreciate the courtesies extended to the audit staff during the course of our review. If you have any questions or comments about this report, please do not hesitate to contact Mr. Jeffrey C. Womack, Assistant Inspector General for Audits and Inspections at (202) 512-2009 or me at (202) 512-0039.



MICHAEL A. RAPONI
Inspector General

Enclosure

cc:

Public Printer

Deputy Public Printer

General Counsel

Chief of Staff

Contents

Introduction	1
Results in Brief.....	1
Background.....	3
Results and Recommendations.....	4
Appendix A – Objectives, Scope, and Methodology	7
Appendix B – Management’s Response.....	8
Appendix C – Status of Recommendation.....	9
Appendix D – Report Distribution	10
Appendix E – Invoices on Hold as of March 12, 2014, by GPO Business Unit.....	11
Major Contributors.....	13

Office of Inspector General

Report Number 14-21

September 23, 2014

Review of Prompt Payment of Invoices on Hold

Introduction

In response to a complaint alleging that six GPO vendors were not paid timely, which could have resulted in a loss of early payment discounts, the Office of Inspector General (OIG) initiated a review to evaluate the steps GPO takes to promptly pay invoices on hold and whether those steps were effective in achieving early payment discounts. The complaint alleged that the 6 vendors were not paid timely for 19 invoices for purchases made between May 2012 and April 2013. Invoices were for a variety of items such as printing machine equipment parts that facilitate cutting paper and distribution of ink as well as book binding materials and janitorial supplies. The invoice amounts totaled \$30,392. To address the allegation, we broadened our review to include an analysis of invoices on hold as of March 12, 2014.

The Office of Finance and Administration processes and pays invoices for GPO products and services. A collaborative effort between GPO business units may, however, be necessary to resolve invoices placed on hold.

In general, invoice payments are placed on hold when mismatches occur with an invoice, quantity received, and/or the amount of the purchase order. GPO must release the hold before payment.

To accomplish our objective, we assessed policies and procedures in place from May 2013 through May 2014 for processing the receipt of invoices, placing holds on invoices, removing holds on invoices, and taking prompt payment discounts. We analyzed the *Invoices on Hold Report* dated March 12, 2014. We also analyzed the impact of late payments on discounts taken based on that report. We conducted interviews with select GPO staff to gain an understanding of GPO's processes related to processing the receipt of invoices, placing holds on invoices, and removing holds. See Appendix A for the details of the objective, scope, methodology, and criteria.

Results in Brief

We commend GPO for establishing controls designed to prevent improper payments when mismatches occur with an invoice, the quantity received, and/or the amount of a purchase order. As of March 12, 2014, GPO's *Invoices on Hold Report* included 498 invoices totaling approximately \$5.3 million and placed on hold for a variety of reasons. Generally, GPO's accounting system—Oracle GBIS—automatically placed

holds on the invoices. Of the 498 invoices, 421 (84.5 percent) were on hold because the quantity billed exceeded the quantity received, 53 (10.6 percent) because the total invoice distribution did not equal the invoice amount, 48 (9.6 percent) were the result of the quantity billed exceed the quantity ordered, 37 (7.4 percent) because the quantity billed exceeded the quantity accepted, and 4 (.8 percent) were on hold based on an issue with the purchase order. Some invoices had multiple hold types.

GPO's goal is to pay valid and complete invoices within 30 days after receipt, or sooner, if a prompt payment discount was offered with the bid that exceeds the Department of Treasury's borrowing rate. Of the 498 invoices on hold, 292 invoices totaling approximately \$2.2 million were on hold longer than 30 days. Of those invoices, 131 invoices, totaling \$830,947 were on hold in excess of 90 days. We attributed that to insufficient detail within procedures needed to timely process invoices on hold. For example, procedures do not provide sufficient detail for monitoring and releasing holds to ensure prompt payment and discounts are realized. As a result, if a 2-percent discount was offered and taken, GPO could have realized as much as \$45,572. The OIG did not calculate this value based on an individual review of invoices not paid within 30 days.

Recommendation

We recommend that the Chief Financial Officer enhance standard operating procedures to include a detailed process that monitors the timeliness for processing invoices on hold.

Management's Response

Management concurred with the recommendation. The complete text of management's response is in Appendix B.

Background

The OIG received a complaint alleging untimely payment of invoices for products and services provided. We were provided documents from 6 vendors regarding 19 invoices for purchases made between May 2012 and April 2013 for a variety of items such as printing machine equipment parts that facilitate cutting paper and distribution of ink as well as book binding materials and janitorial supplies. The invoice payments totaled \$30,392. The six vendors had the following invoice payment activities:

- Vendor 1 submitted eight invoices totaling \$594.00. Payments were held because the quantity billed exceeded the quantity ordered.
- Vendor 2 submitted an invoice totaling \$213.43. Payment was held because the quantity billed exceeded the quantity received.
- Vendor 3 submitted five invoices totaling \$3,730.71. Three of the invoice payments were held because the quantity billed exceeded the quantity received.
- Vendor 4 submitted three invoices totaling \$11,441.16. One of the invoice payments was held because the quantity billed exceeded the quantity accepted.
- Vendor 5 submitted an invoice totaling \$1,466.27. Payment was held because the quantity billed exceeded the quantity received.
- Vendor 6 submitted an invoice totaling \$12,946.45. Payment was held because the quantity billed exceeded the quantity received.

To address the allegation, we broadened our review to include review of all invoices on hold as of March 12, 2014.

Processing an Invoice

When an invoice is received, the Commercial Examinations Section within the Office of Chief Financial Officer enters the invoice into GPO's Oracle Business Information System (GBIS) and then looks up the purchase order information related to the invoice. When the information on the invoice matches the information on the purchase order, the invoice is paid. If the information on the invoice cannot be matched to the purchase order or the purchase order referenced on the invoice cannot be found, the invoice is not entered into GBIS. If a mismatch occurs, an employee from the Commercial Examinations Section contacts the vendor to obtain missing information or additional supporting documentation. If that information is not received within 48 hours, the invoice is returned to the vendor for reprocessing.

Once the invoice is entered into GBIS, a validation process takes place. GBIS uses a four-way validation matching process for item purchases that require inspections. The invoice is released during the validation process if the:

- Quantity billed is less than or equal to quantity ordered.
- Invoice price is less than or equal to purchase order price.
- Quantity billed is less than or equal to quantity received.
- Quantity billed is less than or equal to quantity accepted.

For purchases of services, GBIS uses a three-way validation matching process. The invoice amount, purchase order amount, and receiving (or authorization) amounts must equal.

If the invoice validation matching process does not fall within the tolerances defined for quantity and price, GBIS places a matching hold on the invoice. The hold must be released before payment of the invoice can be made.

Results and Recommendations

GPO did not always make payment to its vendors within 30 days after the date they received the invoice. As of March 12, 2014, GPO’s *Invoice on Hold Report* included 498 invoices on hold. Of those 498 invoices, 292 invoices totaling approximately \$2.2 million were on hold for longer than 30 days. Table 1 below depicts the number and amounts of invoices on hold exceeding 30 days as of March 12, 2014. These figures have not been validated by the OIG.

Table 1. Summary of Invoices on Hold as of March 12, 2014.

Days on Hold	31 - 60	61 - 90	91+	Total
Number Invoices	124	37	131	292
Amount of Invoices*	\$1,036,071	\$411,605	\$830,947	\$2,278,623

*Amounts are rounded to the nearest dollar.

See Appendix E for invoices on hold as of March 12, 2014 by GPO business unit.

GPO’s Materials Management Acquisition Regulations (MMAR), GPO Publication 805.33, dated May 15, 2003, identifies requirements regarding the timeliness of payments. GPO must make payments within 30 days of the receipt of a “proper invoice” or “the acceptance of supplies delivered or services performed.” MMAR Section 32.905(b) (3) states that invoices must be evaluated in a timely manner to determine whether the invoice received is a proper invoice within 7 days of receipt. GPO Publication 1050, *Doing Business with GPO*—available on GPO’s public Web site—states GPO’s goal is to pay bills within 30 days after receipt, or sooner, if a prompt payment discount was offered with the bid. Although GPO is not subject to the Prompt Payment Act of 1982, as amended, complying with the Act is consistent

with GPO's mission and strategic goals. Generally, the Prompt Payment Act requires that executive branch agencies make payment no later than 30 days after the date they receive a proper invoice or by a contractually established payment date. The Prompt Payment Act does not require that Federal agencies pay an invoice by the due date. Rather, it requires that the Government pay interest if an invoice is not paid on time.

GPO requires¹ that management controls provide reasonable assurance and safeguards for protecting assets against waste, loss, unauthorized use, and misappropriation. The policy also requires that GPO maintain effective systems of accounting and management control. The policy further states that internal controls are the organization, policies, and procedures used to reasonably ensure that:

- programs achieve intended results
- resources are used consistent with agency mission
- programs and resources are protected from waste, fraud, and mismanagement
- laws and regulations are followed
- reliable and timely information is obtained, maintained, reported, and used for decision making

While standard operating procedures existed for processing invoices on hold and reporting the status of invoices, detailed procedures for monitoring did not exist to ensure prompt payment. Furthermore, procedures for releasing items on hold were documented but did not provide sufficient guidance on when to release the holds.

Specifically, the *General Exam Invoice Processing Standard Operating Procedure - Processing Invoices for General Examination Section*, Document ID 95, does not include all of the activities necessary for processing invoices as staff in the Office of Finance and Administration performs and does not include a detailed process for monitoring invoices on hold.

Hold procedures were not clearly defined for business units. Each week the Office of Finance and Administration generates and issues the *Invoices on Hold Report*. The report identifies the invoice number, invoice date, hold name, batch name, supplier name, hold date, purchase order number, and invoice amount. All business units receive the report.

Business unit personnel reported that they lack total familiarity with the invoice payment process and would like better communication between the various stakeholders involved with releasing holds. For example, the Acquisition Department may be responsible for resolving a hold if shipping fees were added to an invoice but not included in the purchase order. Similarly, the Central Receiving

¹ GPO Instruction 825.18A, *Internal Control Program*, dated May 28, 1997.

Section could resolve a hold where the quantity received was not entered into Oracle. Also, the Comptroller for a specific unit is responsible for working with the business unit staff to resolve discrepancies in services or products if the quantity or quality is different from the obligating document.

Business unit personnel reported that delays were often the result of employees not having a clear understanding of the types of holds listed in the report, resulting in untimely resolution of the hold and payment of the invoice.

Our examination of the *Invoices on Hold Report* as of March 14, 2014, revealed that approximately 292 invoices were not paid within 30 days. As a result, if a 2-percent discount was offered and taken, GPO could have realized as much as \$45,572. The OIG did not calculate this value based on an individual review of invoices not paid within 30 days.

Recommendation

We recommend that the Chief Financial Officer enhance standard operating procedures to include a detailed process that monitors the timeliness for processing invoices on hold.

Management's Response.

Finance agrees to enhance standard operating procedures to include a detailed process that monitors the timeliness for processing invoices on hold. The complete text of management's response is in Appendix B.

Evaluation of Management's Response

Management's actions are responsive to the recommendation. We consider the recommendation resolved but will remain open pending our confirmation of the final actions scheduled for Fiscal Year 2015.

Appendix A - Objectives, Scope, and Methodology

We performed the audit from May 2013 through May 2014 at the GPO Central Office in Washington, DC. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

The OIG initiated a review to evaluate the steps GPO took to promptly pay invoices placed on hold and whether it was effective in achieving early payment discounts.

Scope and Methodology

To meet our objective:

- We reviewed policies and procedures in place from May 2013 through May 2014 for processing the receipt of invoices, placing holds on invoices, and removing holds on invoices.
- We analyzed the status of all 498 invoices in the *Invoices on Hold Report* dated March 12, 2014.
- We conducted interviews with GPO staff to gain an understanding of GPO's policies, procedures, systems, and processes related to handling the receipt of invoices, placing holds on invoices, and removing holds on invoices.

Management Controls Reviewed

We determined that the following internal controls were relevant to our audit objective:

Operations – Policies and procedures GPO management implemented to reasonably ensure invoices are paid within 30 days.

Compliance with Laws and Regulations – Policies and procedures that management implemented to reasonably ensure that resource use is consistent with laws and regulations.

The details of our examination of management controls, the results of our examination, and noted management control deficiencies are contained in the report narrative. Implementing the recommendations in this report should improve those management control deficiencies.

Appendix B - Management's Response

UNITED STATES GOVERNMENT PRINTING OFFICE

memorandum

DATE: September 19, 2014
REPLY TO
ATTN OF: Chief of Staff
SUBJECT: Audit Report 14-21 – *Review of Prompt Payment of Invoices on Hold*
TO: Inspector General

This is in response to the Office of the Inspector General's Audit Report 14-21 – *Review of Prompt Payment of Invoices on Hold*.

Finance agrees with the audit recommendation that Finance, “enhance standard operating procedures to include a detailed process that monitors the timeliness for processing invoices on hold.” We expect to enhance our current procedures in fiscal 2015. Once completed, Finance will notify your office.

Thank you for the review and recommendation on this important financial process.


ANDREW M. SHERMAN

Appendix C - Status of Recommendation

Recommendation	Resolved	Unresolved	Open/ECD*	Closed
1	x		Fiscal Year 2015	

*Estimated Completion Date.

Appendix D – Final Report Distribution

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Appendix E – Invoices on Hold as of March 12, 2014, by GPO Business Unit

GPO Business Unit	0 - 30		31 - 60		61 - 90		91+ Days		Totals	
	Invoice Amounts	Number of Invoices								
Office of Information, Technology and Systems	\$ 1,513,140	75	\$ 673,807	61	\$ 316,096	22	\$ 173,405	27	\$ 2,676,447	185
Capital Assets	\$ 456,982	31	\$ 233,502	20	\$ 59,447	6	\$ 428,942	45	\$ 1,178,873	102
Office of Security Services	\$ 244,776	12	\$ 18,765	9	\$ -	0	\$ -	0	\$ 263,540	21
Materials Handling Operations	\$ 310,148	21	\$ 615	1	\$ -	0	\$ 46,135	15	\$ 356,898	37
Information Dissemination	\$ 136,984	11	\$ 65,895	4	\$ -	0	\$ 602	3	\$ 203,481	18
Finance	\$ 115,985	12	\$ 1,490	5	\$ -	0	\$ 232	1	\$ 117,707	18
Other Operations	\$ 92,560	6	\$ 6,908	1	\$ 16,244	2	\$ 26,860	1	\$ 142,573	10
Buildings Expense	\$ 5,445	2	\$ 6,036	2	\$ 12,893	5	\$ 58,206	17	\$ 82,581	26
Official Journals of Government	\$ 66,106	4	\$ 989	1	\$ -	0	\$ -	0	\$ 67,095	5
Binding Division	\$ -	0	\$ -	0	\$ -	0	\$ 52,827	12	\$ 52,827	12
Plant Operations	\$ 25,312	18	\$ 20,251	16	\$ 62	1	\$ 779	4	\$ 46,404	39
Customer Services	\$ 848	1	\$ -	0	\$ -	0	\$ 42,523	1	\$ 43,371	2
Medical Services	\$ 32,664	2	\$ -	0	\$ -	0	\$ -	0	\$ 32,664	2
Production Department	\$ 12,618	4	\$ 645	1	\$ 6,863	1	\$ -	0	\$ 20,126	6

GPO Business Unit	0 - 30		31 - 60		61 - 90		91+ Days		Totals	
	Invoice Amounts	Number of Invoices	Invoice Amounts	Number of Invoices	Invoice Amounts	Number of Invoices	Invoice Amounts	Number of Invoices	Invoice Amounts	Number of Invoices
Security and Intelligent Documents	\$ 8,047	4	\$ 7,169	3	\$ -	0	\$ 436	5	\$ 15,652	12
Office of Human Capital	\$ 12,575	1	\$ -	0	\$ -	0	\$ -	0	\$ 12,575	1
Office of Equal Employment Opportunity	\$ 4,413	1	\$ -	0	\$ -	0	\$ -	0	\$ 4,413	1
Customer Services Organizations	\$ 17	1	\$ -	0	\$ -	0	\$ -	0	\$ 17	1
Totals	\$ 3,038,618	206	\$ 1,036,071	124	\$ 411,605	37	\$ 830,947	131	\$ 5,317,241	498

Major Contributor to the Report

Freddie Hall, Lead Auditor