
February 3, 2021

The Honorable Paul G. Pinsky
Chair, Senate Education, Health, and Environmental Affairs Committee
2 West Miller Senate Office Building
Annapolis MD 21401

Re: Letter of Information – Senate Bill 336 – State and Local Procurement – Payment Practices

Dear Chairman Pinsky and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on Senate Bill 336 but offers the following information for the Committee's consideration.

Senate Bill 336 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, MDOT and the Maryland Transportation Authority (MDTA) pay approximately 125,000 invoices each year (excluding more than 180,000 customer payments and refunds that the MDOT Motor Vehicle Administration processes each year). Each invoice requires two critical actions: review of the invoice for accuracy and legitimacy of amounts being charged and 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 contracts that are 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/task managers are often visiting job sites and may not be in the office for several days.

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 MDOT, they are transmitted to the Comptroller's General Accounting Division (GAD) for payment. The COVID-19 pandemic has also impacted invoice processing times, as invoices may not be processed five days a week in order to reduce staff time in the office and comply with the current mandatory teleworking environment for State employees.

The Honorable Paul Pinsky
Page Two

A 30-day payment period is common in the payment industry. While 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. Rushing through invoices to meet the 15-day deadline could lead to billing errors that are not identified and corrected, which may cost taxpayers millions of dollars. Alternatively, if the 15 day requirements is not met, the Senate Bill 336 increases the State's potential liability for interest costs.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating Senate Bill 336.

Respectfully submitted,

Jaelyn Hartman
Chief Financial Officer
Maryland Department of Transportation
410-865-1035

Pilar Helm
Director of Government Affairs
Maryland Department of Transportation
410-865-1090