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Many companies doing business with the Federal Government have complained that its agencies are slow in paying their bills. To determine how well the Government does as a bill payer, a sample of 3,263 contractor invoices totalling \$34.1 million was analyzed as were responses from 590 contractors concerning the payment performance of Federal agencies.

**Findings/Conclusions:** About 61% of the Government's bills and 81% of the dollar total are paid within 30 days, the accepted period in commercial practice. Nearly 85% of the bills and 98% of the dollar total are paid within 60 days. When adjusted for delays caused by contractors and other causes not attributable to Federal agencies, 70% of the bills and 83% of the dollar amount were paid on time. Delays in making payments harm the contractors' cashflow and reduce the Government's opportunity to benefit from cash discounts. Delayed payments may also cause contractors to stop doing business with Federal agencies, although only 16% of the companies questioned indicated that they were dissatisfied with the Government's payments. Invoices involving recurring payments such as utilities, telephone and data processing services were twice as likely to be late as invoices for one-time procurements, and invoices for large amounts were generally paid faster than small-dollar invoices.

**Recommendations:** The Director, Office of Management and Budget, together with the Departments of the Treasury and Defense and the General Services Administration, should: require Federal agencies, when practical, to include payment terms in each contract and purchase order; develop due date standards for major types of goods and services; explore the extended use by both civil and military agencies of procedures for paying bills without a receiving report; authorize the use of imprest funds to pay small bills on delivery; decide how close to the due date agencies should schedule bills for payment; and continue to monitor payment performance, making sure that agencies are

adopting procedures to pay bills on time and evaluating the need for further improvements. (RRS)

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# REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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## The Federal Government's Bill Payment Performance Is Good But Should Be Better

Are Federal agencies paying bills too slowly? According to GAO's analysis they are doing fairly well; however, lengthy delays do occur. Based on a sample of invoices representing Government-wide payments, 61 percent of the Government's bills are paid within 30 days, and 85 percent are paid within 60 days. When questioned, most companies said they were satisfied with how quickly they were paid. Only 16 percent said they were dissatisfied. Contractors cause some payment delays. They do so by not promptly providing correct invoices to the right payment centers. On the Government's side, delays are caused primarily by problems in assembling the paperwork needed to make payment. When adjusted for delays attributable to contractors and other valid causes, GAO's data shows that 70 percent of the Government's payments were made on time.



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-160725

To the President of the Senate and the  
Speaker of the House of Representatives

This report summarizes the results of our Government-wide review on the timeliness of Federal payments. While our analysis showed that most Federal payments are made within 30 days of the invoice date, which is the commercial standard, there is a need to reduce the number of late payments. Also, many bills are paid earlier than dictated by good cash management policies, and there is a need to reduce the number of early payments. We recommend that the Director, Office of Management and Budget, together with the Departments of the Treasury and Defense and the General Services Administration, develop clear and practical payment standards for use in Federal procurements and take actions to facilitate timely payment.

In June 1977 we testified on the general contents of this report before the Senate Select Committee on Small Business, chaired by Bob Packwood. This Committee has had a continuing interest in this review from its outset. We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, the Secretaries of the Treasury and Defense, and the Administrator of General Services. We are also sending copies to congressional committees, all Members of Congress, and all major Federal departments and agencies.

A handwritten signature in black ink, appearing to read "James B. Atchafalua".

Comptroller General  
of the United States

D I G E S T

Many companies doing business with the Federal Government have complained that its agencies are slow in paying their bills. Some companies, it is said, do not seek Government business because of this difficulty.

To determine how well the Government does as a bill payer, GAO analyzed a sample of 3,263 contractor invoices totaling \$34.1 million and responses from 950 contractors about the payment performance of Federal agencies. The sample was selected to be statistically representative of Government-wide payment performance.

According to GAO's statistics, Federal agencies are paying the majority of their invoices in a timely manner; however, in some cases lengthy delays in payment continue to occur. About 61 percent of the Government's bills and 81 percent of the dollar total are paid within 30 days of the invoice date--the accepted period in commercial practice. Nearly 85 percent of the bills and 98 percent of the dollar total are paid within 60 days. Most companies, when questioned, said they were satisfied with how quickly they were paid. Only 16 percent indicated they were dissatisfied. (See pp. 7 and 17.)

Payment delays are caused by contractors as well as by Federal agencies. When adjusted for delays caused by contractors and other causes not attributable to Federal agencies, GAO's statistics show that 70 percent of the Government's bills and 82 percent of the dollar total were paid on time. The 30 percent late payments caused by Federal agencies averaged 74 days from the invoice date until they were paid. In contrast, the invoices paid within 30 days were paid an average of 22 days after the invoice date. (See p. 8.)

Delays in making payments harm the contractor's cash flow. Projecting the late payment results shown in GAO's sample (for the 6-month period covered) to total Federal procurements, GAO estimates that contractors might have incurred at least \$30 million in interest costs to provide the money tied up in overdue bills. Late payments can also cost companies and the Government money in terms of additional time and effort spent tracking down unpaid invoices. (See p. 9.)

Slow payments reduce the Government's opportunity to benefit from cash discounts. Discounts were lost by not paying quickly enough, and some contractors reported that they quit offering them because the discounts didn't influence Federal agencies to pay faster.

Delayed payments may also cause contractors to stop doing business with Federal agencies. GAO did not look into this, but a recent Department of Defense study reported that delays in making payments have contributed to the shrinking competitive base of the military-industrial establishment, causing both congressional and Defense concern.

Payments are delayed primarily because of the problems Federal payment centers have in obtaining all the paperwork needed to make payment. This paperwork comes from Federal buying and receiving activities and from contractors. The process of acknowledging receipt and acceptance of the goods and services bought and furnishing the required documentation to the payment center seems to take a long time. (See p. 11.) Contractors contribute to the problem by not providing a correct invoice promptly to the right payment center. There are special payment procedures that would eliminate some of the paperwork requirements. But Federal agencies were making little use of them. (See p. 20.)

Permeating the entire process is the lack of a Federal standard establishing when payment is due. Government procurement regulations

and the standard contract payment clauses do not specify due dates. Further, although most contractors' invoices include payment terms, the Federal procurement regulations are silent on whether agencies are required to abide by those terms. (See p. 6.)

GAO's analysis of invoices paid more than 30 days after the invoice date showed that invoices with certain characteristics were more likely to be paid late than others. For example:

- Invoices involving recurring payments for items such as utility, telephone, and data processing services were twice as likely to be late as invoices for one-time procurements, such as equipment. (See p. 14.)
- Invoices for large amounts were, on average, paid faster than small-dollar invoices. (See p. 22.)

GAO also found some surprising information in its survey of contractors. Firms expressing the greatest dissatisfaction with Federal payment performance tended to be large (have annual sales over \$50 million) and have dealt frequently with many Federal agencies for several years. (See p. 19.)

#### PROBLEMS ARE ALSO CAUSED BY PAYING BILLS EARLY

Many bills were paid sooner than is commonly expected in commercial practice. As a result the Government has incurred unnecessary interest costs, and a few companies have stopped offering discounts because they receive payment fast enough without them.

To reduce Federal borrowing and the resultant interest costs, bills should be paid when due, or as close thereto as possible without being late. In GAO's sample, 1,339 invoices (45 percent) totaling \$8.2 million were paid 1 or more days before the due date specified on the vendor's invoice. Five hundred and sixty-nine invoices totaling \$5.9 million were paid more than 15 days early. Projecting the sample

results to total Government-wide procurements, GAO estimates that at least \$12 million in interest may have been avoided during the 6-month period if none of the early payments had been made more than 15 days prior to the due date. At least \$118 million in interest may have been avoided if all of the early payments had been made exactly on the due date. (See p. 24.)

## CONCLUSIONS AND RECOMMENDATIONS

In making payments, Federal agencies have two obligations. They are required to pay bills when due, and at the same time they must make sure they get what they pay for. GAO's study shows that Federal agencies are doing well in the latter respect. Agency payment procedures are aimed at making sure that goods and services are received in acceptable condition before paying contractor invoices. In addition, the majority of Federal bills are paid on time, but there is room for improvement.

Improving Federal payment performance will require changes in Federal procurement policy and in agency payment procedures. A foremost requirement is to establish standards for the various types of payments that agencies can use to compute the due date.

During the past couple of years the Congress has considered legislation requiring Federal agencies to pay an interest charge for late payments, both to compensate contractors for losses incurred and to motivate agencies to pay bills on time. The Office of Federal Procurement Policy, Office of Management and Budget, has opposed such legislation. The Administrator of the Office of Federal Procurement Policy has stated that legislation is not necessary because his Office has authority to require a clause for paying an interest charge to be included in contracts and purchase orders. He has not done so, however, because of the difficulties his Office foresees in implementing such a charge and the administrative burden it would impose. (See p. 29.)



If GAO recommendations for speeding up payments are carried out, relatively few contractors would be paid late. Thus, an interest charge might not be needed. However, if the changes GAO recommends are not made and some contractors--through no fault of their own--continue to experience long delays in receiving payment, then the merits of imposing an interest charge should be reconsidered.

GAO recommends (see p. 29) that the Director, Office of Management and Budget, in concert with the Departments of the Treasury and Defense and the General Services Administration:

- Require Federal agencies, when it is practical, to include payment terms in each contract and purchase order. Payment terms would include both the starting point for computing the due date (for example: date of invoice) and the number of days allowed for payment.
- Develop due date standards for the major types of goods and services for agencies to use in determining the payment terms to be included in contracts and purchase orders, and in computing due dates when they are not included.
- Explore the extended use by both civil and military agencies--when the Government's interest can be adequately protected--of procedures for paying bills without a receiving report.
- Authorize the use of simplified procedures for certifying and paying invoices for recurring services (such as utilities, data processing time sharing, and building and equipment rent) when adjustments can be made in the next bill.
- Evaluate the desirability of increasing the use of imprest funds to pay small bills on delivery.
- Direct the heads of Federal departments and agencies to make sure their payment centers

have procedures requiring bills to be scheduled for payment in accordance with the due dates, or the discount date.

--Decide how close to the due date agencies should schedule bills for payment to make sure bills are not paid late and yet keep Federal borrowing and the resultant interest costs to a minimum.

--Continue to monitor payment performance, making sure agencies are adopting procedures to pay bills on time and evaluating the need for further improvements.

#### AGENCY ACTIONS

The Office of Management and Budget essentially agrees with GAO's recommendations and plans to implement them.

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## CHAPTER 1

### INTRODUCTION

In the fiscal year ended June 30, 1976, the Federal Government purchased some \$65 billion of goods and services of all kinds from about 68,000 contractors. These procurements were made by almost 11,000 Federal buying offices, and the contractors were paid by over 900 agency payment centers. The Department of Defense bought about \$47 billion in goods and services in fiscal year 1976, about 70 percent of the Government's total. Civil departments and agencies accounted for the remaining \$18 billion.

Large purchases--those above \$10,000--account for a high percentage of total Federal dollar volume but a very low percentage of individual procurement actions. For example, of the 3,263 invoices totaling \$34.1 million included in our sample, large purchases accounted for 94 percent of the total dollar value (\$31.9 million), but only 8 percent of the number of invoices. Small purchases--those for \$10,000 or less--made up the remaining 92 percent of the invoices. We believe these proportions are representative of Government-wide payments.

#### REASONS FOR THE AUDIT

Our review had its impetus in complaints to the Comptroller General, news articles, and constituent complaints to Members of Congress which were passed on to us. Contractors complained about long delays in getting paid by Federal agencies.

Untimely payments--both early and late--can adversely affect both contractors and the Government. We undertook this study to

--determine how well the Government does as a bill payer,

--identify the underlying causes of any problems, and

--recommend solutions that would protect the Government's interest as well as that of its contractors.

To do this we examined payments covering 3,263 contractor invoices <sup>1/</sup> at 58 agency payment centers. At the centers we reviewed payment policies and procedures to provide a basis for identifying the causes of untimely payments. In a questionnaire we obtained perceptions of 950 Government contractors on Federal payment performance. Contractor responses to the questionnaire are summarized in appendix III. The contractors were selected statistically from about 68,000 present and former Government' contractors, using criteria similar to those used in selecting payments.

The payment centers we visited and the payments we reviewed were selected on a basis that would produce results representing Government-wide payment performance, not that of individual agencies. Consequently, although the data shown in appendix I indicates how quickly the payment centers in our sample paid their bills, it is not representative of an agency's overall performance and cannot be used to demonstrate differences in timeliness of payment among the agencies.

### PAYMENT PROCEDURES

The primary role of a Federal payment center is to determine that payment to a contractor is proper. There is no standard pattern of organization for such centers. Each agency establishes its own payment system. Some have regional centers and others have one or several centers that service the entire agency. Some agencies use automated payment systems, and others use manual systems. Military payment centers issue their own checks to contractors, but civil agency checks are for the most part issued by a Treasury disbursing office.

Payment center staff determine that payment is due by matching essential documents sent to them by contractors, Federal buying activities, and Federal user or receiving activities. With some exceptions, this documentation consists of an invoice from the contractor, a contract or purchase order from the buying activity, and a receiving report from the user or receiving activity. For purchases involving progress payments or cost reimbursable payments, the invoice and the

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<sup>1/</sup>These payments were randomly selected from payments made during the 6-month period of Jan. 1 through June 30, 1976. Therefore, technically the results can be projected with statistical accuracy to only a 6-month period and not an entire year. However, we didn't encounter any unusual conditions which would cause us to expect the 6-month period to be different from the rest of the year.

receiving reports are replaced by a payment request showing costs incurred and/or the contractor's estimate of contract performance. Payment centers can process a payment only after they receive all the necessary documents which serve as a basis for determining whether the Government has a legal and valid obligation. After payment center staff have reviewed the documents and assured themselves that payment is proper, the payment is authorized and made.

#### LEGAL PROVISIONS GOVERNING PAYMENT

The basic statutory provisions governing Federal payments (31 U.S.C. 529) were established in 1823. They provide that payment shall not exceed the value of the service rendered or of the articles delivered previous to such payment. More recent legislation, passed in 1948 and 1949 and amended in 1958 (10 U.S.C. 2307 and 41 U.S.C. 255, respectively), authorized advance, partial, progress, or other types of payment under contracts for property or services, provided that the contractor gave adequate security and the head of the contracting agency determined that advance payment was in the public interest.

Basic policies and documentation requirements for making payment are contained in the Armed Services Procurement Regulation, applicable to the military services, and the Federal Procurement Regulation, applicable to civil agencies. The Department of Defense and the General Services Administration are responsible respectively for publishing the two regulations. Individual agency regulations are based on the Comptroller General's guidance and either The Armed Services Procurement Regulation or the Federal Procurement Regulation.

Since its creation in 1976 as part of the Office of Management and Budget, the Office of Federal Procurement Policy has been responsible for administrative review of all Federal procurement policies. Both Defense and General Services are required to act on procurement recommendations issued by the Office of Federal Procurement Policy.

The Federal Paperwork Commission also looked into procurement paperwork requirements. On June 10, 1977, it issued a procurement study report containing recommendations intended to reduce paperwork and expedite payment of contractor bills.

## STUDY OF CASH MANAGEMENT BY THE PRESIDENT'S REORGANIZATION STAFF

On November 14, 1977, the President announced that his reorganization staff, in conjunction with the Treasury Department, was beginning a comprehensive review of cash management policies, practices, and organization throughout the Federal Government. Among other tasks, the study is to pay special attention to how effectively the Government collects and disburses money and provides incentives for making Federal managers more aware of the cash management implications of their decisions.

### SENATE HEARINGS

On June 21, 1977, the Senate Select Committee on Small Business held hearings on the problem of late payments by Federal agencies. At that time we testified on the preliminary results of this review. Representatives of the Office of Federal Procurement Policy, the Commission on Federal Paperwork, and the Government Printing Office also testified.



## CHAPTER 2

### FEDERAL AGENCIES' PAYMENT PERFORMANCE

Federal agencies are doing fairly well as bill payers. On the positive side, agencies seem to be making sure they pay only for what they get, thereby protecting the interest of the Government. They are also paying a great many bills on time. Sixty-one percent of the invoices in our sample and 81 percent of the dollar total were paid within 30 days of the invoice date--the period most commonly accepted in commercial practice. Nearly 85 percent of the invoices and 98 percent of the dollar total were paid within 60 days. However, an unacceptably high number of invoices are paid late. Some are delayed for long periods.

Consistent with these results, a large majority of the contractors we surveyed said they were generally satisfied with the timeliness of Federal agencies' payments to them. Only 16 percent responded that they were dissatisfied.

Contractors and Federal agencies both caused payment delays. Contractors most commonly caused delays by not providing a correct invoice promptly to the right payment center. On the Government's side, delays were primarily caused by problems in assembling the documents needed to make payment, particularly the receiving report. When adjusted for delays attributable to contractors and other valid causes, our data shows that 70 percent of Federal payments and 82 percent of the dollar total were made on time (within 30 days).

Payment delays are detrimental to both the Government and its contractors. They are harmful to a contractor's cash flow, and cause both contractors and Federal agencies to spend time tracking down unpaid invoices. They also cause the Government to lose discounts, though the amounts lost appear inconsequential. Additionally, some contractors may not seek Government business because of the uncertainty of when they will be paid.

We also found that many bills were paid earlier than good cash management policy dictates. In our sample, 1,339 invoices totaling \$8.3 million were paid 1 or more days before the vendor's due date. Five hundred and sixty-nine invoices totaling \$5.9 million were paid more than 15 days before the vendor's due date. Paying bills early causes the Government to incur unnecessary interest costs. In addition, a few companies stopped offering discounts because they received payment fast enough without them. Early payments

resulted from agencies paying bills as quickly as possible after the necessary documents for payment were received and processed. One reason they did this was to maintain the goodwill of contractors in the hope it would result in lower prices and encourage more contractors to do business with the Government.

#### GOVERNMENT INTEREST IS ADEQUATELY PROTECTED

In making payments, Federal agencies have two obligations. They are required to pay bills promptly when due, and at the same time they must make sure they get what they pay for. Our review work indicates that Federal agencies are doing well in the latter respect. Agency payment procedures are aimed at making sure goods and services are received in acceptable condition before paying contractor invoices. In fact, payment centers sometimes follow these procedures to a fault.

Federal agencies are also paying most bills promptly. However, there is room for improvement; the rest of our report discusses this problem.

#### PROBLEMS IN DETERMINING WHEN PAYMENTS ARE DUE

In measuring how promptly agencies are paying bills one must know when payment is considered due. The Government's procurement regulations (see p. 3) state that payments are to be made promptly when due, but they do not specify when payment is actually due. Although contractors normally include payment terms in their invoice, the procurement regulations are silent on whether Federal agencies are required to abide by those terms. Nor does the standard payment clause prescribed for inclusion in contracts generally specify when payment is due.

In addition, Federal payment center personnel and contractors do not agree on when payments are due. Most officials in charge of the payment centers we visited believed that payments should be made within 10 days after the date the payment center has received all the documents required for payment. However, the majority (82 percent) of the vendors responding to our survey said they expect payment for most goods and services within 30 days from the date of their invoice. Both vendors and payment center officials acknowledge that different payment terms exist for certain goods and services and certain payments. Contract financing payments, for example, are due on request.

PAYING PERFORMANCE USING 30 DAYS  
FROM DATE OF INVOICE AS THE STANDARD

In the absence of a Federal standard for determining due dates, we decided for our analysis to use 30 days from the date of the vendor's invoice. We chose the vendor's invoice date as our standard because:

- Most contractors that responded to our questionnaire believed this cycle should be used.
- It is the standard that prevails in commercial practice.
- It is the practice followed by most Federal agencies in establishing due dates for their accounts receivable (bills).

The Government's performance using this standard is shown below. As can be seen from this analysis, 61 percent of the invoices and 81 percent of the dollar value were paid within 30 days of the invoice date.

Elapsed Time From Date of Invoice to Payment  
for Invoices in our Sample

<u>Days elapsed until payment</u>	<u>Number of invoices</u>	<u>Percent of number</u>	<u>Cumulative percent</u>	<u>Dollar amount of invoices</u>	<u>Percent of dollar amount</u>	<u>Cumulative percent</u>
(000 omitted)						
1 to 15	924	30.3	30.3	\$18,926.1	59.0	59.0
16 to 30	940	30.8	61.1	7,061.0	22.0	81.0
31 to 45	473	15.5	76.6	3,093.9	9.6	90.6
46 to 60	254	8.3	84.9	2,346.5	7.3	97.9
61 to 90	224	7.3	92.2	360.1	1.1	99.0
91 to 120	90	3.0	95.2	118.2	.4	99.4
121 to 150	44	1.4	96.6	32.3	.1	99.5
151 to 180	23	.8	97.4	18.9	.1	99.6
181 to 360	59	1.9	99.3	119.6	.4	100.0
Over 360	<u>20</u>	<u>.7</u>	100.0	<u>2.1</u>	<u>(b)</u>	(b)
Total	<u>a/3,051</u>	<u>100.0</u>		<u>\$32,078.7</u>	<u>100.0</u>	

a/Of the 3,263 invoices in our sample, 212 did not have an invoice date or other essential data and thus could not be used in this analysis.

b/Less than one-tenth of 1 percent.

There are valid reasons why bills are not paid within 30 days

There are, however, valid reasons beyond the control of Federal agencies that explain why some bills are not paid within 30 days. Delays occur because contractors do not provide a correct invoice promptly to the right payment center, and because contractors bill before the terms of the contract are satisfied. Delays also occur because goods are still in transit, and consequently payment cannot be made. When adjusted for these circumstances, our data shows that 70 percent of the invoices in our sample were paid within 30 days of the invoice date. Details are shown below.

Timeliness of Payments Adjusting For Delays Not Caused By Federal Agencies

<u>Payment time</u>	<u>Number of invoices</u>	<u>Percent</u>	<u>Dollar value of invoices</u>	<u>Percent</u>
			(000 omitted)	
Within 30 days	<u>a/2127</u>	<u>69.7</u>	<u>\$26,422.9</u>	<u>82.4</u>
Over 30 days	<u>924</u>	<u>30.3</u>	<u>5,655.8</u>	<u>17.6</u>
Total	<u>3051</u>	<u>100.0</u>	<u>\$32,078.7</u>	<u>100.0</u>

a/Includes 263 invoices that were paid more than 30 days from date of invoice for reasons outside the control of Federal agencies

The invoices paid within 30 days were paid an average of 22 days after the invoice date. Late invoice payments (paid after 30 days) for which Federal agencies were responsible were made an average of 74 days after the invoice date.

In our analysis we considered a payment late if it was delayed beyond 30 days. As a matter of policy, however, this might not be appropriate. There may be circumstances in which it is desirable to allow a few days of leeway before classifying and recording a payment as late, or at least unacceptably late. Recognition of these circumstances would seem to be particularly appropriate if agencies were required to pay an interest charge for late payments.

Federal agencies should be able to meet the commercial standard

We see no compelling reason why the Government should not be expected to meet the commercial standard for most of its purchases. While Federal agencies generally cannot pay for goods or services not received, most of the invoices in our sample (69 percent) were dated after the delivery date--an average of 5 days later. Our data also shows that 97 percent of the goods and services were delivered or performed within 30 days of the invoice date.

In our opinion agencies should, in most cases, be able to process the necessary documents within 30 days. They did so for 61 percent of the invoices in our sample. Some payment centers did even better. Seventeen paid over 90 percent of the bills we sampled within 30 days of the invoice date.

We recognize, however, that a 30-day standard is not applicable for all payments. Some, such as contract financing payments (advance, progress, and cost-reimbursement payments), are expected to be paid much faster--within a very few days of request. Recurring payments, such as insurance premiums, rent, and lease payments often have fixed due dates (for example, end of the month). Also, a 30-day standard should not be applied when the contract or purchase order specifies a different period of time for payment. As a matter of interest, contract financing requests are paid a little faster than other payments and recurring payments are made considerably slower.

DELAYED PAYMENTS ARE COSTLY TO BOTH CONTRACTORS AND THE GOVERNMENT

Delayed payments harm the contractor's cash flow. Businessmen depend on being paid promptly to finance their operations and keep their cash requirements to a minimum. When Federal agencies delay in paying bills, contractors must provide the money from internal sources or through borrowing. Either case represents an added cost. While the amount involved may be small by Federal standards, it can be substantial to a contractor, particularly a small business.

Projecting our sample results to total Federal procurements, an estimated \$9.8 billion in Federal payments to contractors during the 6-month period covered by our sample was paid more than 30 days after the invoice date. Applying an

interest rate of 7-3/4 percent, 1/ we estimated that contractors may have incurred at least \$30 million in interest costs during the 6-month period to provide the money tied up in overdue bills.

Although we did not ask contractors to provide us estimates of costs they incurred to finance late Federal payments, we did ask them about the effect of late Federal payments on their firm's cash flow. Of the 915 that responded to this question, 2/ 482 (52 percent) said late Federal payments had little or no effect on their firm's cash flow and 88 (10 percent) said late payments had a substantial or very great effect.

In addition to cash flow problems, late payments may cause the company to spend additional time and effort in tracking down its unpaid invoices. Work caused by late Federal payments, such as telephone calls, resubmitting invoices, and followup procedures, was reported as a problem by about 70 percent of the firms in our survey. Only 14 percent said it was a substantial or very great problem. Again we did not ask these firms to estimate the cost of this additional work, and it was impractical to estimate it from our sample.

Delayed payments are also detrimental to the Government. They increase the administrative costs to follow up on overdue bills. They can also cause the Government to lose discounts. However, in our sample discounts were taken on 75 percent of the 547 invoices on which discounts were offered. Discounts not taken or lost amounted to only \$1,833 on 139 invoices, and some were not taken because they were too small (for example discounts of less than 50 cents).

We also found that some contractors stopped offering discounts. One hundred contractors reported that they no longer offered discounts to Federal agencies even though they did at one time. The principal reasons given for discontinuing discounts were that (1) offering them seldom made any difference in Federal payment performance and (2) too many discounts were taken after the discount period had expired.

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1/The interest rate used is an approximation of the average rate on new commercial 5-year loans for Jan. to June 1977.

2/Of the 950 contractors who filled out our questionnaire, 915 answered this particular question.

It is also possible that delayed payments may cause contractors to stop doing business with Federal agencies. We did not look into this in our study. However, a recent Department of Defense study 1/ reported that delays in making payments have contributed to the shrinking competitive base of the military-industrial establishment, which is causing both congressional and Defense concern.

REASONS PAYMENTS ARE DELAYED

To understand why payments are delayed it is necessary to know the general procedures payment centers follow in making payments. The centers determine that payment is due by matching essential documents that the contractors, Federal buying activities, and Federal user or receiving activities send. With some exceptions, this documentation consists of an invoice from the contractor, a contract or purchase order from the buying activity, and a receiving report from the receiving activity. After payment center staff have received all the necessary documents and assured themselves that payment is proper, the payment is authorized and made.

To find out why payments are delayed we examined each of the 924 cases in which delay seemed attributable to Federal agencies. (See the table on p. 8.) Our analysis disclosed that delays occurred throughout the payment process, 2/ as shown below.

Reasons for Delayed Payments  
(Caused By Federal Agencies)

<u>Reason</u>	<u>Number</u>	<u>Percent</u>
Delays in accepting goods/services	406	44
Delays at payment center	200	22
Delays by contracting officers	76	8
Other delays	<u>242</u>	<u>26</u>
Total Government delays	<u>924</u>	<u>100</u>

1/PXOFIT 76 Summary Report, Dec. 7, 1976.

2/Our evaluation was limited to information available at the payment centers. We did not review documentation or interview officials at agency contracting, requesting, or receiving and/or accepting activities.

## Receiving and accepting activities

By far the greatest single cause of delay--in 44 percent of the cases--involved tardiness of agency personnel in (1) formally acknowledging receipt or acceptance of the goods or services bought or (2) furnishing the required documentation of receipt and acceptance to the payment center. As will be described later, the process of acknowledging receipt and acceptance of goods and services and forwarding the documentation to the payment center is very time consuming.

## Payment centers

In about 22 percent of the cases, delays at the payment center seemed to be the major problem. This percentage may be somewhat misleading. In measuring payment performance from the date payment centers had received all the necessary documents, we noted that 39 percent of the invoices were not paid within 10 days. This is significant because most payment center officials felt they should be able to make payment within 10 days after receiving all the paperwork.

The major causes for delay cited by payment center personnel were excessive workload, absent personnel, and personnel changes.

## Contracting office

In about 8 percent of the cases the contracting office was the source of delay. This was most prevalent when contracts were modified. Contracting offices were not promptly forwarding contract or procurement modifications required for payment to the payment center.

## Miscellaneous

For 244 cases (26 percent) we were either unable to identify the cause or categorize it in any meaningful grouping. Key information, such as dates of receipt and acceptance, was missing. Some payment centers did not routinely time stamp all documents required for payment; hence there was no audit "trail" to see where delays occurred.

## THE REASONS FOR DELAY DIFFER DEPENDING ON PAYMENT CHARACTERISTICS

Analysis of the invoices paid 30 days after the invoice date showed that some payments were more likely to be delayed than others. The reasons differed depending on who made the payment, the process used, and the type of product or service involved.



### Causes of delay differ at military and civil agency payment centers

There are marked reasons for the differences in delayed payments between military and civil agencies. About 10 percent of military agencies' delayed payments were caused by the payment center, compared to about 28 percent for the civil agencies. This may be due to the fact that the military payment centers are more specialized, have separate vendor payment sections with larger staffs, and issue their own checks.

In contrast, about 57 percent of the military agencies' delayed payments were caused by the receiving/acceptance activity, compared to only 38 percent of the civil cases. This difference may be attributed to the fact that the military agencies purchase more supplies than the civil agencies.

### Invoices are paid faster where payment centers use automated procedures

Payment centers processed payments either manually or with an automated system. Only 15 percent of the invoices in our sample were paid under an automated system, but we found that payment was less likely to be delayed under such a system than when invoices were paid under a manual system. About 34 percent of the manual invoices were paid after 30 days, compared to only 11 percent of the automated invoices. Conversely, invoices were more often paid early when processed under automated systems than manual systems. (Early payments are further discussed on p. 24.)

### Certain types of goods and services are paid faster than others

Separating the products and services provided to Federal agencies into four major categories revealed that the primary cause of payment delay was the receiving activity in three of the four categories. The one exception was "equipment" in which the primary cause for delay was evenly divided among the contracting office (27 percent), receiving activity (25 percent), and miscellaneous causes (30 percent), as shown in the table on the following page.

Primary Reason For Delayed Payments

Activity causing the delay	Products and services							
	Building		Equipment		Supplies		Services	
	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent
Contracting office	-	-	42	27	14	5	20	4
Receiving activity	7	88	39	25	141	48	218	46
Payment center	1	12	18	12	43	15	138	30
Miscellaneous	-	-	46	30	12	4	48	10
Unknown	-	-	10	6	81	28	47	10
Total	<u>8</u>	<u>100</u>	<u>155</u>	<u>100</u>	<u>291</u>	<u>100</u>	<u>471</u>	<u>100</u>

Goods and services for which bills were paid on time more than 80 percent of the time were machinery, military equipment, chemical supplies, metal supplies, and maintenance work. Paid late most often were bills for telephone service (70 percent), office machines (64 percent), data processing equipment (64 percent), utilities (48 percent), petroleum supplies (47 percent), and data processing services (46 percent).

To attempt to determine why bills for certain types of goods and services were paid late more often than others, we classified the invoices for the goods and services according to whether they involved occasional or one-time procurements or whether they involved goods and services provided on a regular or recurring basis. To illustrate, we classified purchased building and equipment items along with supplies and transportation as occasional or one-time procurements. Leased building and equipment items along with payments for service such as utilities and telephones were categorized as recurring procurements.

As shown in the table on the following page, invoices involving recurring procurements were nearly twice as likely to be paid late as those involving occasional or one-time procurements.

Comparison of Payment Performance  
for One-Time and Recurring Payments

	On time				Late			
	Num- ber	Per- cent	Amount	Per- cent	Num- ber	Per- cent	Amount	Per- cent
	(000 omitted)				(000 omitted)			
Occasional or one-time payments	1,834	73.6	\$24,004.0	83.2	658	26.4	\$4,861.9	16.8
Recurring payments	276	51.2	848.7	58.5	263	48.8	602.6	41.5

Note: Fewer payments are shown here than in the table on page 8 because 20 were difficult to classify.

The disparity in timeliness of payments, shown above, between occasional and recurring procurements is quite the opposite of what one might have expected to find. The process of receipt and acceptance for recurring procurements might have been expected to be somewhat routine and less time consuming than that for occasional payments. For some types of recurring procurements, such as those for building space we found this to be the case. However, for others, such as utilities, telephone services, and the rental of data processing equipment and office machines, this was not the case. There are usually several people involved in certifying the accuracy of the charges for this kind of payment. We believe that this certification process may explain why they are late more often than invoices for occasional or one-time procurements.

For example, an invoice for telephone service may have to be sent to various organizational units in an agency and probably to individual users in each unit to verify that the calls were for official business. Because of this verification or certification process and the fact that an invoice cannot be paid until all charges have been certified as being correct, many invoices which require this type of certification of the charges are paid late.

The difficulty involved in paying such bills promptly is illustrated by the lack of success one payment center has had in trying to pay telephone bills on time. This particular center pays vendor bills for a 12-state region. Although the center has tried two different approaches in an attempt to pay telephone bills on time, neither has worked. Originally the telephone bills were sent to the "user" offices where the telephones were installed. The local officials would certify the bill as correct and forward it to the center for payment. After receiving numerous late payment complaints from the telephone companies, the center changed the payment procedure by having the companies send the bills directly to the center,

which in turn contacts the "user" offices to certify the bills for payment. Payments are still paid late because the users don't promptly report back to the payment center.

### Examples of delayed payments

The following cases illustrate not only how a payment can be delayed, but who is involved in causing it.

On April 29, 1975, a military installation purchased medical supplies costing \$1,152 for use at the base hospital. The supplies were delivered and accepted on May 8. The payment center received a copy of the purchase order on May 13, but it did not get a copy of the receiving report until June 23, 46 days after the supplies were accepted. On August 21 the center sent a letter to the contractor requesting a copy of the invoice. On November 26, 3 months later, two invoices totaling \$1,152 arrived with a letter from the contractor stating the invoices had been erroneously submitted under a different purchase order. Twelve days later on December 8, the payment center requested that the contractor send a copy of the prepaid shipping bill, a document that is not required to pay for the supplies themselves. Payment was made on April 12, 1976, 5 months after receiving the invoice.

In summary,

--the contractor delayed forwarding the invoice for 203 and 173 days, respectively;

--the receiving activity took 46 days to forward the receiving report to the payment center; and

--the payment center delayed making the payment for the goods for 138 days while waiting for the prepaid shipping bill, even though all the documents necessary to support the payment for the goods themselves had been available since November.

In another case, a computer leasing firm was paid \$924 on March 5, 1976, for 11 invoices, each of which represented a monthly fee of \$84. The payment for these invoices ranged from 278 to 613 days after the dates of the invoices. According to the payment center chief, the invoices were received at the payment center regularly each month but they could not be paid because the center had not received a copy of the current lease agreements. The chief said,

"we kept asking the contracting officer for copies of the agreements, but it was several months before we got them, and apparently the user activities did not pressure the contracting office into renewing the lease agreements on a timely basis."

The chief added that this situation had improved considerably since March 5, the date of the payment selected for review.

In another case a civil agency awarded an \$89,161 cost contract to a management consulting firm on June 29, 1974, for a 1-year study of the benefits of alternative information and referral services for the aged. The final payment of \$6,315 was made 8 months after the date of the invoice because it lacked a required approval. The invoice was dated July 1, 1975, and was approved by the project officer on July 30, 1975. However, because the claim was for the final payment, the administrative contracting officer was also required to approve it. The approval was not received until April 2, 1976. The invoice was paid 10 days later.

#### CONTRACTORS WERE GENERALLY SATISFIED WITH THE GOVERNMENT'S PERFORMANCE

To obtain contractor opinions and perceptions of the Government's performance as a bill payer, we sent a questionnaire to Federal contractors. First and probably foremost, the large majority of firms seemed generally satisfied with the timeliness of Federal payments, as indicated below.

<u>Level of satisfaction</u>	<u>Percent of firms responding</u>
Very satisfied	40
Moderately satisfied	33
Equally satisfied as not	11
Moderately dissatisfied	12
Very dissatisfied	4

About 73 percent of the firms participating in our survey expressed a moderate to high degree of satisfaction with Federal agency payment performance. About 16 percent, however, expressed dissatisfaction. Thus, although the overall results of the survey are encouraging, there are clearly a sizable number of contractors who believe they have not been paid promptly enough.

To get some idea of how the Federal Government compared with others in paying its bills, we asked the companies whether

commercial firms and State and local governments paid faster or slower than the Federal Government. Fifty-seven percent indicated that commercial firms paid at the same rate or slower than the Federal Government, and 84 percent indicated that State and local government agencies were about the same or slower than Federal agencies.

Characteristics of respondents

Contractors' level of satisfaction with Federal payment performance closely paralleled their actual payment experience. The dissatisfied firms reported that 82 percent of their payments were received more than 30 days after the invoice date, with a large percentage (45 percent) paid 61 or more days after the date of invoice. Even the satisfied firms reported 41 percent of their payments were received after the same 30-day period. But only 6 percent of their payments took 60 or more days. Details are shown in the chart below, which summarizes the payment performance reported by firms in our survey according to their level of satisfaction.

<u>Level of satisfaction</u>	<u>Average percent of payments firms reported receiving within specified times from their invoice date</u>			
	<u>Within 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>Over 90 days</u>
Satisfied (624 firms)	59%	35%	5%	1%
Equally satisfied as not (89 firms)	29%	48%	15%	8%
Dissatisfied (129 firms)	18%	37%	24%	21%

In analyzing the firms we found that satisfied firms tended to

- be small and medium sized (sales of under \$50 million),
- have received many of their Federal payments on time, and
- have dealt with few Federal agencies, infrequently, and for a short time.

Dissatisfied firms tended to

- be large (those with annual sales over \$50 million),
- have received many Federal payments late,
- have experienced many administrative and cash flow problems due to delayed Federal payments, and
- have dealt with many Federal agencies, frequently, and for many years.

We were somewhat surprised that firms that dealt with Federal agencies for long periods would be so dissatisfied with the Government's payment performance. We anticipated that the longer a firm dealt with the Government the more familiar it would become with the Government's procedures and, tend to be more satisfied. But the longer a firm deals with the Government, the greater the likelihood that it will be dissatisfied. For example, firms dealing with the Government for over 20 years were almost twice as likely to be dissatisfied as were firms dealing with the Government for less than 2 years.

PARTICIPATION IN SMALL BUSINESS  
ADMINISTRATION PROGRAMS HELPS SMALL  
BUSINESSES GET PAID FASTER

One of the reasons this study was undertaken was because of numerous complaints by small businesses that they had difficulty getting paid on time by the Federal agencies they dealt with. To test this we asked contractors if they participated in the Small Business Administration's "set-aside" program and the "8a" minority business program and if this helped them get paid faster. 1/

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1/The Small Business Administration set-aside program is designed to assist small business participation in the Federal Government's procurements by encouraging Federal purchasing offices to set aside all or portions of certain of the Government's procurments for award only to small business firms. The SBA's minority business program is designed to provide Government contracting opportunities to minority businesses unable or unlikely to get a chance to bid on competitive contracts.

The majority of the participating firms said that involvement in SBA programs did not help them get paid faster. However, based on their response to a more detailed question, they actually were paid faster than firms that did not participate. Those participating said that 60 percent of their Federal payments were received within 30 days of the invoice date; those that did not participate in such programs reported that only 47 percent of their payments were received within 30 days.

#### PROCEDURES EXIST TO EXPEDITE PAYMENTS

The requirement for agencies to have evidence that goods and services are received and accepted before paying bills is a major factor contributing to payment delays. Agencies have a hard time getting the necessary receiving reports approved and sent to the payment centers in a timely manner.

#### Defense has special fast payment procedures

To mitigate this requirement and thus expedite payments to vendors, the Department of Defense added the "fast payment" procedure to the Armed Services Procurement Regulation in 1965. The procedure, which applies to purchases of supplies costing \$10,000 or less, essentially enables a Defense payment center to pay vendors on the basis of an invoice which certifies that the supplies have been shipped and that the Government has the right of redress for any discrepancies. Payment centers do not need a receiving report or evidence of acceptance to make payment.

The Federal Procurement Regulation does not have a comparable fast payment procedure. However, we have given certain civil agencies approval to use comparable procedures to expedite payments.

Our data indicates that few eligible invoices were paid using fast payment procedures. Additionally, even when the procedures were ostensibly used, our analysis showed that payment performance was not much faster. One problem seems to be that the payment centers were not truly following the procedures. They still often waited for a receiving report before making payment.

Although we did not fully document it, it is also possible that neither the contractors nor payment centers have found the procedures advantageous enough to offset the administrative problems involved in having a separate invoice and payment system for purchases eligible for fast payment.



Although Defense's fast payment procedures are little used, a lot of purchases qualify. According to our statistics, roughly 92 percent of Federal invoices are for less than \$10,000. This includes services. However, we believe it would be practical to apply these or other simplified procedures to payments for services, as well as supplies. It should be particularly effective for recurring services, such as utilities, telephone service, data processing services, building and equipment leases, and custodial service, where errors can be adjusted in the next bill. As stated on page 15, invoices involving recurring payments such as these were nearly twice as likely to be paid late as those involving occasional or one-time procurements.

Agencies using fast pay procedures must make sure they receive what they pay for and that they don't pay too quickly

Fast payment and similar procedures aimed at accelerating payments can, we believe, help agencies pay bills on time. It is essential, however, that agencies using such payment procedures have adequate internal controls to make sure they get what they pay for. Agencies must keep records to assure themselves that what is paid for is received in the proper quantity and condition.

It is also important that payments not be made too quickly. In the interest of cash management, invoices should be paid when due or as close to the due date as practicable. This is further discussed on page 24.

Payments can be expedited by using imprest funds to pay on delivery

Another technique for expediting payment is the imprest fund. 1/ Imprest funds can be used to make immediate

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1/A cash fund of a fixed amount entrusted to a cashier. Under current regulations, the use of imprest funds is limited to payments for purchases of supplies and nonpersonal services when (1) the transaction is not in excess of \$150 (\$300 in an emergency), (2) the supplies or services are available within 30 days, and (3) technical specifications or inspections are not required.

payments when supplies and services are received. The use of such funds is limited by regulation to transactions of up to \$150 (\$300 in an emergency).

As shown in the table below, a large percentage of the invoices in our sample (49 percent) are within the \$150 limit for imprest funds. The table also shows that small dollar invoices are paid late more often than large dollar invoices.

Timeliness of Payments by Size

<u>Size</u>	<u>Observations</u>				<u>Paid late</u>	
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
(000 omitted)						
\$150 or less	1,488	48.8	\$ 79	.3	506	34.0
\$151 to \$300	364	11.9	78	.2	113	31.0
\$301 to \$10,000	956	31.3	1,954	6.1	255	26.7
Over \$10,000	<u>243</u>	<u>8.0</u>	<u>29,968</u>	<u>93.4</u>	<u>50</u>	20.6
Total	<u>3,051</u>	<u>100.0</u>	<u>\$32,079</u>	<u>100.0</u>	<u>924</u>	30.3

Because of their number, small dollar invoices consume significant resources at the payment centers. By increasing the use of imprest funds to pay on delivery, agencies could reduce paperwork and save considerable administrative effort that otherwise would be expended by payment center personnel to process such a large number of invoices.

The following is a case history involving a group of small dollar invoices which could have been paid from an imprest fund.

On June 24, 1976, a military installation paid a commercial laundry \$41.11 for nine invoices ranging from \$2.92 to \$6.19 each. Three of these invoices had remained unpaid for more than 300 days, while the other six remained unpaid for 43 to 183 days. The reason the invoices were not paid was that the receiving activity had not accepted the invoices until June 16, 1976. Eight days later the check was issued.

Based on our sample, we estimate that invoices which fall within the \$150 limitation of imprest funds represent over 11.3 million invoices and \$620 million. We believe many of these invoices could be paid from imprest funds-- to the mutual benefit of the contractors and the Government.

#### GUIDANCE IS ALSO LACKING REGARDING EARLY PAYMENTS

Although much of our effort was spent evaluating the effect late payments have on the Government and its contractors, we also evaluated the effect of early payments. When agencies pay their bills too early it affects the Government's cash management practices.

Cash management involves keeping to a minimum the amount of cash the Government needs on hand to pay its bills. One way of doing this is to reduce the gaps between collection of receivables and payment of bills. In accordance with cash management principles, Federal agencies could reduce borrowing and the resultant interest cost if they could collect their receivables faster and delay paying their bills as long as possible without being late.

#### Cash management can reduce the Government's cash balance

The Federal agency most concerned with cash management is the Department of the Treasury. It is responsible for keeping a close watch on Government-wide cash balances. Consistent with its responsibility and concern, Treasury recently instructed Federal agencies to adopt cash management practices that will maximize the amount of cash available and preclude unnecessary borrowing. 1/ With regard to disbursements, the Treasury regulation specifies:

"An agency's payment system shall be designed so that payment is made by the due date specified on the invoice provided that the related goods or services have been received. If no due date is specified, payment shall be made within a

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1/Treasury Department Circular No. 1084, 1976, "Regulations Governing Cash Management Practices Within the Federal Government."

reasonable period of time after receipt of the invoice or the related goods or services, which ever is later."

#### FINDING A CRITERION FOR DETERMINING HOW MANY BILLS ARE PAID EARLY

According to Treasury's regulation, payments are due within the days (from the invoice date) specified by the contractor on the invoice. While the regulation does not say payments are to be delayed until due, it is nonetheless a fundamental principle of good cash management that bills be paid when due and only when due. Strictly applied, a bill due on the 30th day would be classified as being paid early if paid on the 29th day.

We believe agencies should try to pay their bills as close to the due date as possible, making sure bills are not paid late. However, it may not be appropriate in all cases to delay payments until the last day. A few days of leeway may need to be allowed before classifying and recording a payment as early or late. Thus, in measuring early payments, we have shown in 5-day periods the number of invoices in our sample that were paid before the due date. (See the table on p. 25.)

For our analysis we used the due date (the number of days allowed for the payment from the date of invoice) specified by the contractor on the invoice as prescribed by Treasury's regulation. As a matter of policy, however, we believe the Government should have standards agencies could use to determine when payment is due.

#### MANY BILLS ARE PAID EARLY

To get a picture of how early agencies are paying bills, we analyzed the number of days invoices in our sample were paid before the invoice due date. (As discussed in the next section, we excluded from early payments invoices for which discounts were taken and contract financing requests.) As shown in the table on the following page, 45 percent of the invoices were, by strict definition, paid early. Nineteen percent were paid more than 15 days before they were due.

Invoices Paid Before  
The Invoice Due Date

<u>Days paid before due (note b)</u>	<u>Invoices paid (note a)</u>			
	<u>Number</u>	<u>Percent (note c)</u>	<u>Amount</u>	<u>Percent (note c)</u>
			(000 omitted)	
More than 15	569	19	\$5,875	18
15 to 11	265	9	787	2
10 to 6	260	9	1,295	4
5 to 1	<u>245</u>	<u>8</u>	<u>335</u>	<u>1</u>
Totals	<u>1,339</u>	<u>45</u>	<u>\$8,292</u>	<u>25</u>

a/Excludes 597 invoices totaling \$21,805,057 in which discounts were taken and contract financing requests. Because of this and the fact that our computations for this table are based on contractor due dates rather than the invoice date, a strict comparison of the percentage figures in this table cannot be made to the figures in other tables.

b/Invoices without due dates were treated as being due 30 days from the date of invoice.

c/These percentages were computed using 3,049 invoices totaling \$32,079,010.

Certain types of payments are not subject to normal cash management practices

Cash management practices should not be automatically applied to all payments. The practice should not, for example, be automatically applied to invoices involving discounts because consideration must be given to see if it is worthwhile to pay early in order to take the discount. Nor should it be applied to contract financing payments which are due on request. If the contractor submits his request at the proper time, his payment should be made as quickly as possible. 1/ Accordingly,

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1/We are currently making a study at Defense on how the timing of contract financing payments affects the working capital of contractors.

(as can be seen from the footnotes in the table on the previous page) we did not classify as being paid early any payments for which discounts were taken or any contract financing payments.

Small dollar invoices (those under \$150) should possibly be excluded from cash management requirements too. (We included them in our analysis, however.) As previously discussed, we believe agencies should pay many small dollar invoices on delivery. Since the total dollar value of such invoices is relatively small, the interest cost incurred by early payment would be minimal.

#### PAYING BILLS EARLY COSTS INTEREST AND LOSES DISCOUNTS

The Treasury, for a number of reasons, must borrow money to meet many of the Government's obligations. Thus, when agencies pay bills long before they are due, the Government's cash is depleted and the Treasury incurs unnecessary interest cost to borrow money.

Had payment for the 569 sample invoices paid more than 15 days early been delayed until 15 days before the due date, approximately \$6,690 in interest for the 6 months covered may have been avoided. If one applies a strict interpretation of the Treasury regulation and thus considers that payment should not be made even 1 day prior to the due date, approximately \$62,462 in interest may have been saved on the 1,339 invoices paid prior to the due date. 1/

Projecting these results to total Government-wide procurements we estimate that at least \$12 million in interest could have been avoided during the 6-month period covered by our sample if none of the early payments had been made more than 15 days prior to the due date. At least \$118 million may have been avoided for the 6 months if all early payments had been made exactly on the due date. 1/

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1/An interest rate of 4.72 percent was used to approximate the interest rate for 3-month Government securities for the 6-month period ended June 30, 1977. Projections were made at the 90-percent confidence level.

In addition to interest costs, the practice of paying bills early has caused contractors to discontinue offering discounts. Of 100 contractors responding to our questionnaire that had at one time offered discounts but no longer did so, 10 reported that they discontinued offering discounts because they believed that Federal agencies pay fast enough.

#### Reason payments are made early

Early payments resulted from agencies' practice of paying bills as soon as possible once the necessary documents for payment are received and processed. Fifty-five of the 58 payment centers we visited processed invoices in this way. Only three held invoices and scheduled them for payment according to due dates. However, the centers established the due dates.

There are a number of reasons why agencies pay bills as soon as they have the necessary documents. One reason they do so is to maintain the goodwill of contractors. They hope this will result in lower prices and encourage more contractors to do business with the Government.

#### CONCLUSIONS

Although the Government's bill-paying performance is more often good than bad, lengthy delays do occur and many contractors believe they are not paid fast enough. Despite this, however, nearly 75 percent of the contractors that responded to our questionnaire were satisfied with the Government's performance.

The reasons for payment delays can usually be traced to lapses in agency receiving and acceptance procedures or contractor delays, but the lack of a consistent Federal policy defining when a payment is due permeates the entire payment process. Federal policy states that payment should be made promptly when due. However, there is no definition of when a payment is due.

Improving Federal payment performance will require changes in Federal procurement policy and in the payment procedures and practices, including establishing due dates for all payments, increasing the use of fast payment procedures and imprest funds, and scheduling bills for payment according to the due dates.

Because there appears to be no consistency among Federal agencies, and opinions vary on what constitutes a due date, Federal payment policy should be clarified. As stated earlier we see no compelling reason why most Federal invoices cannot be paid within 30 days of the vendor's invoice date, provided that contractors perform according to the contract terms and provide a correct invoice promptly to the right payment center.

Regardless of how a due date--and consequently, a standard for timeliness--is judged on an overall basis, it is clear that one rule will not fit all situations. The variety of goods and services being purchased by Federal agencies is so wide and the arrangements for making payments are so varied that it is difficult to establish a single standard that could be equitably applied in each case. Specific deviations from the generally accepted rule would need to be worked out. Exception categories which will need to be considered are advance payments; recurring payments that have a fixed due date; and payment for goods or services whose testing and acceptance are essential to protect the Government's interest.

To resolve this problem we believe agencies should, whenever possible, include payment terms in each purchase order and contract. The terms should specify the starting point for determining when payment is due (for example, the invoice date) and the number of days allowed for payment (for example, 15 days, 30 days, etc.). Inclusion of payment terms as a standard provision would give both the contractor and the Government an opportunity to agree on terms that would be mutually satisfactory considering the circumstances in each case. Additionally, the Office of Federal Procurement Policy should establish payment term standards for the major types of procurements. Agencies could use these standards as guides to decide on the payment terms to be included in purchase orders and contracts, and to compute due dates where they can't be included.

The practice of paying bills before they are due projects a favorable image of the Government as a bill payer, but it is contrary to sound cash management principles. Money is not a free resource. Thus, in formulating Federal payment policies the cost of borrowing must be considered along with promoting good vendor relations and the advantage of taking discounts.

We agree with the principle that payments should be made when due. However, as a matter of Federal policy, it may not be appropriate to consider as early payments made 1 day before the due date and to consider as late those made 1 day after



the due date. The Office of Management and Budget and Treasury need to determine if a few days of leeway should be allowed in paying bills, considering the need to keep Federal borrowing and resultant interest costs to a minimum and yet preclude undue payment delays.

Bills have been introduced in both the 94th and 95th Congresses that would establish a requirement for agencies to pay an interest charge on payments that are made late. This requirement is intended to compensate contractors and to motivate Federal agencies to pay bills on time.

The Office of Federal Procurement Policy has opposed such legislation. The Administrator of that Office has stated that legislation is not necessary because his Office has authority to require a clause for paying an interest charge to be included in contracts and purchase orders. He has not done so, however, because of the difficulties his Office foresees in implementing such a charge and the administrative burden it would impose.

We believe that if our recommendations for speeding up payments are carried out, relatively few contractors would be paid late. Thus, an interest charge might not be needed. However, if the changes we are recommending are not made and some contractors--through no fault of their own--continue to experience long delays in receiving payment, then the merits of imposing an interest charge should be reconsidered along with other alternatives.

As mentioned in chapter 1, the President directed his reorganization staff to review the Federal Government's cash management policies, practices, and organization. We believe the results of our report are directly relevant and can be used by the study team to reduce the work it must do. We have offered to make the statistical data on our invoice sample available to the President's cash management study team.

## RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, in concert with the Department of the Treasury and Defense and the General Services Administration:

- Require Federal agencies, when it is practical, to include payment terms in each contract and purchase order. Payment terms would include both the starting point for computing the due date (for example, date of invoice) and the number of days allowed for payment.

- Develop due date standards for the major types of goods and services for agencies to use in determining the payment terms to be included in contracts and purchase orders, and in computing due dates when they are not included.
- Explore the extended use, by both civil and military agencies--when the Government's interest can be adequately protected--of procedures for paying bills without a receiving report.
- Authorize the use of simplified procedures for certifying and paying invoices for recurring services (such as utilities, data processing time sharing, and building and equipment rent) when adjustments can be made in the next bill.
- Evaluate the desirability of increasing the use of imprest funds to pay small bills on delivery.
- Direct the heads of Federal departments and agencies to make sure their payment centers have procedures requiring bills to be scheduled for payment in accordance with the due dates, or the discount date.
- Decide how close to the due date agencies should schedule bills for payment to make sure bills are not paid late and yet keep Federal borrowing and the resultant interest costs to a minimum.
- Continue to monitor payment performance, making sure agencies are adopting procedures to pay bills on time and evaluating the need for further improvements.

#### AGENCY COMMENTS

In commenting on our report, the Administrator, Office of Federal Procurement Policy, Office of Management and Budget, stated, "We agree essentially with the GAO recommendations and plan to proceed with their implementation." The Administrator's comments are included as appendix II.

PAYMENTS MADE MORE THAN 30 DAYS AFTER INVOICE DATE

<u>Federal department or agency (note b)</u>	<u>Number of agency centers visited</u>	<u>Number of invoices reviewed</u>	<u>Invoices paid more than 30 days after invoice date (note a)</u>			
			<u>Number</u>	<u>Percent</u>	<u>Dollar value</u>	<u>Percent</u>
					(000 omitted)	
Postal Service	1	50	-	-	\$ -	-
Justice	1	46	3	6.5	0.2	1.4
Agriculture	5	210	14	6.9	4.4	6.1
Agency for Interna- tional Development	1	35	3	8.8	34.2	7.3
Navy	5	379	37	10.5	56.3	0.6
Defense Logistics Agency	3	178	27	15.6	312.1	24.8
Veterans Admin.	5	224	34	20.0	3.0	4.3
Air Force	10	569	117	21.5	110.8	1.9
Energy	3	153	31	21.5	560.5	10.6
Commerce	2	72	15	23.1	1,293.9	70.5
Interior	1	61	17	30.4	31.9	43.6
Labor	1	59	18	30.5	5.1	19.8
Environmental Pro- tection Agency	3	136	42	33.1	1,934.2	35.8
Housing and Urban Development	1	42	13	33.3	3.5	36.8
Army	7	382	127	34.9	144.5	15.9
National Aeronautics and Space Admin.	1	94	46	59.0	40.5	5.8
Transportation	3	199	124	62.6	110.0	74.4
Health, Education, and Welfare	1	66	43	69.4	301.6	75.0
Civil Service Com- mission	1	56	39	69.6	24.6	33.6
District of Columbia Government	1	84	57	71.1	21.5	60.1
General Services Admin.	2	168	117	73.6	663.0	56.3
Overall figures	<u>58</u>	<u>3,263</u>	<u>924</u>	30.3	<u>\$5,655.8</u>	17.6

a/The invoices shown in this appendix as not having been paid within 30 days of invoice date do not include cases in which we were able to identify a reason why payment should not have been expected within 30 days.

b/Although this data indicates how quickly the payment centers paid the bills in our sample, it is not representative of an agency's performance and should not be used to compare payment performance among the agencies. To get a valid indication of each agency's payment performance would require going to a representative number of payment centers for each agency and examining many more invoices. To estimate Government-wide performance as we did it was possible to consider all Federal payment centers as a universe and select a smaller number at which to examine invoices.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL  
PROCUREMENT POLICY

JAN 12 1978

Mr. D. L. Scantlebury  
Director, Financial and General  
Management Studies Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Scantlebury:

We appreciate the opportunity to review your draft report entitled, "The Federal Government's Bill Payment Performance Is Good - But Could Be Better," forwarded by your letter of December 16, 1977.

We agree essentially with the GAO recommendations and plan to proceed with their implementation.

The recommendations coincide closely with initiatives announced recently by the President for improving Federal Government cash management. We agree with the report's theme that the Government should pay its bills on time, neither too late nor too early. We will continue to work with Treasury in developing the detailed procedures necessary to implement such a policy. We would appreciate the continued involvement of your staff, either directly or through the Joint Financial Management Improvement Program.

We will keep you informed of our efforts as we move into specific areas recommended by the GAO. This confirms discussions with your staff on January 9, 1978.

Sincerely,

A handwritten signature in black ink, appearing to read "Lester A. Fettig".

Lester A. Fettig  
Administrator

ANALYSIS OF CONTRACTOR RESPONSES  
TO OUR QUESTIONNAIRE

As part of our review of Federal payments we surveyed a sample of firms doing business with the Federal Government. Our purpose was to obtain their opinions and attitudes on the timeliness of Federal payments and to ascertain the extent to which such payments are received late. The survey was also designed to ascertain some of the characteristics of the firms conducting business with the Federal Government and through an analysis of this data determine whether certain types of companies experienced more "late payment" problems than others.

The survey was conducted with the use of a questionnaire that was mailed out in the summer of 1976 to 1,169 companies randomly selected from a list of about 67,860 firms doing business with the Federal Government. This list of all firms that dealt with the Federal Government within the last 5 years was obtained from the Defense Logistics Services Center. Completed questionnaires were received from 950 companies for an effective response rate of 81.3 percent.

The contractor responses are summarized on the following pages. In each case a breakdown of the responses to each question is shown. In addition, several analyses and correlations of some responses are presented.

RESPONSES TO QUESTIONS  
ASKED ON THE QUESTIONNAIRE

1. How many years has your firm done business with the U.S. Government?

<u>Years</u>	<u>Firms</u>	<u>Percent</u>
Less than 2 years	42	4%
2-5 years	128	14
6-10 years	160	17
11-20 years	220	23
Over 20 years	392	42
No response	<u>8</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

2. Approximately how many full time employees were on your firm's payroll as of December 31, 1975?

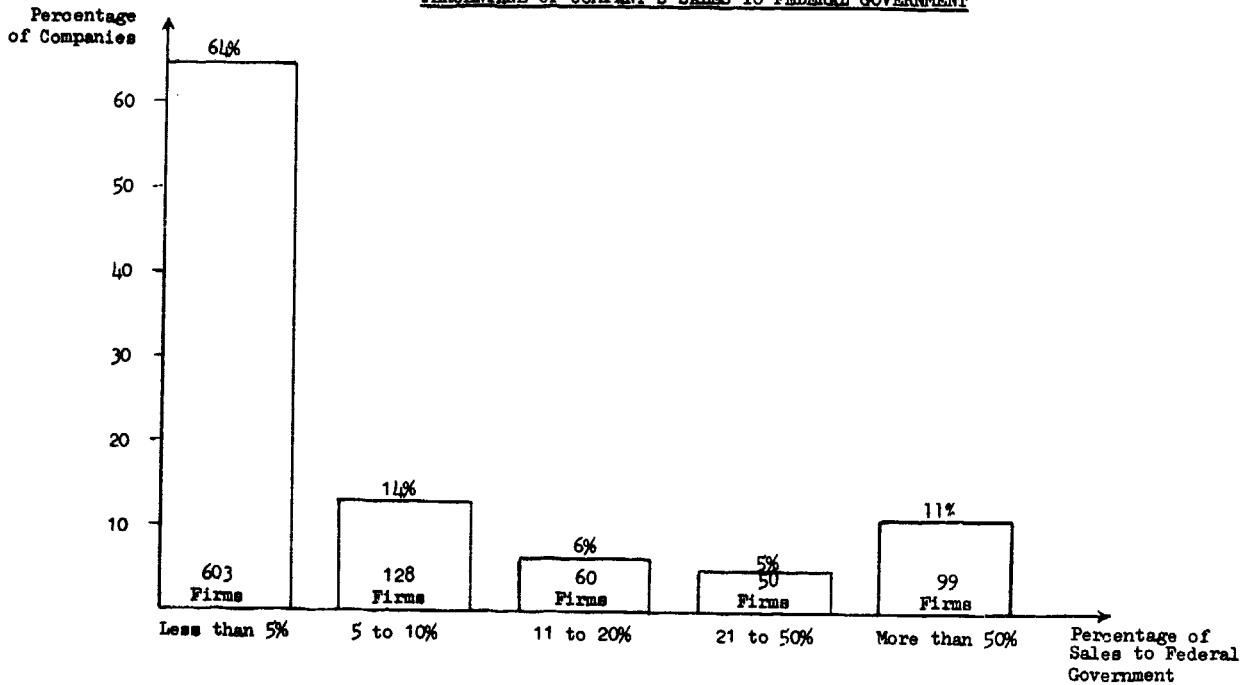
<u>Employees</u>	<u>Firms</u>	<u>Percent</u>
Less than 10	189	20%
11 - 50	288	30
51 - 100	112	12
101 - 500	171	18
501 - 1000	56	6
1001 - 10,000	86	9
Over 10,000	45	5
No response	<u>3</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

3. What was your firm's/division's total sales volume for its latest fiscal year?

<u>Sales</u>	<u>Firms</u>	<u>Percent</u>
Less than \$500,000	230	24%
\$500,000 to less than \$1 million	112	12
\$1 million to less than \$5 million	266	28
\$5 million to less than \$50 million	223	24
\$50 million to less than \$100 million	22	2
Over \$100 million	92	10
No response	<u>5</u>	<u>-</u>
	<u>950</u>	<u>100%</u>

4. Approximately what percent of your company's sales during your latest fiscal year were to the Federal Government?

PERCENTAGE OF COMPANY'S SALES TO FEDERAL GOVERNMENT



5. What categories best describe your firm's products and/or services?

<u>Category</u>	<u>Firmsa/</u>
Equipment	450
Supplies	529
Services	286
Building/construction	158

a/Some firms dealt in more than one of the product or service categories, thus the total is more than 950 firms.

6. What is the estimated percentage of Federal contracts/purchase orders awarded to your firm by type (888 firms responded)?

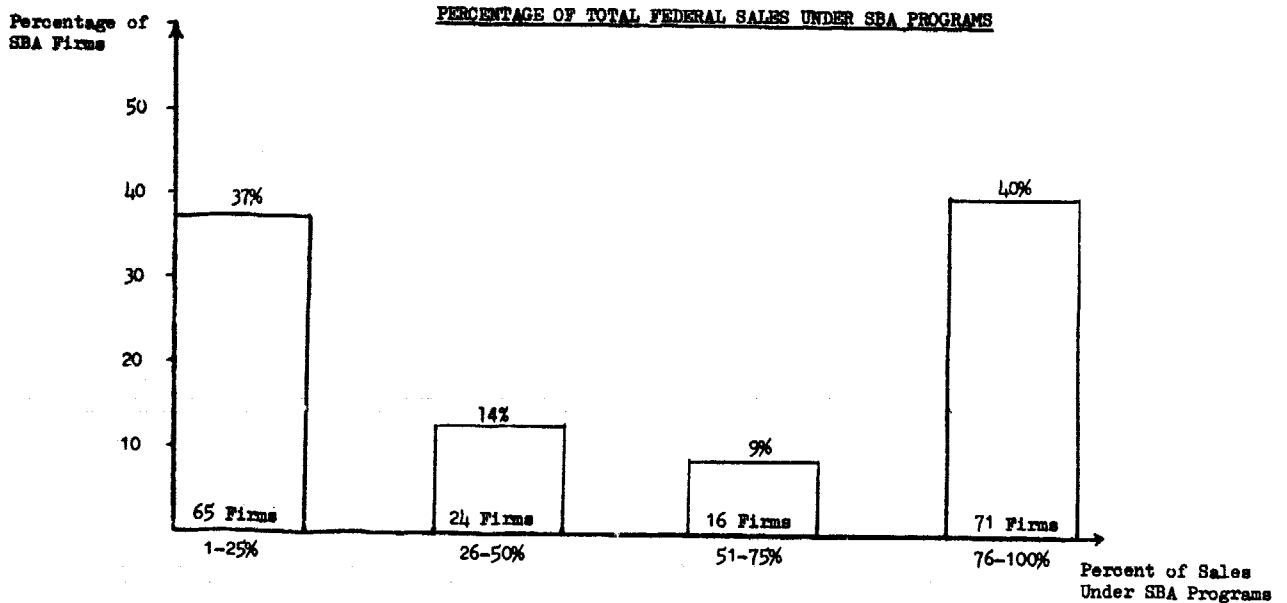
<u>Type of contract/ purchase order</u>	<u>Percent of Contracts and Purchase Ordersa/</u>
Fixed price	89 %
Cost reimbursable	7
Other	<u>4</u>
	<u>100%</u>

a/This is a composite percentage for the 888 firms responding.

7. What percentage of your firm's total Federal sales involve the Small Business Administration's "set aside" program and/or "8a" minority business program?

Of the 853 firms responding to this question, 404 (47 percent) said they were not a small business and were not eligible; 273 (32 percent) indicated they were eligible but did not participate; and 176 (21 percent) said they participated. The following chart shows the percentage of Federal sales made by the 176 companies under the SBA programs.





8. Are Federal payments under the Small Business Administration's "set aside" or "8a" programs made faster or slower than other Federal payments?

	<u>Firms</u>
Faster payments when SBA is involved	10
Slower payments when SBA is involved	6
No difference	93
No basis to judge--all Federal work is done under SBA programs	<u>67</u>
Total	<u>176a/</u>

a/Number of firms reporting "set aside" and "8a" program payments.

9. Does your firm offer discounts to Federal agencies?

	<u>Firms</u>	<u>Percent</u>
Yes	400	43%
No	537	57
No response	<u>13</u>	<u>-</u>
	<u>950</u>	<u>100%</u>

10. How often have Federal agencies taken discounts offered by your firm?

<u>Frequency</u>	<u>Firms</u>	<u>Percent</u>
Rarely, if ever (5% or less)	59	15%
Occasionally (about 25%)	32	8
As often as not (about 50%)	43	11
Frequently (about 75%)	45	11
Very often (95% or more)	215	55
No response	<u>6</u>	<u>-</u>
Total	<u>400a/</u>	<u>100%</u>

a/Total firms reporting that they offer discounts to Federal agencies (see question 9).

11. How often have Federal agencies taken discounts after the discount period has expired?

<u>Frequency</u>	<u>Firms</u>	<u>Percent</u>
Rarely	172	43%
Occasionally	97	24
As often as not	30	8
Frequently	43	11
Very often	57	14
No response	<u>1</u>	<u>-</u>
Total	<u>400a/</u>	<u>100%</u>

a/Total firms reporting that they offer discounts to Federal agencies (see question 9).

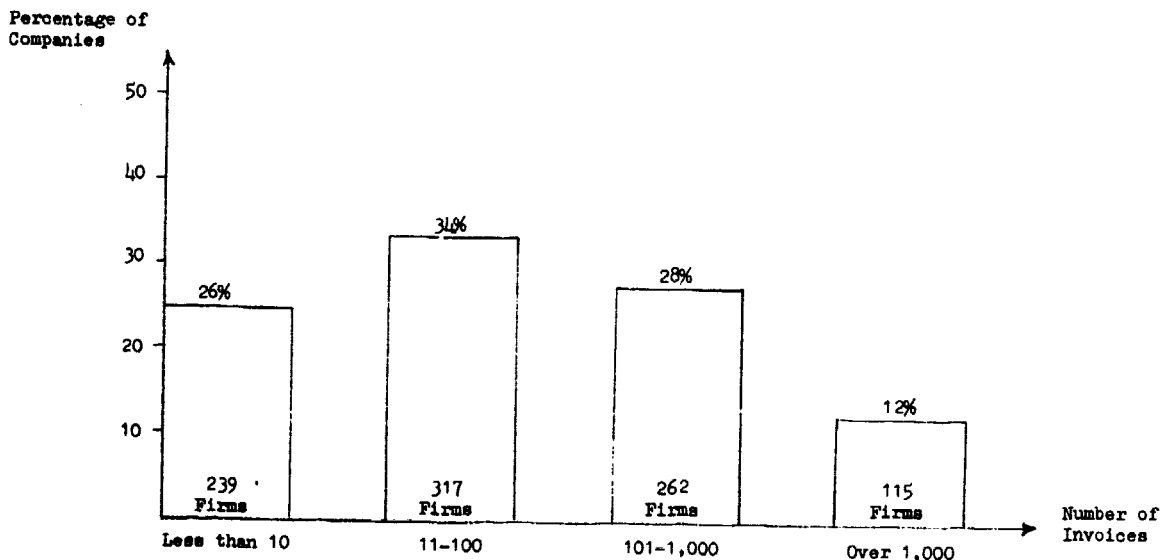
12. Give the reason why your firm does not offer discounts, although it did at one time.

<u>Reason Discount Not Offered</u>	<u>Firms</u>	<u>Percent</u>
Not applicable: Never offered discount	437	81%
No longer necessary--Federal agencies pay fast enough without discounts	10	2
Offering discounts seldom made any difference in payment performance	42	8
Too many discounts taken after discount period expired	36	7
Other	<u>12</u>	<u>2</u>
Total	<u>537<sup>a/</sup></u>	<u>100 %</u>

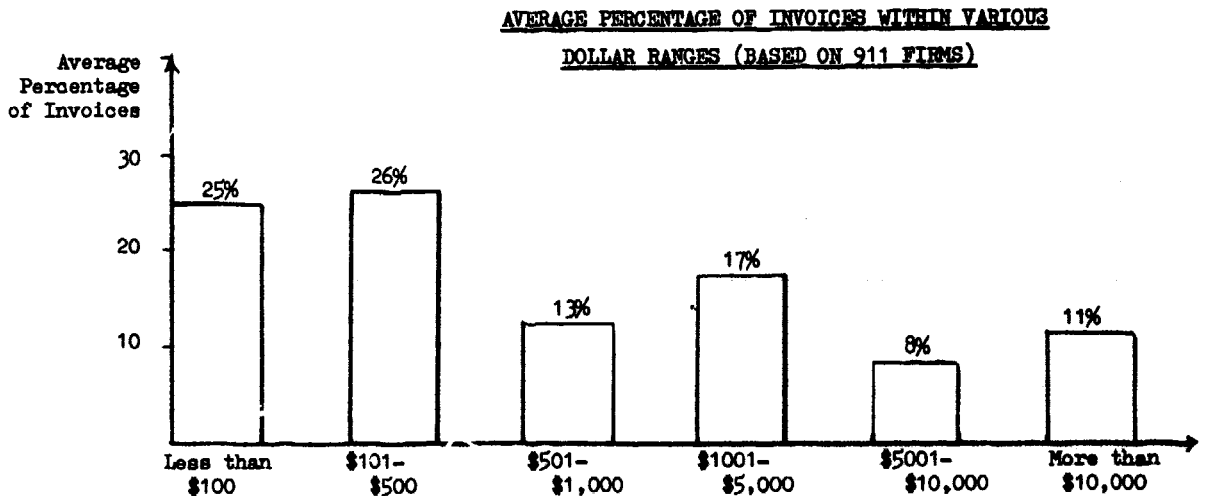
a/Total firms reporting they do not offer discounts (see question 9).

13. Estimate the number of invoices (bills) your firm submitted to Federal agencies during its latest fiscal year.

NUMBER OF INVOICES SUBMITTED TO FEDERAL AGENCIES  
DURING LATEST FISCAL YEAR



14. Estimate the percentage of your invoices to Federal agencies which fall within each of the following dollar ranges.



- 15(a) Give the date which your firm generally uses as the starting date for computing when Federal payments are due for goods.

<u>Starting Date</u>	<u>Firms</u>	<u>Percent</u>
Date of invoice/billing	692	85%
Date goods delivered	64	8
Date goods accepted	17	2
Date invoice/billing received by Federal (user) agency	11	1
Date invoice/billing received by payment center	13	2
Other	15	2
No response	<u>138</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

- 15 (b) What is your firm's payment due date for goods, i.e., the number of days generally allowed for payment after the starting date cited in question 15(a).

The following table shows the number of days allowed before payment is considered due for various starting dates.

Starting Date and Payment Due Date  
Used by Companies For Goods

Starting Date For Computing When Federal Payments Are Due	Number of Days After Starting Date When Payment Due									
	Totals (a)		1-10 days		11-29 days		30 days		over 30 days	
Date	#	%	#	%	#	%	#	%	#	%
date of invoice	581	85	58	10	42	7	468	81	13	2
date goods delivered	54	8	7	13	7	13	40	74	—	—
date goods accepted	13	2	2	15	5	39	6	46	—	—
date invoice received by Federal (user)agency	10	1	2	20	1	10	7	70	—	—
date required document received by payment center	11	2	3	27	4	35	4	36	—	—
other	12	2	5	42	2	17	4	33	1	8
<b>TOTALS</b>	<b>681</b>	<b>100</b>	<b>77</b>	<b>11%</b>	<b>61</b>	<b>9%</b>	<b>529</b>	<b>78%</b>	<b>14</b>	<b>2%</b>

(a) Represents all firms dealing in goods that answered both questions 15(a) and 15(b).

- 16(a) Give the date which your firm generally uses as the starting date for computing when Federal payments are due for services.

<u>Starting Date</u>	<u>Firms</u>	<u>Percent</u>
Date of invoice/billing	213	81%
Date services performed	15	6
Date services accepted	10	4
Date invoice/billing received by Federal (user) agency	13	5
Date invoice/billing received by payment center	7	3
Other	4	1
No response	<u>688</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

- 16(b) What is your firm's payment due date for services, i.e., the number of days generally allowed for payment after the starting date cited in question 16(a).

The following table shows the number of days allowed before payment is considered due for the cited starting dates.

Starting Date and Payment Due Date Used by Companies for Services

Starting Date For Computing When Federal Payments Are Due	Number of Days After Starting Date When Payment Due									
	Totals <sup>(a)</sup>		1-10 days		11-29 days		30 days		over 30 days	
Date	#	%	#	%	#	%	#	%	#	%
date of invoice	185	82	23	13	10	5	146	79	6	3
date services performed	14	6	4	29	1	7	8	57	1	7
date services accepted	9	4	2	22	1	11	6	67	--	--
date invoice received by Federal (user) agency	12	5	4	33	3	25	5	42	--	--
date required document received by payment center	3	1	1	33	1	33	1	33	--	--
other	4	2	1	25	1	25	2	50	--	--
TOTALS	227	100	35	15	17	8	168	74	7	3

(a) Represents all firms dealing in services that answered both questions 16(a) and 16(b).

17. When does your firm generally submit its invoices to Federal agencies for goods and/or services?

GOODS

<u>Date Invoice Submitted</u>	<u>Firms</u>	<u>Percent</u>
Prior to date of delivery	18	2%
On date of shipment	436	55
On date of delivery	37	5
Within 1 to 7 days of delivery	242	31
Within 8 to 14 days of delivery	23	3
Within 15 to 30 days of delivery	12	1
Other	<u>26</u>	<u>3</u>
Total	<u>794</u>	<u>100%</u>

SERVICES

<u>Date Invoice Submitted</u>	<u>Firms</u>	<u>Percent</u>
Prior to date of completion	7	3%
On date service starts	11	4
On date of completion	62	25
Within 1 to 7 days of completion	87	35
Within 8 to 14 days of completion	17	7
Within 15 to 30 days of completion	28	11
Other	<u>36</u>	<u>15</u>
Total	<u>248</u>	<u>100%</u>

18. Give the percentage of Federal payments received within each of the following time intervals--based on elapsed time from invoice/billing date.

<u>Days from Invoice Date</u>	<u>Percentage of</u>	
	<u>Number of invoiced paid</u> (Note a)	<u>Dollar value of invoiced paid</u> (Note b)
Within 30 days	50%	50%
Between 31 and 60 days	36	35
Between 61 and 90 days	9	9
Over 90 days	<u>5</u>	<u>6</u>
Total	<u>100%</u>	<u>100%</u>

a/Composite percentages based on 847 responses.

b/Composite percentages based on 736 responses.

19. Give the percentage of Federal payments received within each of the following time intervals--based on elapsed time from date of delivery/performance.

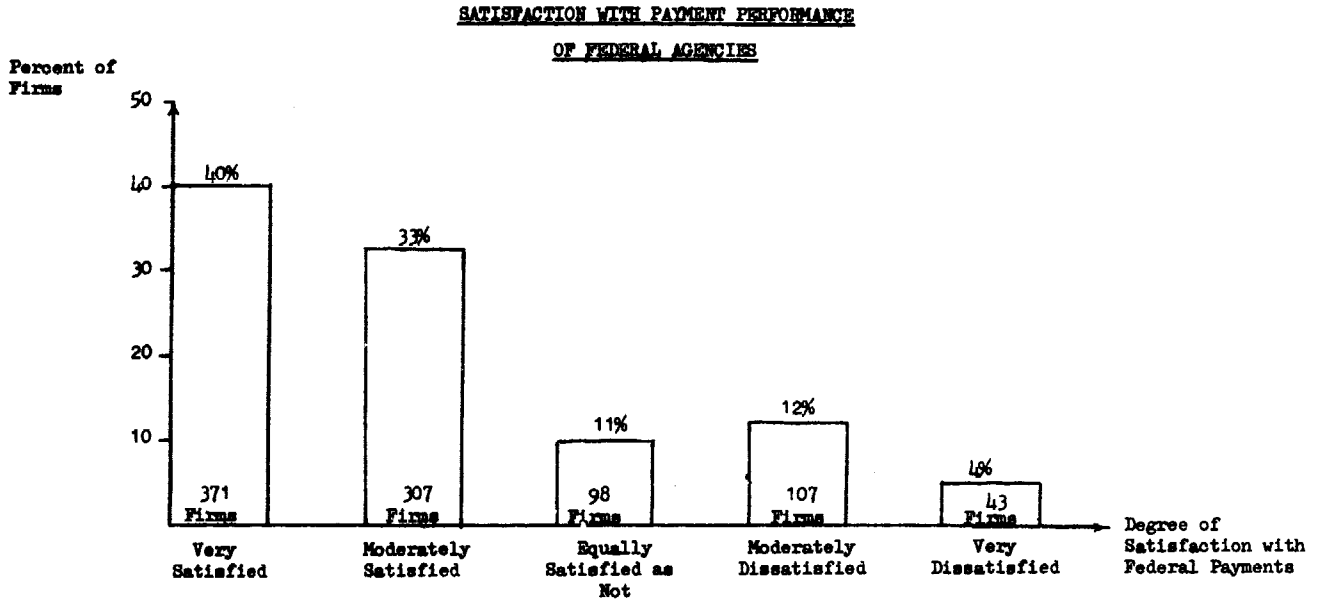
<u>Days from Date of Delivery/Performance</u>	<u>Percentage of</u>	
	<u>Number of invoiced paid</u> (note a)	<u>Dollar value of invoiced paid</u> (note b)
Within 30 days	51%	51%
Between 31 and 60 days	35	35
Between 61 and 90 days	9	9
Over 90 days	<u>5</u>	<u>5</u>
Total	<u>100%</u>	<u>100%</u>

a/Composite percentages based on 660 responses.

b/Composite percentages based on 581 responses.



20. Considering all things, how satisfied is your firm with the payment performance of Federal agencies?



21. Does your firm believe, based on its experience, that commercial firms and state and local government agencies pay faster or slower than the Federal Government?

Comparison of the Federal Government's  
Payment Performance to that of Commercial  
Firms and State and Local Governments

	<u>Companies Responding</u>	
	<u>Number</u>	<u>Percent</u>
<u>Commercial Firms Pay</u>		
Faster	339	43 %
Slower	191	21
Same	327	36
<u>State and Local Governments Pay</u>		
Faster	128	16
Slower	269	33
Same	418	51

22(a) When does your firm (or division) generally consider payments from Federal agencies to be "late"?

<u>When Payments Are Late</u>	<u>Firms</u>	<u>Percent</u>
When not paid within <u>30</u> days of invoice date	644	69%
When not paid within <u>60</u> days of invoice date	249	27
When not paid within <u>90</u> days of invoice date	34	4
When not paid within <u>120</u> days of invoice date	5	(a)
When not paid within <u>150</u> days of invoice date	2	(a)
No response	<u>16</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

(a) Less than one half of one percent.

22(b) Since 1975 how often have payments from Federal agencies been received "late", as defined in the response to part (a)?

The following table shows the companies' criteria for late payments (from 22(a)) and the percentage of the time such payments were received late.

Days from Invoice Date Before Payment is Late	Firms Using This Criteria Number Percent		Percent of Time Firms Reported Receiving Payments Late Based on Their Criteria											
			Less than 10%		11-25%		26-50%		51-75%		76-90%		More than 90%	
			Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
30 days	585	85	278	47	95	16	70	12	41	7	45	8	56	10
60 days	234	27	144	62	41	17	20	8	18	8	4	2	7	3
90 days	34	4	20	59	6	17	5	15	2	6	1	3	-	-
120	5	1	4	80	-	-	1	20	-	-	-	-	-	-
150 days of invoice date	2		2	100	-	-	-	-	-	-	-	-	-	-
TOTALS	<u>860</u>	<u>100</u>	<u>448</u>	<u>52</u>	<u>142</u>	<u>17</u>	<u>96</u>	<u>11</u>	<u>61</u>	<u>7</u>	<u>50</u>	<u>6</u>	<u>63</u>	<u>7</u>

23. Do Federal agencies generally pay large dollar invoices faster than small dollar invoices?

	<u>Firms</u>	<u>Percent</u>
<u>Large</u> dollar invoices paid faster	87	9%
<u>Small</u> dollar invoices paid faster	74	8
No difference	574	61
Don't know	201	22
No response	<u>14</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

24. Do large Federal agencies generally pay faster than small Federal agencies?

	<u>Firms</u>	<u>Percent</u>
<u>Large</u> Federal agencies pay faster	77	8%
<u>Small</u> Federal agencies pay faster	57	6
No difference	400	43
Don't know	393	43
No response	<u>23</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

25. Do "military" agencies generally pay faster than "civil" agencies?

	<u>Firms</u>	<u>Percent</u>
<u>Military</u> agencies pay faster	151	16%
<u>Civil</u> agencies pay faster	128	14
No difference	290	31
Don't know	356	39
No response	<u>25</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

26. Do Federal agencies that your firm frequently deals with generally pay faster than Federal agencies that it deals with infrequently?

	<u>Firms</u>	<u>Percent</u>
Federal agencies that we deal with frequently, pay faster	185	20%
Federal agencies that we deal with infrequently, pay faster	27	3
No difference	425	46
Don't know	294	31
No response	<u>19</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

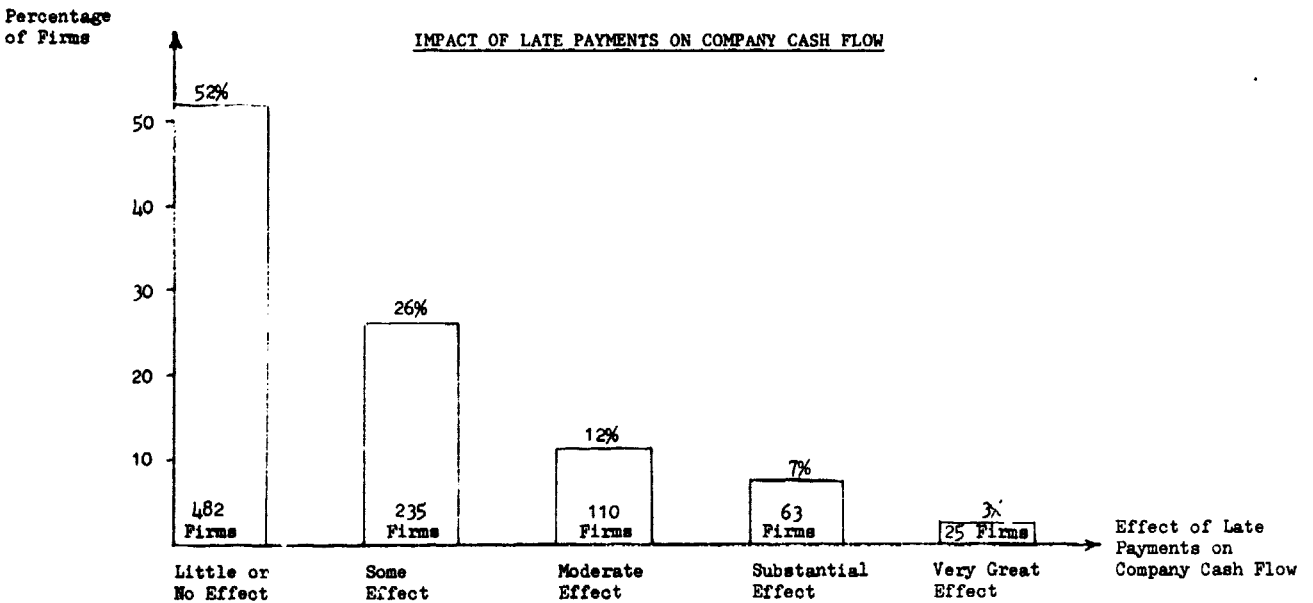
27. Does your firm feel that Federal (ordering) agencies located close to it generally pay faster than Federal agencies located far away from it?

	<u>Firms</u>	<u>Percent</u>
Federal agencies located close pay faster	118	13%
Federal agencies located far away pay faster	10	1
No difference	518	55
Don't know	286	31
No response	<u>18</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

28. Does your firm feel that Federal payment centers located close to it generally pay faster than Federal payment centers located far away from it?

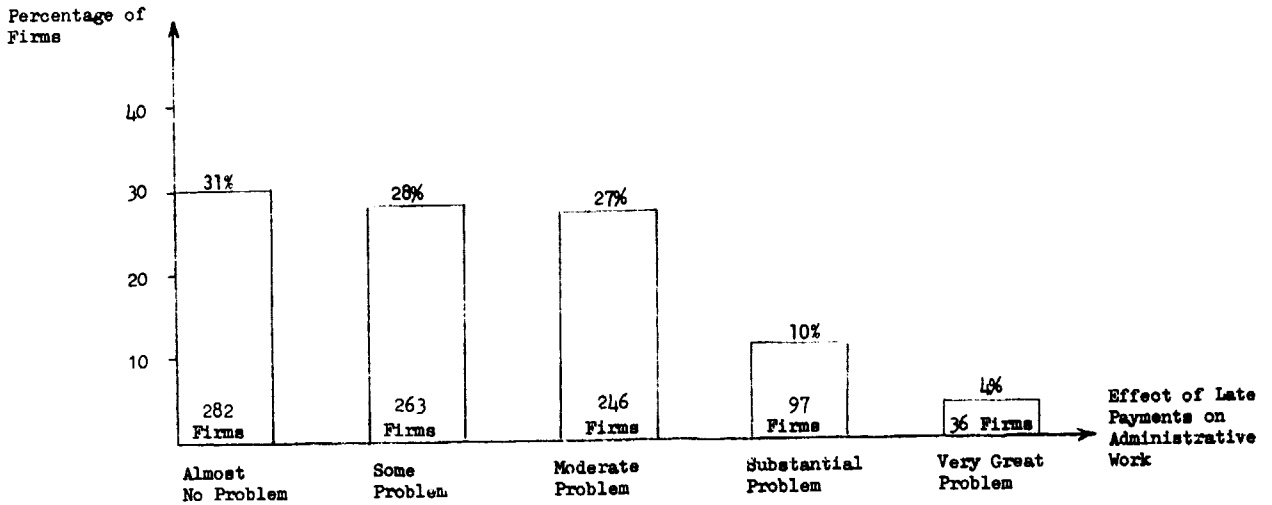
	<u>Firms</u>	<u>Percent</u>
Federal payment centers located close pay faster	136	15%
Federal payment centers located far away pay faster	13	1
No difference	477	51
Don't know	308	33
No response	<u>16</u>	<u>-</u>
<b>Total</b>	<b><u>950</u></b>	<b><u>100%</u></b>

29. What impact have late Federal payments had on your firm's cash flow during the past 5 years?



30. How much of an administrative problem (phone calls, re-submitting invoices, follow-up procedures required) does your firm feel late Federal payments cause?

IMPACT OF LATE PAYMENTS ON ADMINISTRATIVE WORK



31. Are late Federal payments usually due to processing problems at the requesting (user) agency or the payment center?

	<u>Firms</u>	<u>Percent</u>
Processing problems at user agency	235	53%
Processing problems at payment center	165	37
Don't know	46	10
No response	<u>504</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>

32. Give the three most frequent reasons for late Federal payments received by your firm. (A "1" shown for the most frequent reason, a "2" for the 2nd most frequent reason and a "3" for the 3rd most frequent reason).

	Times cited as 1st, 2nd, or 3rd most frequent reason		
	<u>1st</u>	<u>2nd</u>	<u>3rd</u>
Delays in transit (goods)	69	35	27
Invoice (bill) initially sent to wrong office or agency, returned to vendor and resubmitted to correct office or agency	94	94	72
Prolonged dispute with Federal agency	12	17	30
Contract/Purchase Order being modified	51	85	58
Billing documents (invoices) delayed or lost in mail	72	101	76
Unable to match agency check to our invoices	17	34	30
Goods delivered to wrong agency	-	5	6
Changes in agency payment procedures	20	52	33
Goods and services provided under unwritten (verbal) purchase order	29	31	39
Agency did not inform us when not enough invoice copies submitted	11	35	25

Times cited as 1st,  
2nd, or 3rd most  
frequent reason (cont.)

<u>1st</u>	<u>2nd</u>	<u>3rd</u>
------------	------------	------------

Agency did not inform us when invoices not properly prepared	40	94	54
Too many agencies or offices involved (i.e., one orders, another receives, another pays,	218	103	82
Other frequent reason	80	40	26
No problem	87	87	87
No response	<u>150</u>	<u>137</u>	<u>305</u>
Total	<u>950</u>	<u>950</u>	<u>950</u>

33. What is the most effective action used by your firm in collecting late Federal payments?

	<u>Firms</u>	<u>Percent</u>
Follow up telephone calls	474	60%
Follow up letters	184	23
Follow up visits	26	3
Hand delivering documentation to the agency	31	4
Assigning person(s) to monitor Federal payments	37	4
Threatening to discontinue further shipment or performance	22	3
Complaining to my Congressman or Senator	5	1
Other	12	2
No response	<u>159</u>	<u>-</u>
Total	<u>950</u>	<u>100%</u>



34. Below is a list of Federal agencies which account for the major procurement activity within the Federal Government. For those agencies you have dealt with during the past 5 years please indicate what their general payment performance has been by checking one of the boxes to the right of the agency's name.

The number of responses was too insignificant to tabulate.

35. Below is a list of Federal agencies whose procurement activity is so great they have established specialized payment centers to make payments to contractors. For those payment centers you have dealt with during the past 5 years please indicate what their general payment performance has been by checking one of the boxes to the right of the payment center's name.

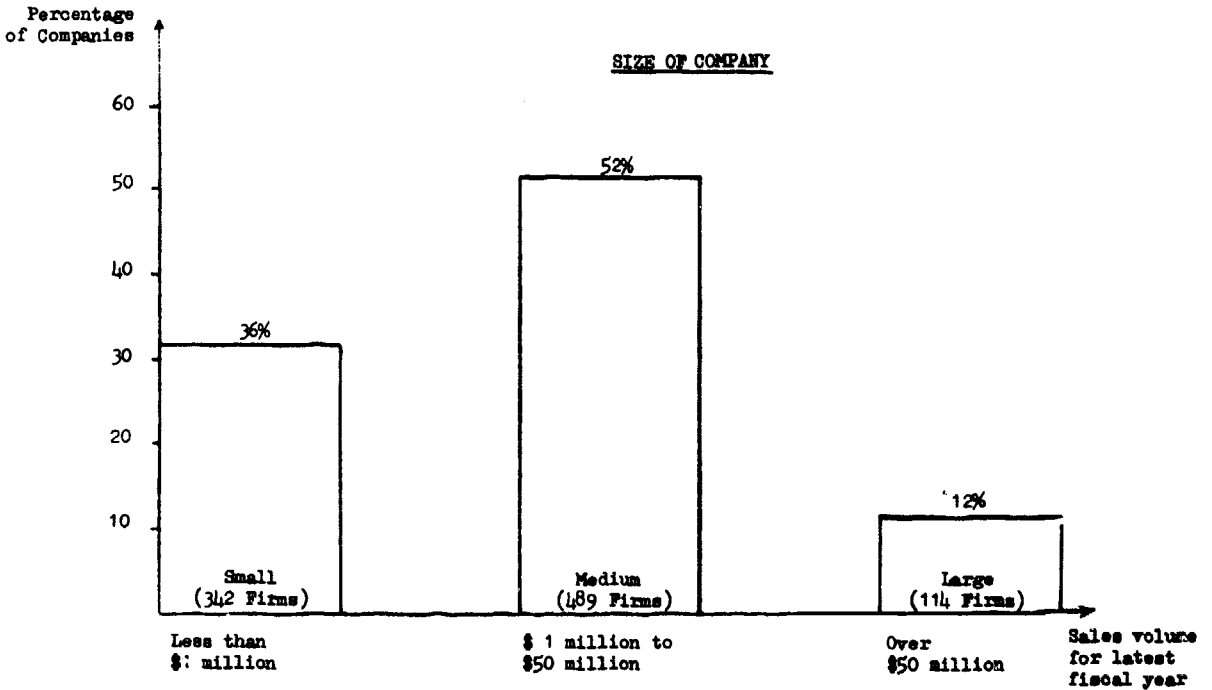
The number of responses was too insignificant to tabulate.

SPECIAL ANALYSIS

In discussing the survey results, we frequently refer to the companies as "small", "medium" and large." These designations are based upon the firms' annual sales volume and refer to firms with annual sales of under \$1 million, between \$1 million and \$50 million and over \$50 million respectively.

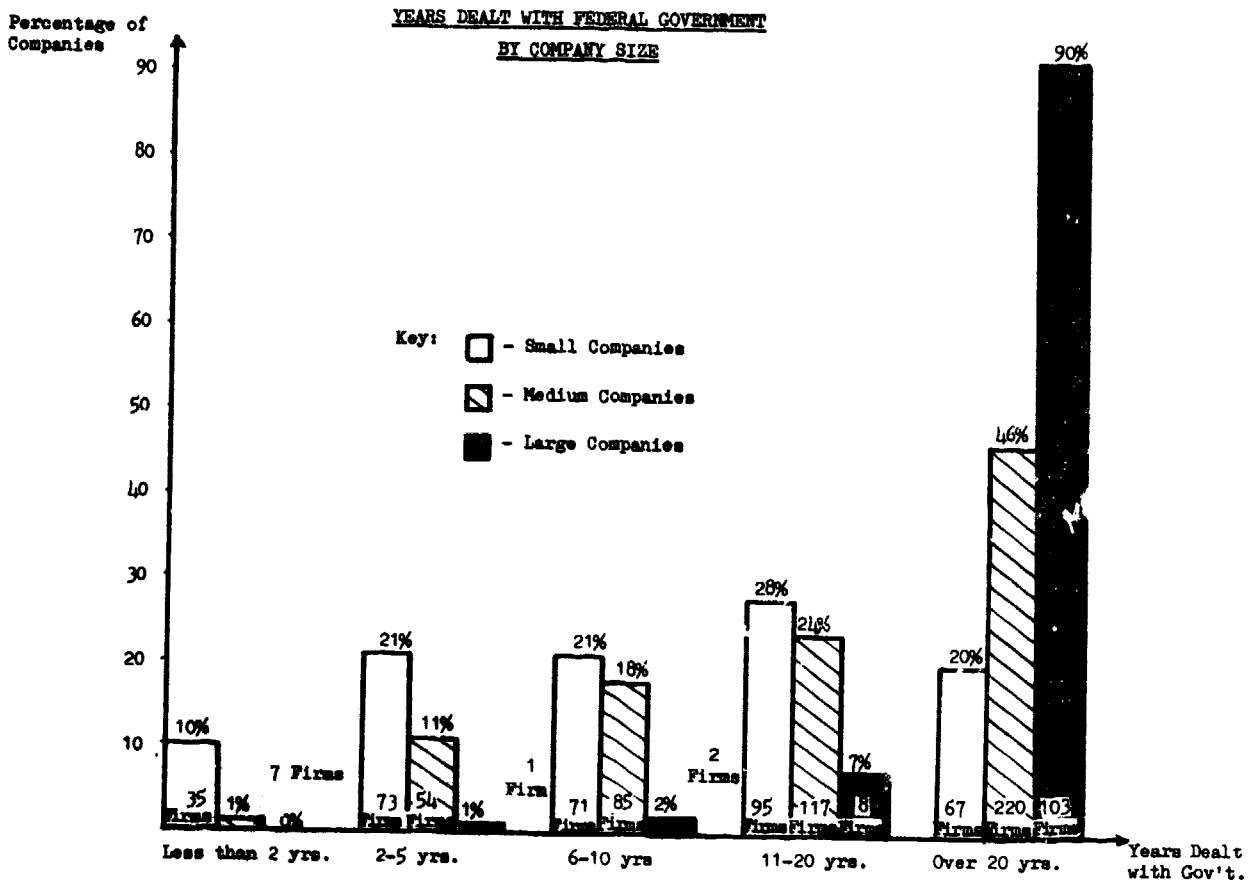
Company Size Based on Sales

The following chart shows the number of firms and percent of the sample in each of these size categories.



Years Dealt With The Government

Analysis of the responses by company size revealed that generally the larger the company the longer it has dealt with the Federal Government. For example, 90 percent of the large companies indicated they had been dealing with the Government for over 20 years while only 20 percent and 46 percent of the small and medium size companies, respectively are in that category. The following graph shows the range of years dealt with the Federal government by companies in each of the three size groupings.

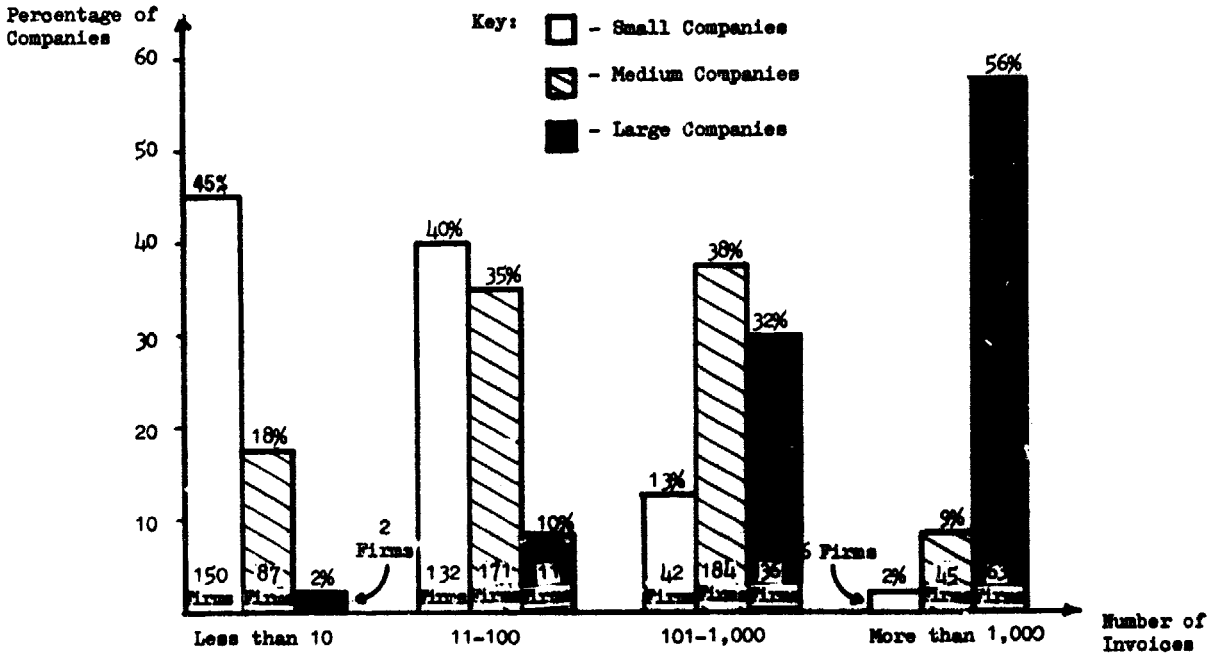


Number of Invoices Sent to Federal Agencies

To get an idea of the amount of business companies did with the Government they were asked to indicate how many invoices they sent to Federal agencies in a year. The results displayed a considerable spread. About one-quarter indicated that transactions with the Government were relatively rare--fewer than 10 invoices a year. On the other end of the spectrum, about two and a half percent reported submitting more than 10,000 invoices during their most recent fiscal year.

As shown in the following chart, small companies had the fewest transactions with Federal agencies.

NUMBER OF INVOICES BY COMPANY SIZE



Further analysis showed there were significant differences in the company's late payment experience based on the frequency with which the company conducts business with Federal agencies. We found that as the number of invoices submitted to Federal agencies increases, the percentage of companies receiving more late payments also increases.

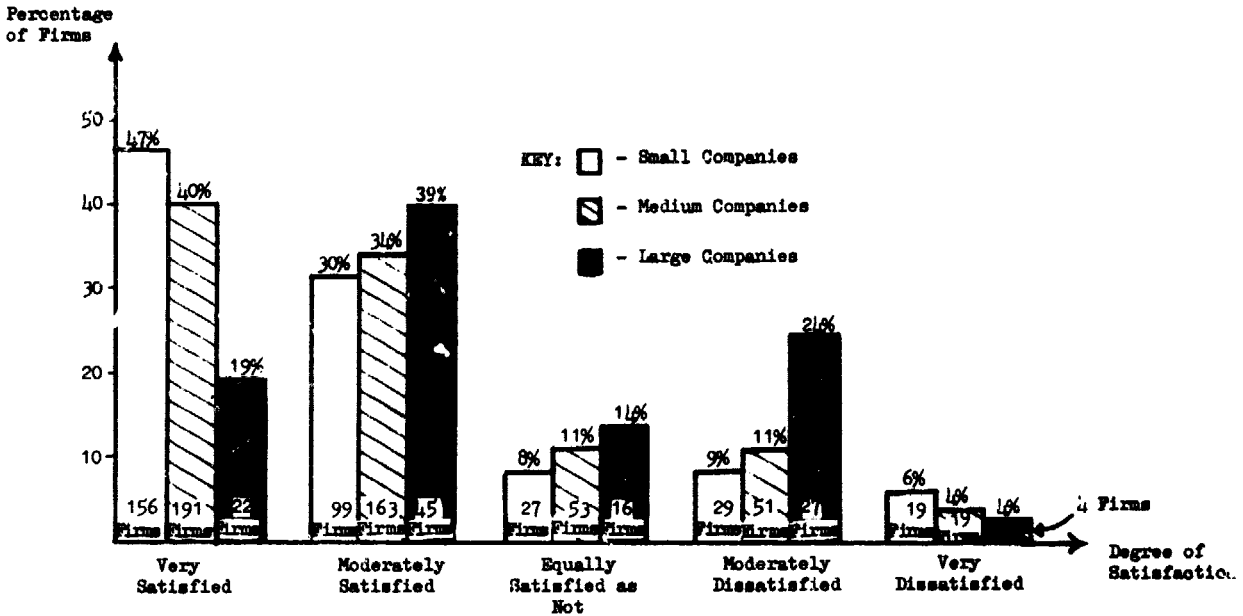
Number of Invoices Submitted Latest Fiscal Year

Percentage of Time Federal Payments Late	Less than 10		11-100		101-1000		More than 1000	
	Companies	Percent	Companies	Percent	Companies	Percent	Companies	Percent
Less than 10%	139	69	160	55	113	46	33	29
11-25%	16	8	42	14	54	22	27	24
26-50%	12	6	30	10	34	14	20	18
51-75%	6	3	19	7	20	8	15	13
76-90%	2	1	20	7	15	6	12	11
More than 90%	26	13	19	7	11	4	6	5

Size of company and satisfaction

We found a significant relationship existed between the size of the company and their satisfaction with Federal payments. Larger firms tended to be more dissatisfied than smaller firms. For example, large companies are 2 times more likely to be dissatisfied than small and medium companies. The following graph illustrates this relationship.

DEGREES OF SATISFACTION WITH PAYMENT  
PERFORMANCE BY COMPANY SIZE



Size of Company and  
Frequency of Late Payments

There was a significant relationship between the size of the company--measured in terms of the company's sales volume--and the percentage of the time Federal payments were reported as received late. Large and medium companies received Federal payments late more often than small companies. Sixty-four percent of the small companies reported receiving Federal payments late less than 10 percent of the time compared to 48 percent and 36 percent of the medium and large companies, respectively. Furthermore, 26 percent of the large companies reported receiving federal payments late more than 50 percent of the time compared to 15 percent of the small companies. These observations are based on the data presented in the following table.

<u>Percentage of Time Federal Payments late</u>	<u>Company Size</u>					
	<u>Small</u>		<u>Medium</u>		<u>Large</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 10%	195	64	214	48	39	36
11-25	39	13	79	18	24	22
26-50	27	9	51	11	17	16
51-75	14	4	34	8	13	12
76-90	5	2	34	8	10	9
More than 90%	25	8	33	7	5	5
	<u>305</u>	<u>100</u>	<u>445</u>	<u>100</u>	<u>108</u>	<u>100</u>

(90115)