Contributing Staff

Writers
Michael C. Rubenstein
Morgan T. Smith

Other Staff Who Contributed to This Report
Madeline H. Ross

Reviewers
Patrick S. Frank

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401-1991

Baltimore Area: 410-946-5400 ● Washington Area: 301-970-5400
Other Areas: 1-800-492-7122, Extension 5400
TDD: 410-946-5401/301-970-5401
Maryland Relay Service: 1-800-735-2258

Email: libr@mlis.state.md.us
Maryland General Assembly Website: http://mgaleg.maryland.gov
Department of Legislative Services Website: http://dls.maryland.gov

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The department’s Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at the telephone numbers shown above.
December 1, 2022

The Honorable Bill Ferguson, President of the Senate
The Honorable Adrienne A. Jones, Speaker of the House of Delegates
Members of the General Assembly

Dear President Ferguson, Speaker Jones, and Members:

In accordance with Chapters 157 and 158 of 2022, the Department of Legislative Services submits this report on the timing of State agencies’ payments to contracted vendors.

The report shows that over the past four fiscal years, the State has paid at least 91% of its contract payments on time but that the percentage of the value of payments made on time has declined in each of the last three years (the percentage of the number of payments made on time also declined in fiscal 2020 and 2021 but rebounded somewhat in fiscal 2022). Key reasons for the recent decline in on-time payment performance include (1) staffing shortages; (2) an outdated financial management system; (3) the COVID-19 pandemic; and (4) for one key agency, a cybersecurity breach affecting its ability to process payments. The report includes three recommendations.

If you have any questions about the report, please contact Michael C. Rubenstein at (410) 946-5510 or at michael.rubenstein@mlis.state.md.us.

Sincerely,

Victoria L. Gruber
Executive Director

Ryan Bishop
Director

VLG:RB/MCR/mhr

Legislative Services Building • 90 State Circle • Annapolis, Maryland 21401-1991
410-946-5500 • FAX 410-946-5508 • TDD 410-946-5501
301-970-5500 • FAX 301-970-5508 • TDD 301-970-5401
Other areas in Maryland 1-800-492-7122
Vendor Payment Study

It is the policy of the State to make a payment under a procurement contract within 30 days of the day on which a payment becomes due under a contract or, if later, after the day on which the agency receives an invoice. For payments that are payable under the terms of a written contract, interest on unpaid balances accrues at the annual rate of 9% beginning on the thirty-first day after a payment becomes due under a contract or, if later, the day on which the agency receives an invoice. However, until June 1, 2023, interest is not payable until 45 days after an agency receives an invoice, giving agencies an effective “grace period” of two weeks to make a payment until interest is payable. Beginning June 1, 2023, interest on late payments becomes payable after 37 days, shortening the grace period by one week. However, an agency is not liable for interest on unpaid invoices:

- unless the contractor submits an invoice for the interest within 30 days of the date on the State’s check;
- if the contractor files a contract claim;
- for interest that accrues for more than one year; or
- on any amount that represents unpaid interest.

In general, federal funds may not be used to pay interest or penalties, so interest on federally funded contracts must be paid using State funds.

Chapters 157 and 158 of 2022 require the Department of Legislative Services (DLS) to report to the General Assembly by December 1, 2022, the following information for each unit of State government:

1. the number of unit staff whose work responsibilities involve processing procurement contract payments;
2. the number of vacancies for positions that would be assigned to process procurement payments; and
3. for at least three prior fiscal years:
   a. the average time for the unit to process procurement contract payments;
   b. the percentage of procurement contract payments are paid within 30 days; between 30 and 37 days; between 37 and 45 days; and more than 45 days after the payments are due.
Based on this information, DLS must assess the fiscal impact to the State of reducing the number of days following receipt of an invoice (1) after which the State owes interest on unpaid amounts and (2) after which interest begins to accrue on unpaid amounts. DLS must also report on the status of the upgrade to the Comptroller’s online payment processing portal.

Payment Processes for Executive Branch Agencies

The Financial Management Information System (FMIS) is the State’s primary financial management system. FMIS is a legacy system adopted by the State in the mid-1990s and is built on an outdated platform. It functions primarily as a general ledger, responsible for accounts payable and receivable capabilities with very limited capacity for querying the data in a meaningful way. The Comptroller’s Office administers FMIS on behalf of most Executive Branch agencies; however, several State entities operate independent financial management systems and regularly upload their data to FMIS for reporting and payment purposes. The most notable entities that maintain separate financial systems are the Maryland Department of Transportation (MDOT) and public four-year institutions of higher education, including the entire University System of Maryland (USM). One agency, the Maryland Transportation Authority, uses an entirely separate accounting system and does not upload data to FMIS.

The State’s payment processing system is largely a paper-based system. Agencies connected directly to FMIS receive invoices from vendors either by electronic or regular mail and then must enter the invoice data into FMIS by hand. According to the Comptroller’s Office, there is not a uniform coding system for entering invoices into FMIS. Rather, each agency develops its own coding system, making it virtually impossible to distinguish different payment types on a statewide basis.

Once entered into FMIS, invoices are then subject to a review process to ensure that goods and services billed in the invoice were delivered as indicated. Upon approval by the agency, payment requests are delivered electronically in batches to the Comptroller’s Office for payment. The general invoice review process is similar for agencies that are not connected to FMIS, except that the invoice data is entered into independent financial management systems and then uploaded regularly into FMIS.

All vendor payments are made by the Comptroller’s Office. As State law requires that payments to vendors be made within 30 days, the Comptroller requires that agencies deliver their payment authorizations within 25 days of receipt of an invoice, giving the Comptroller up to 5 days to deliver payments to the vendor. The Comptroller’s Office advises that most payment authorizations are paid to vendors through electronic fund transfers within 2 to 3 days after they are delivered by an agency. Exhibit 1 shows the percentage of payment requests in fiscal 2019 through 2021 processed by the Comptroller’s Office within 5 days; results for fiscal 2022 are not yet publicly available.
### Exhibit 1

#### Percent of Payment Requests Processed by the Comptroller’s Office

**Within Five Days**

**Fiscal 2019-2021**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percent of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>97.1%</td>
</tr>
<tr>
<td>2020</td>
<td>98.4%</td>
</tr>
<tr>
<td>2021</td>
<td>92.2%</td>
</tr>
</tbody>
</table>

Source: Comptroller’s Office; Department of Budget and Management; Department of Legislative Services

---

**Data Sources and Limitations**

**Payment Data**

The DAFR 7850 is a standard monthly report generated by FMIS that shows the amount of time that it took agencies to deliver payment requests to the Comptroller’s Office. It sorts payments into five categories based on the number of days to process the payment request: 0 to 25 days; 26 to 30 days; 31 to 45 days; 46 to 60 days; and more than 60 days. Any payment request received after 25 days is considered late.

At the request of DLS, the Comptroller’s Office provided DAFR 7850 reports for all Executive Branch agencies for fiscal 2019 to 2022. DLS then entered the data into an Excel spreadsheet for the purpose of analysis. To make data entry manageable, the analysis was limited to three categories of agencies:

- cabinet-level agencies led by a Secretary or comparable position (e.g., State Superintendent, Adjutant General);
- constitutional officers; and
- State-run public institutions of higher education.

Initially, this amounted to 47 agencies with 6.2 million payments valued at $148.9 billion from fiscal 2019 through 2022. The DAFR 7850 reports include no additional data on payees for payments paid on time; for each late payment, the reports included the payee’s name, the amount of the payment, and the number of days to process the payment request. Given the large number of late payments (more than 350,000), this data was not entered into Excel for analysis, but it was
scanned by DLS to determine whether the payments generally consisted of vendor payments or other types of payments.

Based on these reviews and follow-up discussions with affected agencies, DLS determined that two agencies, the Comptroller’s Office and the Motor Vehicle Administration (MVA), should be excluded from the analysis because the bulk of their payments, particularly their “late” payments, were not for vendors and therefore not subject to the 30-day payment requirement. Specifically, the Comptroller’s Office had a high volume of payments constituting unclaimed property and other payments to individuals that are unrelated to vendor payments. Similarly, the bulk of payments by MVA (which, with more than 1.1 million payments, had the second highest volume of payments of any agency in the State) were refunds to individuals for vehicle registrations and other similar purposes. MDOT estimated that only about 4% of MVA’s payments were vendor-related. Therefore, this report covers payments by 45 agencies with 4.8 million payments totaling $107.2 billion from fiscal 2019 through 2022.

As discussed earlier, DLS notes that for agencies included in the analysis, there is no systematic way to exclude payments that are not for vendors. As the DAFR 7850 reports do not include any payee-related information for payments that are made on time (which represent more than 90% of all payments), DLS cannot determine which of those payments are not for vendors. From our cursory reviews of payee information for late payments, it is clear that payments for nonvendors are scattered throughout the payment dataset. DLS did not find any other large groups of nonvendor payments in other agencies, so it is our assumption that except for the two excluded agencies, the bulk of payments included in the DAFR 7850 reports are for vendors.

**Staffing Data**

To address the statutory requirement to report staffing issues related to payment processing, DLS sent chief financial officers in each State agency a survey to gauge staffing levels and vacancies among payment processing staff. For agencies experiencing a shortage of staff, the survey also asked agencies to identify the factors most responsible for those shortages.

The survey was delivered to 74 agencies, including approximately 30 agencies that were not included in the analysis of on-time payments. Multiple follow-up emails were delivered to nonrespondents, including to legislative liaisons at nonresponding agencies, to encourage participation. Overall, 47 agencies (64%) responded to the survey; however, 4 agencies provided incomplete responses (generally, the partial responses included responses to survey questions but did not provide staffing information). A list of agencies that provided complete responses to the survey is contained in Appendix 1.

---

1 Unlike the analysis of on-time payment processing, including a larger number of agencies in the survey did not require additional data entry.
Statewide On-time Performance

In general, the State paid at least 91% of its bills on time (defined as delivered to the Comptroller’s Office for payment within 25 days) from fiscal 2019 through 2022. However, with one exception, the percentage of payments made on time has declined each year since fiscal 2019, as shown in Exhibit 2. Looking at on-time performance based on the number of payments, the percentage of payments made on time declined from 96.4% in fiscal 2019 to 91.2% in fiscal 2021 before rebounding to 93.4% in fiscal 2022. Based on the value of payments, on-time performance has declined gradually each year, from a high of 97.6% in fiscal 2019 to a low of 96.1% in fiscal 2022. The decline in on-time payments based on dollar value was not as pronounced as the decline based on number of payments. As on-time performance based on the value of payments exceeded on-time performance based on the number of payments, State agencies were more likely to make large payments on time, with smaller payments being more likely to be late. Over that time, the total number of payments made each year dropped from approximately 1.3 million to 1.1 million (not shown). However, the total value of payments increased steadily from $23.3 billion in fiscal 2019 to $30.1 billion in fiscal 2022.

Exhibit 2
On-time Payment Performance, by Number and Value of Payments
Fiscal 2019-2022
($ in Billions)

Source: Comptroller’s Office; Department of Legislative Services
Agency On-time Performance

Of the 45 agencies included in this analysis, 11 maintained on-time performance of at least 98.0% for each of the four fiscal years, as shown in Exhibit 3. Of these 11 agencies, 6 are part of USM. Altogether, the 11 agencies represent 25.1% of the total number of payments made over the four fiscal years, but only 10.9% of the total value of payments made over the same time period.

Exhibit 3
Top On-time Performing Agencies, Based on Number of Payments
Fiscal 2019-2022

<table>
<thead>
<tr>
<th>Agency</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Maryland Global Campus</td>
<td>100.0%</td>
<td>99.8%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Frostburg State University</td>
<td>100.0%</td>
<td>99.8%</td>
<td>99.1%</td>
<td>99.2%</td>
</tr>
<tr>
<td>Maryland Department of the Environment</td>
<td>99.9%</td>
<td>99.8%</td>
<td>99.9%</td>
<td>100.0%</td>
</tr>
<tr>
<td>University of Baltimore</td>
<td>99.5%</td>
<td>98.2%</td>
<td>99.5%</td>
<td>98.8%</td>
</tr>
<tr>
<td>Department of Disabilities</td>
<td>99.4%</td>
<td>99.8%</td>
<td>99.6%</td>
<td>99.7%</td>
</tr>
<tr>
<td>Towson University</td>
<td>99.2%</td>
<td>99.7%</td>
<td>99.3%</td>
<td>99.0%</td>
</tr>
<tr>
<td>Coppin State University</td>
<td>99.1%</td>
<td>99.5%</td>
<td>99.6%</td>
<td>99.5%</td>
</tr>
<tr>
<td>Department of Housing and Community Development</td>
<td>99.0%</td>
<td>99.2%</td>
<td>99.5%</td>
<td>99.2%</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td>98.9%</td>
<td>99.2%</td>
<td>99.4%</td>
<td>99.3%</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>98.8%</td>
<td>98.8%</td>
<td>99.3%</td>
<td>99.3%</td>
</tr>
<tr>
<td>Maryland Port Administration</td>
<td>98.5%</td>
<td>98.8%</td>
<td>99.4%</td>
<td>99.0%</td>
</tr>
</tbody>
</table>

Source: Comptroller’s Office; Department of Legislative Services

Based on the number of payments made on time, two agencies, the State Treasurer’s Office (STO) and the Department of Information Technology (DoIT), had on-time payment performance of 90.0% or less for each of the previous four fiscal years, as shown in Exhibit 4. Combined, these two agencies accounted for 0.6% of all payments made over the four years, and 0.9% of the value of all payments made. It bears noting, however, that based on the value of payments made, only DoIT had on-time performance of less than 90.0% for all four years; STO maintained on-time performance in excess of 90.0% for each of the four years based on the value of payments.
Exhibit 4
On-time Performance Less Than 90%, Based on Number of Payments
Fiscal 2019-2022

<table>
<thead>
<tr>
<th>Agency</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasurer’s Office</td>
<td>78.1%</td>
<td>88.3%</td>
<td>86.2%</td>
<td>62.2%</td>
</tr>
<tr>
<td>Department of Information Tech.</td>
<td>53.7%</td>
<td>76.0%</td>
<td>66.8%</td>
<td>58.5%</td>
</tr>
</tbody>
</table>

Source: Comptroller’s Office; Department of Legislative Services

High-volume Agencies

As shown in Exhibit 5, five agencies account for more than two-thirds (68.3%) of the total dollar value of payments made over the four years covered by this analysis. Exhibit 6 shows that with respect to the value of payments, three of the five agencies had consistently high on-time payment rates. The Maryland Transit Administration generally lagged behind its high-volume peers and also saw on-time performance drop below 90% in fiscal 2021 before recovering in fiscal 2022. The Maryland Department of Health (MDH) is discussed separately below.
Exhibit 5
Agencies with Highest Share of Total Value of Payments
Fiscal 2019-2022

- MSDE: 31.6%
- MDH: 18.9%
- DBM: 7.4%
- SHA: 5.4%
- MTA: 5.0%
- Other: 31.7%

DBM: Department of Budget and Management
MDH: Maryland Department of Health
MSDE: Maryland State Department of Education
MTA: Maryland Transit Administration
SHA: State Highway Administration

Source: Comptroller's Office; Department of Legislative Services
Maryland Department of Health – Pandemic and Cyberattack

The COVID-19 pandemic affected the operations of many State agencies, but perhaps none more so than MDH. As shown in Exhibit 7, the value of MDH’s payments from fiscal 2019 to 2020 increased by nearly $1.1 billion, a 27% increase. This reflects the massive response to the pandemic, which involved purchasing personal protective equipment, expanding critical care space for hospitals, and hiring consultants to help manage the response. As a result, overall on-time payment performance began slipping as more pressing needs took precedence. This pattern continued through fiscal 2021, the peak year of the pandemic, with costs increasing further and on-time performance lagging to an even greater extent.

Midway through fiscal 2022, as the pandemic began to ease, MDH experienced a cybersecurity breach of its information technology systems in the form of a ransomware attack, which severely affected its ability to process payments electronically. Although the value of payments made was not substantially affected, the number of payments dropped from 153,000 to 138,000, likely reflecting MDH’s inability to process the volume of payments. As a result, while other agencies across the State began to improve their on-time payment performance, MDH’s on-time performance continued to decline in fiscal 2022.
Late Payments

Despite the State’s overall strong performance in making payments on time, tens of thousands of payments totaling hundreds of millions of dollars are still paid late (i.e., after 30 days) every year. Exhibit 8 shows the number and value of late payments made each fiscal year since fiscal 2019. This includes payment authorizations delivered to the Comptroller’s Office for payment after 25 days; some of these payments (i.e., those delivered between 26 and 30 days) may actually get paid on time if the Comptroller’s Office can expedite their release, but for the purpose of this analysis, those payments are considered late.
Exhibit 8 also shows the likely effects of the COVID-19 pandemic on agencies’ on-time performance, with both the number and value of late payments increasing significantly each year through fiscal 2021. In fiscal 2022, the number of late payments began to normalize, but the dollar value of late payments continued to rise, surpassing $1.0 billion for the first time.

Timing of Late Payments

The DAFR 7850 reports use a 31- to 45-day timeframe, so DLS cannot precisely determine the share of payments made within 37 days, as required by Chapters 157 and 158. Exhibit 9 and Exhibit 10 show the percentage of late payments (by number and by value) paid in each of the timeframes included in the DAFR 7850 reports (including payment authorizations delivered to the Comptroller’s Office after 25 days). Overall, late payments are most likely to be paid between 30 and 45 days after they are due, meaning that agencies are taking full advantage of the 15-day grace period before interest penalties are payable. Exhibit 9 also shows that the number of payments made after 60 days more than doubled from fiscal 2019 to 2022 (from 15.2% to 31.1%). The percentage of late payments made after 60 days based on the value of payments (in Exhibit 10) also increased, but not as sharply.
Exhibit 9
Distribution of the Timing of Late Payments, by Number of Payments
Fiscal 2019-2022

Source: Comptroller's Office; Department of Legislative Services

Exhibit 10
Distribution of the Timing of Late Payments, by Value of Payments
Fiscal 2019-2022

Source: Comptroller's Office; Department of Legislative Services
Interest Accrual

As discussed earlier, interest on late payments begins accruing on the thirty-first day after a payment is due, but under current law, it is not payable until the forty-sixth day after the payment is due. Beginning June 2023, interest will be payable after 37 days instead of 45 days. However, interest is payable only if the payee submits an invoice for the interest due, and the Comptroller’s Office advises that vendors almost never submit invoices for interest penalties. Nevertheless, reducing the number of days after which interest is payable exposes the State to increased risk.

Exhibit 11 shows the value of late payments made between 31 and 45 days and the value of payments made later than 45 days. For the purposes of this analysis, DLS assumes that payments made between 31 and 45 days (as reported by the DAFR 7850 reports) are paid, on average, by day 38. For payments made between 46 and 60 days, DLS assumes that payments are made, on average, on day 52. Finally for payments made after 60 days, DLS assumes that payments are made, on average, on day 90.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Value of Late Payments After 45 Days</th>
<th>Value of Late Payments 31 to 45 Days</th>
<th>Interest Payable After 45 Days</th>
<th>Interest Payable After 30 Days</th>
<th>Difference in Interest Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$199.0</td>
<td>$197.7</td>
<td>$3.7</td>
<td>$4.1</td>
<td>$0.4</td>
</tr>
<tr>
<td>2020</td>
<td>191.9</td>
<td>304.5</td>
<td>3.5</td>
<td>4.1</td>
<td>0.6</td>
</tr>
<tr>
<td>2021</td>
<td>350.1</td>
<td>315.3</td>
<td>6.5</td>
<td>7.1</td>
<td>0.6</td>
</tr>
<tr>
<td>2022</td>
<td>501.4</td>
<td>492.4</td>
<td>9.7</td>
<td>10.6</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Comptroller’s Office; Department of Legislative Services

Based on these assumptions, Exhibit 11 also shows that under current law, the State was potentially liable for between $3.5 million and $9.7 million in interest penalty payments each year, although it paid virtually none of that. Eliminating the 15-day grace period, thereby making interest payable after 30 days, would increase the State’s liability by between $400,000 and $1.0 million annually, based on recent trends and the assumptions used for this analysis. The extent to which the State would actually pay the increased liability depends on whether vendors submit invoices for the interest penalties, which they typically have not done. Eliminating the invoice requirement would clearly result in significant increases in State penalty payments since the State would have to pay its full liability each year, even if the State improved its on-time payment performance.
Fiscal Personnel Staffing Issues

Of the 47 responding agencies, 23 (49%) indicated that they had struggled to pay vendors on time during the preceding two fiscal years. Of those, 17 agencies (74%) said that staffing shortages contributed to their struggles. Overall, the vacancy rate (as of July 1, 2022) for agency staff that were primarily responsible for processing payments was 13%. This included 96 vacancies out of 803 regular PINs and 9 vacancies out of 17 contractual positions. The two factors that contributed most to persistent vacancies, according to agency responses, were a high level of resignations or transfers among relevant staff and inadequate compensation for those staff (which may affect the retention problems cited). Difficulty finding qualified staff and slow hiring processes were also cited as factors. High levels of staff retirements and lack of flexible working conditions generally were not viewed as major factors contributing to a shortage of staff.

Although 30 agencies reported no vacancies among regular payment processing PINs, 11 of those agencies still reported that they struggled to pay vendors on time. Three agencies cited their small size and the resultant disruptive effects of the departure of even a single person. Multiple agencies pointed to the State’s antiquated systems for processing invoices. Below are several comments from agencies about the processing of invoices:

“The invoice process is all manual, from receiving the invoices, stamping, entering to the tracking sheet, entering into [FMIS], and transmitting to the Comptroller’s Office.”

“FMIS needs to be replaced. It is not user friendly and makes it difficult to research payments.”

“We have adequate staffing, but the biggest issues are: FMIS is cumbersome, the available FMIS training is inadequate, and younger generations of employees have difficulty with such an antiquated application.”

Finally, 2 agencies indicated that many of their delays are caused by incomplete invoices.

“We have issues with the vendors submitting invoices that are not in accordance with the contract terms. A lot of time is spent working with the vendors to get the invoice correct for payment.”

“Sometimes there are delays in vendor processing, so invoices are delayed in getting paid.”

Status of Upgrade to Payment Processing Portal

As noted earlier, Chapters 157 and 158 required that DLS provide an update on the status of the Comptroller’s online payment portal.
Online Payment Portal Status

The Comptroller’s Office has been using the One Stop Vendor Portal (OSVP) since the early 2000s. This system gives users the ability to search payments by date, agency, check or invoice number, and paid or unpaid status. The system is available only to vendors with a login code; it is not available to the general public. The system is simple, grouping many payments into large batches or showing individual payments by agency.

OSVP is limited in that it only shows basic information, utilizing a code system to communicate the status of payments between the originating agency, the General Accounting Division of the Comptroller’s Office, and the vendor. Much of the data utilized in the system is pulled from R*STARS, a component of FMIS, which is often manually entered by the originating agency. Further, the system allows only prime contractors to register to track payments, leaving subcontractors without access to similar information. There are currently no plans to upgrade OSVP independent of plans to upgrade FMIS.

Planned Upgrade to FMIS

In fiscal 2023, the Comptroller’s Office was provided $7 million to begin its Major Information Technology Development Project to update FMIS. This is a joint project with the Comptroller’s Office, the Department of Budget and Management, DoIT, STO, and MDOT. According to the Comptroller’s Office and DoIT, the Department of General Services (DGS) has also been included in discussions.

The Comptroller’s Office reported that this upgrade is still in its infancy, having been described as a “grassroots” operation. The office is working with stakeholder agencies on aligning staff and determining ownership of the project. The next step in the process will be establishing a project management office that includes key stakeholders before developing and releasing a request for proposals. Due to the infancy and fluidity of the current planning process, the Comptroller’s Office was not able to provide reliable timelines for the stages of the project process nor was it able to offer any framework for the features to be included in the new system. The Information Technology Project Request submitted to DoIT anticipates project completion by June 2024 at a total cost of $127 million; however, these figures are generally considered to be placeholders pending further development of the project.

---

2 Members of the general public can use the Maryland Vendor Information Electronic Warehouse (MD-VIEW): https://www.marylandtaxes.gov/divisions/gad/MD-VIEW.php to search for State payments to vendors and grantees.
Recommendations

Prioritize and Support the FMIS Upgrade Project

The State’s paper-based system for reviewing and processing vendor invoices and payments, of which FMIS is the backbone, is a clear impediment to the efficient and timely payment of vendor invoices. Although this process will always, by necessity, include a substantial human component to ensure that invoices submitted by vendors accurately reflect the work performed and delivered, automation in the form of a modern financial management and accounting system can expedite the processing of payments. For instance, staff time is currently wasted entering data by hand into FMIS instead of allowing for electronic billing and submission of invoices and purchase orders. This also increases the likelihood of human error (and further delays) in the payment process. Thus, successful replacement of FMIS with a modern, agile system is critical to the State’s efforts to increase its on-time payment performance.

Continue Efforts to Increase State Employee Compensation and Expand Staffing Where Necessary

Recent efforts, including a statewide 4.5% salary increase effective November 1, 2022, have begun to address the lack of competitive compensation for State employees when compared with similar positions in the private sector and many county governments. Noncompetitive employee compensation was cited by many agencies as a principal cause for significant vacancy rates among positions required to process payments in a timely fashion. Other agencies, including DGS, cited insufficient staffing. Before expecting agencies to improve their on-time payment performance, all efforts should be made to ensure that they have and can retain the necessary staff.

Restore the 15-Day Grace Period and Delay Any Other Changes to State Payment Requirements Until the FMIS Upgrade Project Is Completed

Shortening the grace period from 15 days to 7 days exposes the State to increased liability for payment of interest on late payments. Instituting that change before measures to improve agency on-time performance, including a modernized financial management system and enhanced employee retention, may result in increases in State liability as agencies will not likely be able to meet the compressed deadlines. Once the FMIS upgrade is complete and the State can assess the extent to which it improves the payment process, it may then consider adjusting the timeframe for State payments to vendors.
Appendix 1
Survey Respondents

Canal Place Preservation and Development Authority
Department of Agriculture
Department of Budget and Management
Department of Commerce
Department of General Services
Department of Housing and Community Development
Department of Juvenile Services
Department of Public Safety and Correctional Services
Executive Department (Governor’s Office)
Frostburg State University
Governor’s Office of Crime Prevention, Youth, and Victim Services
Interagency Commission on School Construction
Maryland 529 Plans
Maryland Aviation Administration
Maryland Department of Health
Maryland Department of Transportation – Secretary’s Office
Maryland Food Center Authority
Maryland Health Benefit Exchange
Maryland Higher Education Commission
Maryland Port Administration
Maryland Stadium Authority
Maryland State Archives
Maryland State Library Agency
Maryland State Police
Maryland Supplemental Retirement Plans
Maryland Tax Court
Maryland Transportation Authority
Military Department
Motor Vehicle Administration
Office of the Public Defender
Office of the State Prosecutor
Public Service Commission
State Board of Elections
State Department of Assessments and Taxation
State Highway Administration
Subsequent Injury Fund
Towson University
Uninsured Employers’ Fund
University of Baltimore
University of Maryland – Baltimore
University of Maryland – Eastern Shore
University System of Maryland – System Office