



SENATE BUDGET & TAXATION COMMITTEE
Senate Bill 250
State and Local Procurement – Payment Practices
February 2, 2022
Celeste Denson, Comptroller
Information

Chair Guzzone, Vice Chair Rosapepe, and members of the committee thank you for the opportunity to provide testimony on behalf of the University System of Maryland on Senate Bill 250. The proposed bill would significantly alter state policy to make a payment under a procurement contract (or after receipt of a proper invoice) in 15 days rather than the current policy of 30 days. The bill also reduces the number of days from 45 to 15 following receipt of an invoice after which the state owes interest on unpaid amounts and interest begins to accrue.

The University System of Maryland shares the value behind the proposed legislation of ensuring that contractors and vendors receive payment promptly, but because of the additional costs and reduction of needed time to review and ensure payments should be approved, cannot support the proposed bill.

Over time, the state government has employed a range of practices and accountability measures to improve agency processing of payments and the System believes that improving internal processing throughout state government through technology enhancements and processing streamlining would improve payment processing within the current timeframe without sacrificing important review and approval time. We believe that these internal changes would be more effective, and balance payment processing against internal control concerns, in an appropriate fashion. Reducing the statutory timing of payment processing would subject the state to not only additional costs associated with the shorter time frame, but also weaken overall the review of vendor or contractor invoices that ensure each payment is appropriate and approved.

Senate Bill 250 will impact all of the USM Institutions, each of which have their own unique review and approval processes for processing payments. Were the legislation to be adopted, institutions would find it necessary to hire significant numbers of additional staff to process the same volume of transactions in half of the time, which will have a very costly impact, to say the least. USM institutions already lose processing days due to the cycle of setting up suppliers and the cycle of transmitting invoices. The work is often highly decentralized and the gathering of supporting documentation like receipting documents and appropriate approvals takes additional time. Prior to submitting invoices for payment, they are reviewed, receipt of goods and services is confirmed and subject to appropriate approval. Not only do the invoices need to go through a review at the institution but they are also subject to audit in the General Accounting Division (GAD) within the state comptroller's office. GAD generally requires a minimum 5-10 days for

their process. In any 15-day period there are at least 4 weekend days so now campus staff is down to 11 business days to get invoices processed. Paying invoices as expeditiously as possible cannot, and should not, sacrifice accuracy and accountability. These review and approval processes are critical and necessary to ensure that state dollars are not expended inappropriately, or without the proper approvals. An increase in the number of invoices that are late due to a 15-day requirement will increase interest payments, resulting in more additional cost to the System and its institutions.

In the decentralized environment of the university, the schools will have to employ additional staff beyond the institutions accounts payable function to make sure invoice receipts and approvals can be processed within the new statutory timeframe, with little or no time to consider the accuracy and appropriateness of the invoice, or obtain the departmental approvals necessary. Very few campus departments and smaller units have the luxury of multiple staff for each function.

USM institutions are in the midst of major information technology upgrades at the moment, which will enable improvements in processing time without sacrificing internal control objectives. It is unlikely, though, given the multiple units across state government involved in payment processing, that USM institutions use of technology alone could achieve the reduction in processing time contemplated by the proposed bill.

Lastly, the COVID pandemic has created additional delays in processing invoices due to US Postal Service, Fed Ex and UPS deliveries of invoices, as well as the public health driven need for staff to telework. For our larger research institutions, a large portion of payments are related complex equipment purchases and services provision to research funded by external sponsors who generally do not consider accrued interest an allowable cost. This cost would have to be recouped in the state general fund appropriation requiring campuses to increase state operating budget requests.

For the reasons laid out above, the University System of Maryland does not support Senate Bill 250, and respectfully asks the committee to provide an unfavorable report on the bill.

Thank you for allowing the USM to share these thoughts about Senate Bill 250.