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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**DEPARTMENT OF STATE**

**VENDOR PAYMENT  
PRACTICES**

**Report 2007-S-124**

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## AUDIT OBJECTIVE

The objective of this audit was to determine whether the Department of State's (Department) late payments and interest expenses were avoidable.

## AUDIT RESULTS - SUMMARY

The Department of State was established in 1778. Historically serving as the State's general recording officer, its mission has grown to include a broad range of activities that coordinate programs with, and provide services to, local government and businesses.

State agencies are required to follow specific guidelines relating to contracts and purchases. In addition, Article XI-A of the State Finance Law, referred to as the Prompt Payment Legislation, sets standards for the prompt payment of expenditures incurred by State agencies to avoid paying interest. Agencies are generally required to pay vendors within 30 calendar days after the receipt of a proper invoice, or the date the goods or services are received, whichever is later. This date is known as the Merchandise/ Invoice Received Date (MIR Date).

During the period April 1, 2006, through November 2, 2007, the Department processed 13,000 payments to vendors, totaling \$89 million. More than 2,700 of these payments, totaling more than \$5 million, were paid late, incurring more than \$12,700 in interest payments. To determine if interest payments were avoidable, we reviewed 49 vouchers that the Department paid late, incurring interest payments totaling \$10,684. We found that the late payments resulted primarily from a combination of processing delays within the accounts payable unit, as well as delays that occur when invoices are forwarded to end-user departments for secondary approval. The Department has not established policies and

procedures for monitoring the voucher payment process to ensure that vouchers are paid timely. For 9 of 49 vouchers, we also found that the Department used the incorrect MIR Date to begin tracking its payment process. Finally, our review found that 11 of 50 sampled vouchers that had been paid timely had incorrect MIR Dates.

This audit report contains two recommendations. Department officials agreed with our recommendations, stating that they have implemented new policies and procedures to avoid late payments and interest expenses.

This report, dated June 19, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

The Department of State (Department) was established in 1778, making it the oldest State agency after the offices of Governor and Lieutenant Governor. Historically serving as the State's general recording officer, its mission has grown to include a broad range of activities that coordinate programs with, and provide services to, local government and businesses. It also licenses a variety of professions and occupations, including the real estate and cosmetology industries, private investigators, and notaries. More than 650,000 individuals are licensed through the Department. For State fiscal year 2006-07, the Department had over 800 employees and \$143 million in appropriations.

Article XI-A of the State Finance Law (Law), referred to as the Prompt Payment Law,

acknowledges that entities doing business with the State expect and deserve to be paid in a prompt and timely manner. The Law provides legal guidelines for interest payments on certain amounts owed by the State. In addition, the Department is required to follow the guidelines established by the Office of the State Comptroller (OSC) G-Bulletin 147 for determining the Merchandise/Invoice Received Date (MIR Date) and for the use of invoice continuation forms. The MIR Date establishes the 30-day period required to process timely payments based on the date the merchandise or invoice is received, whichever date is later. The invoice continuation form is used to ensure that interest is calculated separately for each invoice when vouchers involve multiple invoices for one vendor. The Law requires the payment of interest if the amount of interest would equal \$10 or more. The Department's Accounts Payable Unit is responsible for processing payments to contractors and other vendors it does business with.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### *Vendor Payment Practices*

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#### **Delays in Processing**

During the period April 1, 2006, through November 2, 2007, the Department processed 13,000 payments to vendors, totaling \$89 million. More than 2,700 vouchers (20 percent) of these payments were paid late, resulting in interest payments of more than \$12,700. To determine if the Department's interest payments were avoidable, we judgmentally selected a sample of 49 vouchers with interest payments totaling \$10,684. Our review of the documentation associated with these payments showed that most of the interest payments were avoidable.

In addition to accruing unnecessary interest charges, late payments can jeopardize the Department's goodwill with vendors and result in reduced competition and higher prices for Department contracts and purchases.

The Accounts Payable Unit is responsible for processing vendor payments. We found the Department has not established policies and procedures for monitoring and tracking vouchers to ensure that they are processed timely. We found that 24 (48 percent) of the 49 late paid vouchers, resulting in \$7,936 in interest payments, were delayed because of processing delays within the Accounts Payable Unit. Department officials explained that payment for ten of these vouchers was delayed because funds had not yet been made available for use. However, we found that, even after the funds became available, the Department did not process the vouchers for payment, on average, for an additional 43 days. Department officials offered no explanation for the late payment of 13 of the vouchers. These vouchers were paid 47 days late, on average. Among these were nine vouchers to two leasing vendors who are paid routinely on a monthly basis. These two vendors received \$5,694 in interest on the late vouchers we reviewed. The remaining voucher was paid late when it was lost in the mail after being forwarded to OSC for payment. Department officials agreed with the need to establish policies and procedures for tracking their voucher payment process more effectively.

#### **Delays in Obtaining Approvals or Documentation**

Invoices received by the Accounts Payable Unit are generally sent to the end-user department (the department receiving the goods or services) to verify the delivery of the goods or services and the accuracy of the

invoice before payment is made. We found the Accounts Payable Unit does not have a process for monitoring invoices forwarded to end-user departments for approval. Twenty-two (45 percent) of the 49 vouchers we reviewed incurred delays averaging 45 days when the invoices were forwarded to end-user departments for approval and were not returned for timely payment. Interest payments on these 22 vouchers totaled \$2,484. The majority of these interest payments were made to one vendor, a financial services company, which was paid late 15 times, resulting in interest payments totaling \$2,281. Department officials acknowledged that payment on these invoices was delayed when they were forwarded to the end-user for approval.

#### **Incorrect MIR Date**

Using guidance provided by OSC's G-Bulletin 147, the Accounts Payable Unit is responsible for determining the MIR Date, which establishes the beginning of the 30-day time period for timely payment. When multiple invoices are received from one vendor, agencies are required to use an invoice continuation form to record the proper MIR Date for each invoice being paid by the voucher. There are also times when adjustments to the MIR Date may be required. These generally occur when there are processing delays caused by the vendor.

We found that the Department paid interest totaling \$268 on three vouchers because the MIR Date had been determined incorrectly. We also found that 6 of the 24 vouchers that experienced processing delays also had incorrect MIR Dates.

Because of the importance of establishing an accurate MIR Date, we also examined 50 judgmentally-selected vouchers that were processed timely to determine if these MIR

Dates were accurate. We found that 11 of the 50 vouchers had incorrect MIR Dates. In total, 20 (20 percent) of the 99 sample vouchers reviewed had incorrect MIR Dates.

In many cases, an incorrect MIR Date was recorded, even though both the merchandise and invoice received dates were available. In other cases, the incorrect MIR Date was the result of improper recording of vendor delays, failure to use the invoice continuation form, or failure to accurately record the date the invoice or merchandise was received.

We observed that the incorrect MIR Dates were not identified by the accounts payable supervisors, who also reviewed and signed off on the vouchers that contained the incorrect MIR Dates.

#### **Recommendations**

1. Establish policies and procedures that provide for the timely payment of vouchers and facilitate the tracking of invoices.
2. Monitor staff to ensure that accurate MIR dates are entered.

#### **AUDIT SCOPE AND METHODOLOGY**

We conducted our audit in accordance with generally accepted government auditing standards. We audited selected payment practices at the Department to determine if late payments and interest expenses are avoidable. Our audit covered the period April 1, 2006, to November 2, 2007.

To accomplish our objectives, we reviewed the New York State Tax Law and State Finance Law, Section 179 (commonly known as the Prompt Payment Law). In addition, we reviewed OSC Accounting Bulletins A-91-R1, A-563, and A-576; and G-Bulletins 147

and 177. We also interviewed Department officials and reviewed their policies and procedures. We judgmentally selected 100 vouchers paid during our audit period for review. We selected 50 vouchers that were paid on time with the highest dollar amounts and 50 vouchers that were paid late with interest with the highest dollar amounts. However, we did not receive one voucher that had been paid late until after our audit testing was complete. It was not included in our review, resulting in a sample size of 99. We reviewed all 99 vouchers to determine if the MIR Date was correct and accurate. We reviewed the 49 vouchers that were paid late with interest to determine the reasons for the late payments.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our

ability to conduct independent audits of program performance.

### **AUTHORITY**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

### **REPORTING REQUIREMENTS**

Draft copies of this report were provided to Department officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Secretary of State shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include Frank Houston, Cindi Frieder, Greg Petschke, Bob Mainello, Thalia Melendez, Sally Perry, David Reilly, and Sue Gold.

## APPENDIX A - AUDITEE RESPONSE



STATE OF NEW YORK  
DEPARTMENT OF STATE

DAVID A. PATERSON  
GOVERNOR

LORRAINE A. CORTÉS-VÁZQUEZ  
SECRETARY OF STATE

May 28, 2008

Ms. Cindi Frieder  
Audit Manager  
Office of the State Comptroller  
Division of State Government Accountability  
123 William Street - 21<sup>st</sup> Floor  
New York, NY 10038

Dear Ms. Frieder:

This is in response to the Office of the State Comptroller's draft audit report 2007-S-124 addressing the Department of State's vendor payment practices.

The Department of State is in agreement with your recommendations. We have already implemented them by updating policies and procedures to prevent delays in processing and to facilitate invoice tracking. We have also updated our policies and procedures to ensure that accurate dates are entered into the voucher payment system.

In addition to your recommendations, we have enhanced our supervisory certification system to monitor interest paid and late payment reports on a monthly basis. This process will be used to periodically identify and prompt additional in house training needs. We have also re-issued policies and procedures to agency program units emphasizing the importance of prompt and accurate sign-off and submission of documents.

Thank you for the opportunity to respond to your review.

Sincerely,

  
Lorraine Cortés-Vázquez  
NYS Secretary of State

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