



Program Statement

OPI: ADM
NUMBER: 2011.09
DATE: 4/23/2003
SUBJECT: Prompt Payment Quality
Control Reviews

1. **PURPOSE AND SCOPE.** This Program Statement provides the policies and procedures to be followed when conducting Prompt Payment Act Compliance Quality Control Reviews (QC Reviews).

The Office of Management and Budget (OMB) requires an annual review of payments subject to the Prompt Payment Act (PPA). Compliance with PPA quality control (QC) criteria is prescribed in 5 CFR 1315, issued by the Office of Management and Budget on September 29, 1999.

2. **SUMMARY OF CHANGES.** The following are highlights of this revised Program Statement.

- The frequency of conducting the QC Reviews has changed from semiannual to annual.
- The Financial Management Information System (FMIS) will be the new method used to select the sample.
- A requirement was added for Regional Comptrollers to certify that the appropriate time period was used in the selection criteria when determining the payment universe and sample size.
- The administrative authorization for early payment was added for payments made more than seven days early due to FMIS system calculation of payment release dates.

3. **PROGRAM OBJECTIVES.** The expected results of this program are:

- a. QC Reviews will be conducted in accordance with 5 CFR 1315.
- b. The Bureau's payment systems will be assessed and payment performance (compliance with the PPA) will be determined.
- c. The Bureau's payment problems will be identified and

corrected.

4. DIRECTIVES AFFECTED

a. Directive Rescinded

PS 2011.08 Prompt Payment Quality Control Reviews
(12/12/95)

b. Rules Referenced

5 CFR 1315

5. STANDARDS REFERENCED

a. American Correctional Association 3rd Edition Standards for Adult Correctional Institutions: 3-4031

b. American Correctional Association 3rd Edition Standards for Adult Local Detention Facilities: 3-ALDF-1B-04

c. American Correctional Association 2nd Edition Standards for Administration of Correctional Agencies: 2CO-1B-05

d. American Correctional Association 1st Edition Standards for Adult Correctional Boot Camp Programs: 1-ABC-1B-09

6. REQUIREMENTS OF QC REVIEWS. Each agency's QC program is required to assess the performance of payment systems and provide a reliable way to estimate payment performance (5 CFR 1315).

The QC program must meet the following requirements:

a. It must be a systematic performance measurement system, which provides management information about problems and assists in targeting corrective action.

◆ The data must be accurate and used to meet the annual prompt payment reporting requirements.

b. Data must be gathered as frequently as needed by management to identify and correct errors.

c. Information must be collected through a process at least as thorough as the original payment process.

◆ Original documents must be used, except as specified in Section 12, and all calculations must be repeated.

d. A statistically valid sampling will be used for data gathering when the number of payments is too numerous to permit a total review without unduly burdening agency resources.

e. Data must be collected by individuals independent of the payment process.

◆ Supervisory reviews **are not** QC Reviews.

f. The analysis of QC data will result in corrective action.

7. **FREQUENCY OF QC REVIEWS.** Reviews will be conducted at each payment site annually for the most recently ended fiscal year.

◆ Each location's review must be completed in time to allow Regional Office consolidation and reporting to the Chief, Finance Branch, by the first work day in January of each year.

◆ Regional Comptrollers will advise locations within their regions of the date reports are due to the Regional Office.

8. **REVIEW TEAMS.** Each Regional Comptroller, with the Warden's concurrence, will select the review team for each institution in his/her region.

◆ The review team may include any staff who are independent of the original payment process.

◆ The review team can be local institution staff, regional office staff, or staff from other field locations (institutions).

◆ The Comptroller will ensure the staff selected to perform the reviews are knowledgeable of the PPA's provisions as well as the QC Review requirements.

The Chief, Finance Branch, will select the review teams annually for each Regional Office, Central Office Business Office (COBO), Management and Specialty Training Center (MSTC), and the Accounting Operations Section (AOS), Finance Branch.

◆ The number of people on the review team and the designation of the Reviewer-in-Charge (RIC) is at the discretion of each Comptroller or the Chief, Finance Branch, as appropriate.

◆ The review team's selection and the RIC's designation will be in writing and maintained with the working papers for each review.

The Regional Comptroller may consider using UNICOR Business Office staff to conduct the QC reviews in those institutions having a UNICOR Business Office. In return, the institution's Office of Financial Management (OFM) staff may conduct UNICOR Business Office QC reviews.

- ◆ UNICOR staff **must** use the guidelines set forth in this PS when reviewing the OFM.
- ◆ The appropriate Comptroller will determine and arrange the use of UNICOR Business Office staff to conduct QC Reviews.

9. **COMPLIANCE FACTORS.** The PPA has several compliance factors as listed on the Prompt Payment Act Compliance Review Worksheet (Attachment A).

- ◆ The critical compliance factor for QC Reviews is **on-time payments**. On-time payments are neither late (paid after the due date) nor early (paid more than seven days prior to the due date without authorization).

Payments released from the FMIS warehouse more than seven days before the due date, due to the release date calculated by the system, will be considered "authorized" for early release in completing Attachment A.

The compliance percentage rate for on-time payments from the previous QC Review is used to determine the sample size for the current QC Review (see Section 10).

- ◆ The compliance rate for determining the sample size may change each year, because it is based upon the percentage of on-time payments in the previous fiscal year's QC Review.
- ◆ For new institutions, an 85 percent compliance rate of on-time payments will be used to determine the sample size for the first review.
- ◆ For subsequent reviews, the compliance rate for determining the sample size may change based upon the percentage of on-time payments in the previous fiscal year's review.

10. **DETERMINING SAMPLE SIZE.** Since the number of payments at each Bureau payment site is too numerous to permit total review without unduly burdening Bureau resources, a statistically valid sampling of vouchers subject to the PPA will provide the basis for reviews.

- ◆ The sample size will be determined using the compliance rate from the previous QC Review. In addition, the Bureau uses a confidence level of 90%, \pm 5% precision. This means that if the compliance rate is 85%, there is 90% confidence that the percentage of on-time payments is between 80% and 90%.

The sample size computation will be included in the QC Review working papers. The sample size for the first QC Review of each new payment site will be determined using the table shown in Attachment B.

- ◆ To determine the sample size for the first review, the RIC will determine the number of payments subject to the Prompt Payment Act made in the 12-month period being reviewed, N , rounded to the nearest 100 (see Section 11).
- ◆ The RIC locates N on Attachment B and finds the corresponding sample size, n . This is the number of vouchers that must be reviewed during the first review.

Example: A payment site made 2,450 payments during the 12-months being reviewed. This would be rounded to $N = 2,500$. Referring to Attachment B, it can be determined that the sample size, n , is 131.

Sample sizes for subsequent reviews will be determined by using the formula shown on Attachment C. A sample calculation is included in Attachment C.

- ◆ Payment sites who achieve a 100% compliance rate of on-time payments will use 99% as their compliance rate when calculating the sample size for the next QC Review.

The RIC of the QC Review will compute the sample sizes using the guidelines in Attachment B for the first review and Attachment C for subsequent reviews. These sample sizes ensure reliable results within established confidence levels without unduly burdening Bureau resources.

11. **SELECTING THE SAMPLE.** The RIC of the QC Review will select the sample using FMIS.

- ◆ From the "FMISSTAT" menu, select "Random Voucher Sampling for a Site". Enter the appropriate information (table segment, date range, and option "vendor payments").

- ◆ After entering the site specific information, the next screen shows the total amount of vouchers paid in the selected date range subject to the PPA, in the 'Universe of Vouchers' field. This figure and the results of the last QC Review are the basis for the current QC Review's sample size.

In addition, this screen also asks the user to enter how many vouchers should be included in the sample.

- ◆ After calculating the sample size using either Attachment B or C, as appropriate, enter the sample size into the system and it will generate a random sample of vouchers for the QC Review.
- ◆ When a voucher, which is not a prompt payment applicable voucher, appears on the FMIS-generated random sample report, an additional sample of 10 vouchers must be generated through FMIS.
- ◆ To replace the non-applicable prompt payment vouchers shown on the original sample report, begin with the first voucher on the supplemental sample list generated by FMIS.

12. **CONDUCTING THE QC REVIEW.** The reviews will be conducted in the same manner regardless of whether the site is an institution, regional office, or the Central Office. The data collected during these reviews will be used to provide information for the annual Prompt Payment Report (see Section 13).

The review team may perform the reviews on-site or may have the payment vouchers mailed to the Central Office, regional office, or institution for review as determined by the Comptroller or Chief, Finance Branch, as appropriate.

- ◆ The QC Reviews will be performed on original documents if the review is conducted on-site or on copies of original documents if the review is conducted off-site.
- ◆ A worksheet will be prepared which lists all vouchers reviewed by vendor name and invoice number(s).
- ◆ It also will include prompt pay performance indicators to be reviewed for each voucher. The performance indicators will be compared with the paid voucher to determine compliance.

The **Prompt Payment Act Compliance Review Worksheet** (Attachment A), or another electronic worksheet with the same information and calculations, is to be used during the QC Review. It lists the prompt pay factors (performance indicators) to be reviewed for each payment.

- ◆ The prompt payment performance indicators will be collected as each payment is reviewed.
- ◆ The review of each payment consists of checking compliance with all elements of the PPA listed on Attachment A and repeating all calculations and prompt pay determinations made in the original process.
- ◆ Attachment A must be reproduced in sufficient numbers to accommodate the sample size.

13. **REPORTING QC REVIEW RESULTS.** The results of the QC Reviews will be used by the Comptroller/Controller of the location reviewed and by the Chief, Finance Branch, Central Office, to assess performance and determine problem areas and required corrective action. The results of the QC Reviews also will be used to complete the Annual Prompt Payment Report (Attachment D).

- ◆ The RIC will provide, to the Comptroller/Controller of the location reviewed, copies of every Attachment A, so performance can be assessed and corrective action taken.

Annual Reporting. Each Comptroller or the Chief, Finance Branch, as appropriate, will analyze the information reported on Attachment A.

Regional Comptrollers must certify that the time period used in the selection criteria, by each location, in determining the payment universe and sample size, was appropriate.

The regional office staff will consolidate the information for payment sites in the region and prepare the Annual Prompt Payment Report (Attachment D).

- ◆ This report must be completed and forwarded to the Chief, Finance Branch, no later than the first work day in January of each year.

A narrative report will be completed by each Comptroller or RIC for each regional office, COBO, MSTC, and AOS review and forwarded to the Chief, Finance Branch, no later than the first work day in January of each year.

This report must include such information as:

- ◆ sample size reviewed,
- ◆ problems/errors detected,
- ◆ efforts warranting recognition,
- ◆ corrective action required, and
- ◆ specific plans of action.

The Chief, Finance Branch, will report the results of the QC Reviews to the Senior Deputy Assistant Director, Administration Division, and the Assistant Director for Administration.

The Comptrollers may consider requiring the RICs of payment sites in their respective regions to complete Attachment D for each review conducted to assist in meeting the January due date for the Annual Prompt Payment Report.

/s/
Harley G. Lappin
Director

PROMPT PAYMENT ACT COMPLIANCE REVIEW WORKSHEET

Location:

Interest Rate for Period / / - / / : %
 Interest Rate for Period / / - / / : %
 Current Value to Funds Rate (CVFR) for Period / / - / / : %
 Current Value to Funds Rate (CVFR) for Period / / - / / : %

Period Ended:

A. INVOICE

Sample Size: _____	Pymnt. no.	Pymnt. no.	Pymnt. no.	Pymnt. no.	Total (if applicable)
1. Vendor Name					
2. Invoice Number					
3. Invoice Amount					
4. Date Goods Received					
5. Date of Invoice					
6. Date Invoice Received					
7. Date Payment Period Began (Note 1) Calculated by the reviewer					
8. Payment Due Date (Note 2) Calculated by the reviewer					
9. Date Payment Made (Note 3)					
10. Payment Made Late (Y/N)					
11. No. Days Paid Late					
12. No. Days Paid Early, except where discount taken					
13. If Paid > 7 Days Early, Authorization Given (Y/N) (Note 4)					

B. INTEREST

					Total (if applicable)
1. Interest Rate (Note 5)					
2. Amount of Interest Due (Note 6) (Show calculation)					
3. Amount of Interest Paid					
4. Additional Penalty Due (Y/N)					
5. Amount of Additional Penalty (Note 7) (Show calculation)					
6. Amount of Additional Penalty Paid					
7. Reason Interest or Additional Penalty Incurred (See Reason Codes)					
8. Reason Interest or Additional Penalty Not Paid (See Reason Codes)					
9. Interest Penalty Charged to Sub-Object 4301 (Y/N)					

C. DISCOUNT

Sample Size: _____	Pymnt. no.	Pymnt. no.	Pymnt. no.	Pymnt. no.	Total (if applicable)
1. Discount Terms					
2. Discount Period					
3. Amount of Discount (Note 8)					
4. Amount of Discount Taken					
5. Reason Discount Not Taken (See Reason Codes)					

NOTES:

Note 1: Upon receipt of proper invoice or goods, whichever is later. If invoice is not annotated by the Office of Financial Management with the date received, the date placed on the invoice by the vendor shall be used.

Note 2: Unless contract or PO provides for different payment terms: Meat and meat food products and fresh/frozen fish: not later than 7 days after date of delivery, perishable agricultural commodities: not later than 10 days after date of delivery, dairy products: not later than 10 days after the receipt of a proper invoice, all other purchases: 30 days after the start of the payment period

Note 3: Payment date listed on the voucher.

Note 4: If payment was made more than 7 days early due to routine FMIS system calculation of payment release date, the payment will be considered administratively authorized for early payment.

Note 5: Use rate applicable on day after due date

Note 6: Interest Penalty Formula:

$$\text{Invoice Amount} \times \text{\# of days overdue} \times \frac{\text{Interest Rate}}{360} = \text{Interest Payable}$$

Note 7: This is equal to 100% of the original late payment interest penalty. The vendor must request this penalty within 40 days after the date payment is made.

Note 8: Use the formula below to calculate whether the discount should be taken or refer to the current Operations Memorandum on the Treasury Borrowing Rate (CVFR):

$$\frac{\text{Discount \%}}{100\% - \text{Discount \%}} \times \frac{\text{Days in Year}}{\text{\# Days in Payment Period} - \text{\# Days Left in Discount Period}} \times \text{Annual Rate} = \text{Effective Discount}$$

REASON CODES:

Reason Interest or Additional Penalty Incurred:

- (1) Delay in paying office's receipt of:
 - (a) Receiving Report
 - (b) Proper Invoice
 - (c) P.O. or Contract
- (2) Delay or error in paying office in:
 - (a) Taking discount
 - (b) Notifying vendor of defective invoice
 - (c) Computer or other system processing

Reason Interest or Additional Penalty Not Paid:

- (1) Payment less than \$1.00
- (2) Other. Attach explanation to your calculation of the interest or additional penalty that should have been paid.

Reason Discount Not Taken:

- (1) Invoice received after discount period ended
- (2) Invoice received before discount period ended but not in time to process payment timely
- (3) Not economically justified
- (4) Other. Attach a list of other reasons, in order of importance.

The sample size for the first Prompt Payment Act Compliance Quality Control Review (QC Review) of each payment site will be determined using the table below:

SAMPLE SIZES FOR ESTIMATING PROPORTIONS AT 90%
 CONFIDENCE, ± 5% PRECISION, POPULATION SIZE 300-3,000

p=0.85

N	n
300	95
400	103
500	108
600	112
700	115
800	118
900	120
1,000	121
1,100	122
1,200	124
1,300	125
1,400	125
1,500	126
1,600	127
1,700	127
1,800	128
1,900	128
2,000	129
2,100	129
2,200	130
2,300	130
2,400	130
2,500	131
2,600	131
2,700	131
2,800	131
2,900	131
3,000	132

p = estimated compliance rate (% of on-time payments) from first review

N = number of payments made during the 12-month period

n = sample size

SAMPLE SIZES FOR ESTIMATING PROPORTIONS AT 90%
CONFIDENCE, ± 5% PRECISION

$$n^1 = \frac{Nt^2pq}{Nd^2 + t^2pq}$$

Where:

n = sample size

N = number of payments made during the 12-month period

t = 1.64 standard deviations for 90% confidence level

p = rate of compliance (percentage of on-time payments)
from previous 12-month's QC Review

q = 1 - p

d = ± 5%, desired precision of the estimate of p

For example, a QC review is being conducted on the Federal Correctional Institution, "Somewhere". During the previous QC review, it was determined the institution paid 90% of its invoices on time. The institution paid 1,000 vouchers in the latest fiscal year (12-months). The above formula shall be used to calculate the sample size, at 90% confidence, ± 5% precision, as follows:

$$\begin{aligned} n &= \frac{(1000)(1.64)^2(.90)(.10)}{(1000)(.05)^2 + (1.64)^2(.90)(.10)} \\ &= \frac{242.064}{2.742064} \\ &= 88.28 \text{ or } 89 \end{aligned}$$

¹ The values for n are always rounded up to the next whole number. For example, if the calculated n = 170.26, the number sampled should be 171 since exactly 170.26 units cannot be selected, and it is preferable to have a sample slightly larger than required, rather than smaller than required.

LOCATION: _____

ANNUAL PROMPT PAYMENT REPORT

Fiscal Year Ending September 30, _____

- I. Invoices paid subject to the Prompt Payment Act and 5 CFR 1315:
- A. Dollar value of invoices \$ _____
 - B. Number _____
- II. Invoices paid late:¹
- A. Dollar value \$ _____
 - B. Number (sum of II.C.2 and II.F.1.b) _____
 - C. Late payment interest penalties paid:
 - 1. Dollar amount \$ _____
 - 2. Number _____
 - 3. Relative Frequency (II.C.2/I.B) _____ %
 - D. Additional penalties paid for failure to pay interest penalties:
 - 1. Dollar amount \$ _____
 - 2. Number _____
 - 3. Relative Frequency (II.D.2/I.B.) _____ %
 - E. Reasons why interest or other late payment penalties were incurred. Rank from highest to lowest, according to frequency of occurrence.
 - 1. Delay in paying office's receipt of:
 - a. Receiving Report _____
 - b. Proper invoice _____
 - c. Purchase order or contract _____

¹ For contracts awarded prior to April 1, 1989, include payments after grace period. For subsequently awarded contracts, include payments after due date.

- 2. Delay or error in paying office in:
 - a. Taking discount _____
 - b. Notifying vendor of defective invoice _____
 - c. Computer or other system processing _____

F. Interest and other late payment penalties which were due but not paid:

- 1. Total:
 - a. Interest dollars (sum II.F.2.a and II.F.3.a) \$ _____
 - b. Number (sum II.F.2.b and II.F.3.b) _____
- 2. Because payments less than \$1.00:
 - a. Interest dollars \$ _____
 - b. Number _____
- 3. For other reason:
 - a. Interest dollars \$ _____
 - b. Number _____
 - c. Specify reasons: _____

III. Invoices paid 8 days or more before due date, except where cash discounts taken:

- A. Subject to a determination under sections 1315.4(j) or 1315.5 of 5 CFR 1315 (where authorization was given to pay invoice early):
 - 1. Dollar amount \$ _____
 - 2. Number _____
 - 3. Relative frequency (III.A.2./I.B.) _____ %

B. Not subject to a determination under section 1315.4
(where no authorization was given for early payment):

- | | |
|--------------------------------------|----------|
| 1. Dollar amount | \$ _____ |
| 2. Number | _____ |
| 3. Relative frequency (III.B.2/I.B.) | _____ % |

IV. Certification:

I certify the data reported on this form is as accurate as possible.

Comptroller/Controller

Date