PUBLIC HEARING

ON

Bill 22-439, "Quick Pay Amendment Act of 2017"

Committee of the Whole
Council of the District of Columbia
Chairman Phil Mendelson

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John A. Wilson Building
Room 412

Testimony of
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Good morning, Chairman Mendelson, and members of the Committee of the Whole. My name is Jeffrey S. DeWitt and I am the Chief Financial Officer for the District of Columbia. I am here today to testify on Bill 22-439, the "Quick Pay Amendment Act of 2017." With me here today is Cyril Byron, Associate CFO for the Economic Development and Regulation Cluster.

Efficiency in payment operations, which includes the timely and accurate payment of vendors should be one of government's highest priorities. Indeed, over the past three years, there has been a concerted effort between agency program staff and OCFO staff to pay vendors within 30 days of receipt of a valid invoice, as required under the Quick Payment Act (QPA). Between FY 2015 and FY 2017, the District processed approximately 376,000 vendor payments, totaling an estimated $12.3 billion. During this period, 93 percent of the payments, or $11.8 billion, were processed in compliance with the Quick Payment Act, as reflected in Table 1 attached to my testimony.

The processing of a vendor payment or invoice in the District's Procurement Automated Support System, or "PASS," is based on a three-way match consisting of (1) a valid purchase order from a D.C. government agency; (2) confirmation in PASS, reflected in a "receiving report," that goods and services have been received;

and (3) a valid invoice from the vendor that provided the goods or services.

The vendor payment process requires close coordination of multiple teams within the District as shown in the payment flow chart of Table 2 attached to my testimony.

Under the current payment process, vendors are required to submit their invoices to an Accounts Payable (AP) unit in one of seven OCFO clusters based on the agency that received the goods or services. The relevant AP unit then forwards the invoice to agency program staff to verify that the goods or services have been received, and to certify receipt, with a "receiving report," in PASS. Processing a "receiving report" is the final step required of an agency to authorize payment.

Once the receiving report has been completed in PASS, the AP unit then has to process a voucher and have the voucher approved for payment. The approved voucher is automatically transmitted in the District's System of Accounting and Reporting, or "SOAR," to the Office of Finance and Treasury (OFT). OFT then issues the payment, either by check, wire or Automated Clearing House (ACH).

The payment of an invoice may seem like a simple concept, but it is an intricate process that requires many reviews and verifications along the way that are fundamental to internal controls to prevent fraud, waste, and abuse. Any step in the process not properly executed can cause delay. When a vendor fails to submit a valid invoice, program and OCFO staff must spend time in communication with the vendor to correct the issue. District agencies have been advised to return an invoice to a vendor if issues cannot be resolved within a couple of days. The 30-day period begins again when a proper invoice is submitted. Payments can also be delayed when a vendor's banking or other information is incorrect or if the vendor submits the invoice to an address other than the one noted in the original purchase order.

Payment delays can also result internally due to an agency's failure to provide the receiving report in PASS or delays of review within the OCFO. These delays are largely the result of our current inability to accurately track the progress of an invoice, as the process is currently a manual one.

In an effort to continuously improve, last year the OCFO partnered with the Office of the Chief Technology Officer (OCTO) to develop an online vendor portal that includes a module to allow vendors to submit their invoices electronically through "e-invoicing," and a module to review all payments processed during the course of the fiscal year. The e-invoicing module is still in development awaiting funding to start Phase II of the pilot project. The module in which vendors can view payments on-line, however, is currently up and running using the vendor portal. While a password and registration will be required to submit vendor invoices electronically, no password is needed to view the payment report.

This electronic vendor payment system will not only accelerate the payment process, because vendors will be able to submit invoices electronically instead of by hard-copy mail, but it will provide greater transparency and accountability to our internal payment processes. With the implementation of e-invoicing, we will be able to completely track the status of an invoice and see how long it takes to complete each stage of the payment process. This will not only ensure that the District pays all vendors within the required 30 days, but with specific performance targets for each process stage, will provide the tools and opportunity to consistently pay vendors in less than the current 30-day statutory requirement.

Given the complexity of the District's payment process, which currently requires manual reviews and approvals, legislation reducing the Quick Payment Act period from thirty to fifteen days establishes a threshold that will be extremely difficult, if not impossible, to meet. With this proposed change, the manual reviews and approvals required to process a payment will likely result in a large volume of payments failing to meet the fifteen-day requirement, which would result in significantly more interest paid by the consumer agency. Or, agencies, in an effort to minimize the impact to their budgets, could sacrifice complete and thorough review for the sake of speed, and violate necessary internal controls. Both would be inconsistent with the intent of the legislation and would not serve the best interest of the District.

Given the realities of our current manual process, meeting the 15-day goal will require an extensive investment in a new procurement system and additional staffing, with the likelihood that interest penalties will still occur, impacting agency budgets. As a result, this legislation will likely have a substantial fiscal impact. By funding the implementation of e-invoicing using our existing system, greater accountability and transparency will be achieved, the status of invoices can be tracked, vendors and subcontractors can monitor payments, and oversight of the entire process can occur. These changes alone will likely result in substantial improvement in the payment process without a legal mandate that may prove both difficult and costly.

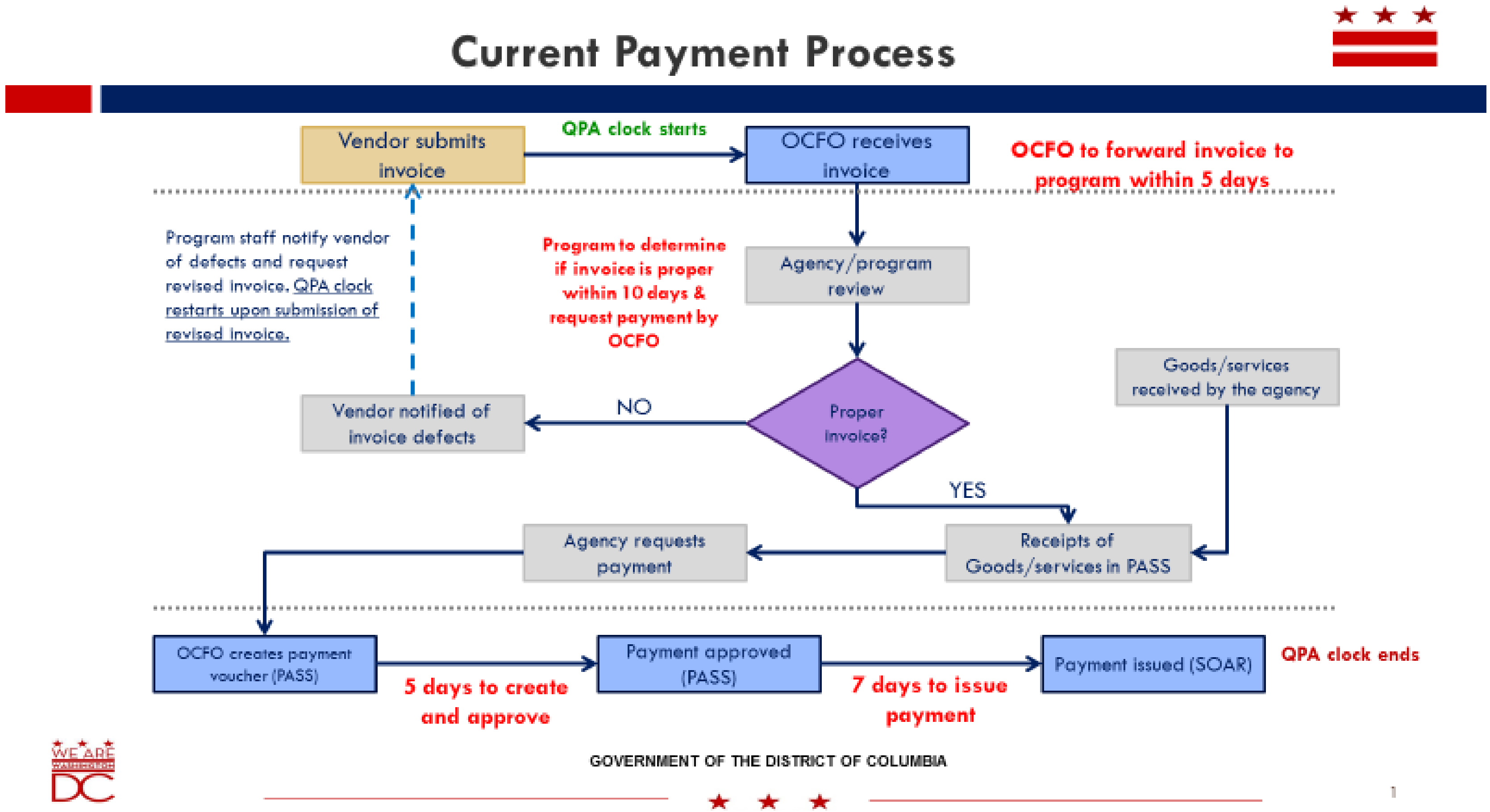
Chairman Mendelson and members of the Committee, this concludes my testimony. I am prepared to address any questions that you may have.

TABLE 1

Table 1: District of Columbia Fiscal Years 2015 - 2017 Quick Payment Act Compliance

	Total Invoices Paid			Paid within 30 days		Compliance Percentage
Fiscal Year	**Count**		**$ Amount**	**Count**	**$ Amount**	**Count**
2015	125,242	$	3,883,675,433	115,843	3,730,966,605	92%
2016	125,179	$	4,149,199,004	116,126	3,960,462,715	93%
2017	125,990	$	4,246,769,190	119,017	4,070,278,968	94%
	376,411	$	12,279,643,627	350,986	11,761,708,287	93%

TABLE 2


Current Payment Process
Vendor submits invoice
QPA clock starts
OCFO receives invoice
OCFO to forward invoice to program within 5 days
Program staff notify vendor of defects and request revised invoice. QPA clock restarts upon submission of revised invoice.
Program to determine if invoice is proper within 10 days & request payment by OCFO
Agency/program review
Goods/services received by the agency
Vendor notified of invoice defects
NO
Proper invoice?
YES
Agency requests payment
Receipts of Goods/services in PASS
OCFO creates payment voucher (PASS)
5 days to create and approve
Payment approved (PASS)
7 days to issue payment
Payment issued (SOAR)
QPA clock ends
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