



HOUSE HEALTH AND GOVERNMENT OPERATIONS COMMITTEE
House Bill 747
State and Local Procurement - Payment Practices
March 3, 2020
Unfavorable Report
Bob Page, Associate Vice Chancellor, Office of Financial Affairs

Chair Pendergrass, Vice Chair Pena-Melnyk and committee members, thank you for the opportunity to share our thoughts on House Bill 747. This bill shortens the timeframe within which state agencies must make payments under procurement contracts from 30 days to 15 days.

In compliance with current law all University System of Maryland (USM) institution disbursements are reviewed using an extensive internal control process. Disbursements are then processed through the State Comptroller and Treasurer. The General Accounting Division (GAD) audits USM invoices for completeness, accuracy, and compliance. To facilitate the GAD audit, campuses are required to prepare, collate, print, batch, assemble and transport the paper invoices along with back-up documentation for each payment. The process is labor-intensive and precludes the USM institutions from exploring efficiencies and cost savings through automation. This audit function requires us to organize and batch all the paper, then courier this paper to Annapolis on a daily basis.

The proposed 15-day timeline in House Bill 747 is not feasible and unworkable. The only way USM institutions could achieve this reduced timeline is full automation. No paper. To ensure the State Comptroller issues payment within 15 calendar days would require USM institutions to review the invoice and process for payment within 5-7 calendar days. Providing a short time frame to review receipt of goods and services has the potential to result in release of payment without thorough review. Furthermore, USM campuses are on an academic year (AY) calendar and not a fiscal year (FY) calendar. House Bill 747 does not take that into consideration.

House Bill 747 is costly. Invoices need to go through campus review and are subject to audit in the General Accounting Division. This process alone requires 5 days. In any 15-day period there are at least 4 weekend days – that's 11 business days to get invoices processed. Our institutions strive to pay invoices as expeditiously as possible, but USM financial staff will always err on the side of making sure a payment is accurate rather than it being on time. We can guarantee that the number of invoices that are late due to a 15-day requirement will increase therefore increasing interest payments.

The state should consider raising the limit on the procurement card purchases since that is a much faster way of making payments. Requiring payments via credit card be made within 15 days would be reasonable but the limit of \$4999 per purchase would need to be raised to make a difference.

The USM urges an unfavorable report on House Bill 747.