
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objective..... 2

Audit Results - Summary..... 2

Background..... 2

**Audit Findings and
Recommendations..... 3**

Late Vendor Payments 3
Recommendations..... 6

Late Payments for Medical
Services 6
Recommendations..... 7

Audit Scope and Methodology..... 7

Authority 8

Reporting Requirements..... 8

Contributors to the Report 8

Appendix A - Auditee Response 9

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**DIVISION OF MILITARY
AND NAVAL AFFAIRS**

LATE VENDOR PAYMENTS

Report 2007-S-117

AUDIT OBJECTIVE

Our objective was to identify the reasons for late vendor payments at the Division of Military and Naval Affairs (Division) and to determine whether the late payments were avoidable.

AUDIT RESULTS - SUMMARY

If a State agency does not pay a vendor within a certain 30-day timeframe, the agency is required by law to pay eligible vendors interest on the late payment. In the 2005-06 and 2006-07 fiscal years, the Division paid its vendors late 16 and 12 percent of the time, respectively, and as a result, had to pay \$18,808 in interest to the vendors.

We reviewed a sample of the Division's late payments and identified a number of reasons for the delays in payment. In particular, local armories were sometimes slow to forward vendors' invoices to the Central Office for payment. We concluded that, for the most part, the payments were late because the personnel processing the payments were not following proper procedures, and military personnel on active duty were not submitting certain paperwork promptly.

We also found that, when the Division establishes the first day of the 30-day payment period, it is frequently incorrect. We also noted that special coordination is needed with the State Insurance Fund to reduce delays in the payment of certain medical invoices.

Our report contains six recommendations to reduce delays in the Division's processing of vendor payments. Division officials generally agreed with most of our recommendations and have taken steps to implement changes.

This report, dated November 20, 2008, is available on our website at:

<http://www.osc.state.ny.us>

Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The Division administers and supervises New York State's organized militia, which includes the Army National Guard, the Air National Guard, the Naval Militia, and the New York Guard. The Division responds to man made and natural disasters.

The Division operates a number of facilities throughout the State, including 56 armories, 17 field maintenance shops, five Air National Guard bases, three Army Aviation Support facilities, three combined maintenance shops, and a multi-purpose training site (Camp Smith). The Division also supports numerous field operations for the State Office of Homeland Security. The Division has cooperative agreements with the Federal government, for the utilization of State facilities.

The Division is also responsible for the medical expenses for injuries, illnesses and diseases of guard members while on State Active Duty (except for pre-existing conditions, and injuries, illnesses and diseases due to a member's own misconduct, fault or negligence). Guard members are on State Active Duty when they are mobilized to provide assistance to civil authorities. For example, they may be called upon to provide assistance during natural disasters or to provide security at such facilities as airports, subways or power plants.

Under Article XI-A of the New York State Finance Law, known as the Prompt Payment Law, State agencies are generally required to pay interest to vendors when their payments to the vendors are not made within a certain timeframe (some vendors, such as government agencies, are not eligible for the interest payments). Specifically, State agencies are to pay vendors within 30 calendar days (excluding legal holidays) of the receipt of either a proper invoice or the goods or services, whichever is later. This date is referred to as the "Merchandise Invoice Received Date" (MIR date). If a payment is not made within this 30-day timeframe, the agency is required to pay interest to certain vendors if the amount of interest would equal \$10 or more.

Payments by agencies must be approved by the Office of the State Comptroller (OSC). Under the Prompt Payment Law, the agencies are allowed 22 of the 30 days to process their payments, while OSC is allowed the remaining eight days.

Procurement and Disbursement Guidelines Bulletin G-147, which was issued by the State Comptroller's Office to the agencies in February 1995, notes that it is the agencies' responsibility to monitor their payments to ensure that they are processed within the required timeframe. The Bulletin further notes that reports are provided daily to the agencies to enable them to perform this task.

The Division's payments are processed by its Central Office. However, invoices are first received by various facilities such as armories, the Air Guard bases and other Division facilities located throughout the State. These offices are responsible for determining whether the invoices are accurate. They are also responsible for forwarding the invoices to the Central Office for payment. The invoices are paid on

vouchers, and each voucher may cover one or more invoices from the same vendor. Bulletin G-147 defines a designated payment office as the office or site where the agency instructs the vendor to mail or deliver their invoice. However, DMNA officials stated that, in practice, its Budget and Finance Office is the only designated payment office because they process all payments.

For the period April 1, 2005 through November 27, 2007, the Division's expenditures for non-personal services totaled \$77.1 million. During this period, the Division made a total of 3,774 late payments to vendors. These late payments totaled \$9.3 million, and the Division paid \$18,808 in interest on these late payments. In the 2005-06 fiscal year, the Division's vendor payments were late 16 percent of the time, and in 2006-07, the payments were late 12 percent of the time.

AUDIT FINDINGS AND RECOMMENDATIONS

Late Vendor Payments

We identified numerous reasons for the Division's late payments to vendors. The most common reasons were delays by the various facilities in forwarding invoices to the Central Office for payment, errors by Division personnel when processing payments, and delays in the submission of certain paperwork by personnel on State Active Duty. We recommend a number of actions that can be taken by the Division to reduce the number of late payments, including having bills received and processed at fewer offices.

Reasons for Late Payments

From the population of 3,774 late payments made between April 1, 2005 and November

27, 2007, we excluded 189 relating to medical services and totaling \$85,877. We reviewed these separately and report our finding in the section of this report entitled "Late Payments for Medical Services."

From the remaining 3,585 late payments, we selected for examination a judgmental sample of 409 late payments to 30 vendors for review. The 409 late payments totaled \$1,138,219.

To determine why the payments were late, we interviewed Division officials and reviewed documentation such as invoices and receiving reports. We also verified the accuracy of the MIR dates.

We identified numerous reasons for the late payments. However, three reasons were responsible for 252 (61.6 percent) of the 409 late payments, as follows:

- For 131 payments totaling \$302,485, the payments were late because the invoices were not forwarded promptly to the Central Office for processing. Rather, the invoices were held up at the various facilities (primarily armories).
- For 64 payments totaling \$152,914, the payments were delayed because errors were made by the personnel processing the payments.
- For 57 payments totaling \$91,749, the payments were delayed because personnel on State Active Duty were late in submitting paperwork which is used to verify invoices for services related to their Active Duty assignments, such as meals, lodging or cell phone usage.

The remaining 157 payments were delayed for a variety of reasons. For example, 25 payments were delayed at the Central Office awaiting various approvals, 15 payments were delayed in the Central Office because of problems with their budget certifications, 10 payments were delayed because of the illness of a clerk at a particular Air Base, and 7 payments were delayed because of a backlog in a Central Office unit. Division officials also stated that 30 payments were late because of delays at OSC in approving a particular contract, but we determined that the officials were mistaken because the contract had expired in December 2002.

(Division officials replied to our draft audit report that the 30 payments were for a renewal of the contract that expired in 2002. They added that it took nearly two and a half years to obtain approval from four State and local entities. The Division could not make payments without a contract.)

Auditor's Comments: The information regarding a renewal of the contract was not provided in the records received during our field work.

We note that the Division did not have written procedures in place for the vendor payment process until November 9, 2007, when it issued procedures covering certain aspects of the process. According to Division officials, before that, they used the OSC procurement bulletins as their procedures. However, these bulletins provide general guidelines for all agencies; they do not provide detailed instructions for the particular payment processes at each agency. Additionally, we noted that the procedures did not require the date stamps to identify the designated payment office, or require a copy of the receiving report to be submitted with invoices and vouchers to Central Office.

We recommend the Division amend the written procedures for its vendor payment process and issue the procedures to all the personnel involved in the process at the facilities where invoices are received and the designated payment office.

In addition, we note that 30 different Division employees are responsible for processing vendor payments: five at the Central Office and 25 at the more than 85 designated payment offices across the State (most of these 25 employees rotate among different remote locations). To minimize the opportunities for errors and delays in the payment process, we recommend the Division evaluate the need for bills to be received at so many designated payment offices across the State and determine whether bills could be received at and processed by fewer offices.

We further recommend that the Division document the reasons for all late payments, and periodically analyze these reasons and develop an action plan for reducing late payments.

Accuracy of MIR Date

We also found that the MIR date was incorrect for 260 of the 409 payments in our sample (63.6 percent). The date was incorrect mainly because the designated payment offices did not date stamp the invoices upon receipt and the Division did not follow State guidelines for establishing the MIR date when the invoice was not date stamped.

According to Procurement and Disbursement Guidelines Bulletin G-147, invoices should be date stamped upon receipt to document the date of receipt. This date then becomes the MIR date, unless the goods/services are received after that date. If the invoice is not date stamped upon receipt, the date on the

invoice becomes the MIR date (unless the goods/services are received after that date).

However, when the invoice was not date stamped, it was the Division's policy to add five days to the invoice date and use that date as the MIR date. In fact, in some instances, the Division added five days to the invoice date, and used that date as the MIR date, even when the invoice was date stamped. As a result of this five-day policy, the MIR date used by the Division was sometimes later than the actual MIR date and sometimes earlier.

Division officials told us that date stamps were issued to all designated payment offices in late 2006. However, we noted that invoices between April 1 and November 27, 2007 were still not date stamped. We also noted that receiving reports usually were not included with the invoice and the voucher to enable the Central Office to set the correct MIR date.

We further noted that the MIR date was sometimes incorrect for other reasons. For example, if there are problems with the goods or services delivered or the invoice is incorrect, the MIR date is not set until the problems are resolved or a correct invoice is received. However, in 11 of the late payments in our sample, the Division did not adjust the MIR date when the invoice was incorrect or there were problems with the delivery. Rather, the initial date of the invoice or the delivery was used, even though that date was not correct. In such instances, a payment may incorrectly be categorized as late and interest charges needlessly added to the payment.

In addition, in 22 instances, the wrong date was stamped on the invoice by the designated payment office, and in eight instances, the MIR date was incorrectly entered on the Central Accounting System by the Central

Office. In all eight instances, the payments were made within 30 days of the actual MIR date. However, because of the data entry errors, all eight payments were incorrectly categorized as late and interest charges were needlessly added to the payments.

We recommend that the Division provide formal training to all the personnel involved in the payment process to ensure that the MIR date is correctly determined and payments are properly processed.

Recommendations

1. Amend the procedures for the vendor payment process and issue the procedures to all the personnel involved in the process. Ensure that the procedures require:
 - all invoices to be date stamped upon receipt and the name of the designated payment office to be identified by the stamp; and
 - a copy of the receiving report to be attached to the voucher.
2. Evaluate the number of locations where invoices are currently received and determine whether bills could be received at and processed by fewer facilities. Document the results of this evaluation.
3. Document the reasons for all late payments, and periodically analyze these reasons and develop an action plan for reducing late payments.
4. Provide formal training to all the personnel involved in the vendor payment process at the various facilities and Central Office.

Late Payments for Medical Services

For the period April 1, 2005 through November 27, 2007, the Division made 189 late payments, totaling \$85,877, for medical services provided to personnel who were injured while on State Active Duty.

The Division's Human Resources Office is the designated payment office for all medical invoices. The Office is responsible for determining whether a medical service is covered by the State and for determining the correct payment rate for the service. In accordance with Federal law and Division policy, medical claims for State Active Duty personnel are to be paid at the lowest of the three following rates: (1) the Military Health System (CMAC) rate, (2) the New York State Worker's Compensation rate, or (3) the service provider's billed rate.

When a service member on State Active Duty is injured or has an illness or disease, the service member is responsible for providing all related documentation to his/her commanding officer, and the commanding officer is responsible for completing a Line of Duty (LOD) report of the incident. The commanding officer then forwards the LOD report and supporting documents up the chain of command. Each commanding supervisor is responsible for reviewing the LOD packet for complete and accurate reporting. (Their review is evidenced by their approval signature on the LOD report.) The LOD report is then submitted to the Human Resources Office for use in the payment of the related medical invoices.

The Human Resources Office date stamps all medical invoices when they are received. The Office then compares the billed rates for the medical services to the CMAC and New York State Worker's Compensation rates for those services to determine which rates are lowest.

To determine the New York State Worker's Compensation rate for a particular medical service, the Human Resources Office must contact the State Insurance Fund (the worker's compensation insurance carrier for State agencies). In some cases, the Office may send the LOD packet to the State Insurance Fund for assistance in making a determination regarding the relationship of the injury to the service member's active duty status. The Division pays a fee to the State Insurance Fund for these determinations. Once a determination has been made, the Human Resources Office forwards the payment information to the Division's Office of Management and Budget for processing.

We identified two primary reasons for delays in the payment of medical invoices: delays in the submission of LOD reports and delays in receiving information from the State Insurance Fund. Human Resources officials stated they do not always receive LOD reports timely. When medical invoices are received prior to a LOD report, payment of the medical invoice is delayed until the LOD report is received. We recommend the Division take steps to expedite the submission of LOD reports.

The officials also stated that it may take from 10 days to 2 weeks to receive the applicable rate from the State Insurance Fund. In cases where the State Insurance Fund needs to make a determination on whether the injury is related to the injured member's active duty, officials stated it may take months. The 30-day prompt payment period is not extended in these circumstances. We recommend the Division work with the State Insurance Fund to reduce these delays. For example, the Division could ask the State Insurance Fund to provide it with electronic access to the New York State Worker's Compensation rates for medical services, just as the Federal

government provides it with electronic access to the CMAC rates.

Division officials responded that they are upgrading the Division's electronic capabilities to streamline the LOD reporting process (e.g., by enabling documents to be scanned) and are preparing a training session for Active Duty members on the proper submittal of information to expedite the completion of LOD reports. The officials also responded that they are working with the State Insurance Fund on ways to reduce processing delays for medical invoices.

Recommendations

5. Take steps to expedite the submission of Line of Duty reports to the Human Resources Office.
6. Work with the State Insurance Fund to reduce delays in obtaining the information needed by the Division to process its medical invoices.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the Division's vendor payment practices for the period April 1, 2005 through January 30, 2008. To accomplish our objective, we met with Division officials to confirm and enhance our understanding of their practices for receiving, recording and processing invoices. We also selected a judgmental sample of late payments for review. From each of the three fiscal years in our sample period, we selected ten vendors that received ten or more late payments in that year. If the vendor received between 10 and 15 late payments, we included all the payments in our sample; if the vendor received more than 15 late payments, we selected 15 payments

for our sample. As part of the review we interviewed Division officials and examined related documentation to identify the reasons for the delays in payment.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article

V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

REPORTING REQUIREMENTS

A draft copy of this report was provided to Division officials for their review and comment. Their comments were considered in preparing this final report, and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, The Adjutant General of the Division of Military and Naval Affairs shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Carmen Maldonado, Gerald Tysiak, Stephen Goss, Deb Spaulding, Michele Turmel, Anne Marie Miller and Dana Newhouse.

APPENDIX A – AUDITEE RESPONSE



STATE OF NEW YORK
DIVISION OF MILITARY AND NAVAL AFFAIRS
330 OLD NISKAYUNA ROAD
LATHAM, NEW YORK 12110-3514

DAVID A. PATERSON
GOVERNOR
COMMANDER IN CHIEF

OCT 02 2008

JOSEPH J. TALUTO
MAJOR GENERAL
THE ADJUTANT GENERAL

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Dear Ms. Maldonado:

Division of Military and Naval Affairs (DMNA) has reviewed the State Comptroller's draft report, *Late Vendor Payments - Report 2007-S-117*. Thank you for the opportunity to respond to the draft report.

Please be advised that DMNA operates 56 armories, 17 field maintenance shops, 3 combined maintenance shops, 3 Army Aviation Support Facilities, 5 Air National Guard Bases and a multi-purpose training site (Camp Smith). DMNA does not operate emergency management facilities. Furthermore, DMNA has cooperative agreements with the Federal government for its utilization of State facilities.

A reference was made to 30 payments that were delayed due to the approval of a contract that expired in December 2002. While the initial contract in question expired in 2002, a renewal of that contract for land use was delayed for nearly two and a half years due to the lengthy approval process from New York State Office of General Services and Office of State Comptroller, Albany County and Albany County Airport Authority. DMNA had no legal authority to make payments for land use without a contract.

DMNA has and will continue its daily monitoring of late payments via VOU065 and VOU632 reports. The draft report does not specify, on average, how many days DMNA is late on payments to its vendors.

The following are our specific responses to the draft report recommendations:

Audit Recommendation #1 – DMNA concurs: The Division has issued date stamps to all entities involved in the invoicing process. Additionally, an Agency

*
Comment

* Report was revised to reflect information in the Division's response.

Fiscal Policy Memorandum (VP001) was issued in November 2007 that clearly sets guidelines such as date stamping and timeliness of the submittal of invoices to the DMNA Budget and Finance office for prompt payment. Furthermore, location of the facility is identified by the cost center on the voucher that is submitted with the invoice.

Audit Recommendation #2 – DMNA will take the recommendation under advisement when reviewing its overall facility infrastructure. The agency continuously evaluates the purpose and need of its facilities in general. However, due to military requirements and limited staffing consolidation of facilities is not always a viable option. While DMNA agrees that the State Comptroller's definition of a Designated Payment Office is "the office or site where the agency instructs the vendor to mail or deliver their invoice," are armories, air bases, etc. However, it should be noted that all payments are made at one central location in the DMNA Headquarters - Budget and Finance office. Personnel at armories and air bases review the invoices to ensure that the commodity or service was properly billed and received. After such review, invoices are submitted with vouchers to DMNA Headquarters – Budget and Finance office in Latham NY.

Audit Recommendation #3 – DMNA concurs. The agency will document the reasons for all late payments and will identify problem areas for corrective action.

Audit Recommendation #4 – DMNA concurs. DMNA has conducted and will continue to conduct formal training to personnel involved in the vendor payment process. In addition, DMNA has issued Accounting Bulletins to all personnel involved in the vendor payment process.

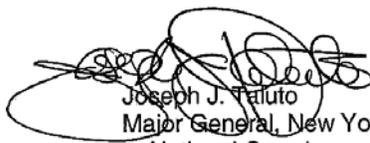
Audit Recommendation #5 – DMNA concurs. The agency has established a Line of Duty Procedures regulation outlining proper procedures that must be followed as a result of injury while a military member is on State Active Duty. The State Human Resource office has conducted and will continue to conduct training on the Line of Duty process to State Active Duty members. DMNA thoroughly reviews each case in a Line of Duty investigation to determine if New York State is responsible for medical bills of personnel on State Active Duty. The agency makes every effort to expedite this process in the interest of serving the military member without sacrificing justification for payment.

Audit Recommendation #6 – DMNA concurs. The agency has requested from the State Insurance Fund access to the electronic worker's compensation rates. DMNA continues to procure the services of a Nurse Case Manager at the State Insurance Fund to review certain Line of Duty cases. However, it should

be noted that based on unrelated caseloads, complexity of the case in question and other factors external to DMNA it is not assured that this will entirely eliminate delays.

Once again, we thank you for the opportunity to respond to the draft report. DMNA will continue to monitor the timeliness of voucher payments and work diligently to make prompt vendor payments. If you have any questions, or would like additional information, please contact Mr. Robert Martin, Director of Budget and Finance at (518) 786-4514.

Sincerely,



Joseph J. Faluto
Major General, New York Army
National Guard
The Adjutant General

Copy Furnished:

Mr. Robert Martin, Director Budget and Finance
Mr. Thomas Lukacs, Division of Budget
Mr. Michael Balboni, Deputy Secretary for Public Safety