



HEALTH AND GOVERNMENT OPERATIONS COMMITTEE
House Bill 1154
State Procurement - Payment Practices
March 6, 2023
Unfavorable

Chair Pena-Melnyk, Vice Chair Cullison and committee members, thank you for the opportunity to share our thoughts on House Bill 1154. The bill reduces from 45 to 15 the number of days following receipt of an invoice after which the state owes accrued interest on certain unpaid procurement contract amounts.

The accounts payable operations of the University System of Maryland (USM) are decentralized and vast in scale. The shortcomings of this would only be compounded by being integrated within the state's own accounts payable function. Under House Bill 1154, normal and reasonable delays in this essential business process will carry with them significant financial penalty.

House Bill 1154 would require the USM to take on additional staff or to compromise its own internal control processes. Campuses report that current staff levels are generally at the minimum needed to process current volume of invoices. In addition, some vendors are recurring and send multiple invoices at the same time every month, which means that some weeks campuses have significantly higher numbers of invoices than others. In order to process the high volume of invoices in a shorter period of time would require additional staff.

As an interfacing agency, for example, the University of Maryland, Baltimore (UMB) already loses processing days due to the cycle of setting up suppliers and the cycle of transmitting invoices. UMB is highly decentralized and the gathering of supporting documentation and appropriate approvals takes additional time. Not only do the invoices need to go through a review at UMB but they are also subject to audit in the state's General Accounting Division (GAD). GAD generally requires five (5) days for their process. In any 15-day period, there are at least 4 weekend days so now UMB is down to 11 business days to get invoices processed at UMB and sent to GAD for payment. USM institutions strive to pay invoices as expeditiously as possible, but they will always err on the side of making sure a payment is accurate rather than it being on time. The number of late invoices will increase as a result of the 15- day requirement, resulting in increased interest payments charged to the state.

For some USM institutions, a good portion of expenses are related to research funded by external sponsors who generally do not consider interest an allowable cost. Therefore, interest would be charged to our state appropriation, requiring institutions to increase their state budget requests. In addition, external sponsors follow the industry and governmental standards for invoice payments, which is generally 30 days.

Thank you for allowing the USM to share these thoughts on House Bill 1154.



About the University System of Maryland

The University System of Maryland (USM)—one system made up of twelve institutions, three regional centers, and a central office—awards eight out of every ten bachelor’s degrees in the State of Maryland. The USM is governed by a Board of Regents, comprised of twenty-one members from diverse professional and personal backgrounds. The chancellor, Dr. Jay Perman, oversees and manages the operations of USM. However, each constituent institution is run by its own president who has authority over that university. Each of USM’s 12 institutions has a distinct and unique approach to the mission of educating students and promoting the economic, intellectual, and cultural growth of its surrounding community. These institutions are located throughout the state, from western Maryland to the Eastern Shore, with the flagship campus in the Washington suburbs. The USM includes Historically Black Colleges and Universities, comprehensive institutions, research universities, and the country’s largest public online institution.

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