
February 15, 2022

The Honorable Shane E. Pendergrass
Chair, House Health and Government Operations Committee
241 House Office Building
Annapolis, MD 21401

Re: Letter of Information – House Bill 325 – State and Local Procurement – Payment Practices

Dear Chair Pendergrass and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on House Bill 325 but offers the following information for the Committee's consideration.

House Bill 325 reduces the amount of time from 30 to 15 days that State agencies have to pay invoices, reduces the amount of time from 45 to 15 days for which an invoice can be outstanding before interest is charged, and requires the State to proactively pay 9 percent interest on bills unpaid after 15 days, rather than requiring the contractor to bill for interest.

Together, the MDOT and the Maryland Transportation Authority (MDTA) pay approximately 125,000 invoices each year, excluding the more than 180,000 customer payments and refunds the MDOT Motor Vehicle Administration processes each year. Each invoice requires two critical actions: (1) review of the invoice for accuracy and legitimacy of amounts being charged and (2) the actual payment processing.

Time needed to review each invoice can vary greatly depending on the complexity of the work being charged. Invoices can be as simple as a one-page monthly utility bill or can be as complex as consulting and construction monthly invoices that can be hundreds of pages long and are billing for tens of millions of dollars. Invoices require verification that billed amounts agree with work completed, that the rates charged on the invoice agree with the rates established in the contract, that all required supporting documentation is present and agrees to the invoice, and that there is sufficient funding remaining on the contract or purchase order. In addition, multiple project or task managers may need to review the invoice if the monthly billing includes multiple projects or tasks on the same invoice. Many of these project and task managers spend much of their day on job sites and may not be at a computer to complete this detailed review for several days.

Upon approval of the invoice by the person overseeing the work, the invoice is submitted for payment process. The payment processing portion takes at least seven days, although changes to vendor information (name, address, etc.) or banking information may take longer. Once invoices are approved and processed for payment by the MDOT, they are transmitted to the Comptroller's Office for payment. This transmittal utilizes overnight batch processing that adds two days to the processing time. Once transmitted successfully, additional days are required for processing by the Comptroller's Office.

The Honorable Shane E. Pendergrass
Page Two

A 30-day payment period is common in the payment industry. While the MDOT strives to make payments on all invoices as quickly as possible, reducing invoice review time to 15 days is not achievable for more complex invoices. It also does not take into account State holidays or weekends, which further reduced the time available to pay invoices. Had House Bill 325 been in place at the start of the COVID-19 pandemic, when there were delays in invoice processing due to the time needed to adjust to mandatory teleworking and updating processes that still required the submission of original hard copy documents, the State would have incurred millions of dollars in interest charges due to late payments.

The expedited payment of invoices required by House Bill 325 may lead to billing errors or fraud that are not identified and corrected, which may cost taxpayers millions of dollars. Alternatively, if the 15-day requirement is not met, House Bill 325 may require the State to pay significantly higher interest costs.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating House Bill 325.

Respectfully submitted,

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