United States General Accounting Office

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Report to the Chairman, Legislation and National Security Subcommittee, Committee on Government Operations House of Representatives

August 1986

PROMPT PAYMENT ACT

Agencies Have Not Fully Achieved Available Benefits

Released

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Accounting and Financial
Management Division

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August 28, 1986

The Honorable Jack Brooks
Chairman, Legislation and National
Security Subcommittee
Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

This report contains our evaluation of whether federal agencies are paying private sector businesses on time for the billions of dollars in goods and services ordered annually. Accordingly, it responds to your request for a governmentwide assessment of agencies' compliance with the Prompt Payment Act.

Although some improvement in payment timing has occurred since we reported on this issue in 1978, additional management initiatives are required to reach satisfactory performance levels. Achieving this goal will require cooperative agencywide efforts spearheaded by the Office of Management and Budget.

As agreed with your office, we will not distribute this report until at least 30 days after the issuance date unless you publicly announce its contents earlier. At that time, we will send copies to the Director, Office of Management and Budget; to the Chairman, Senate Committee on Governmental Affairs; and to the 20 federal departments and agencies covered by this review. We will also send copies of the report to other interested parties and make copies available upon request.

Sincerely yours,

Frederick D. Wolf

Frederick D. Wolf
Director

Executive Summary

Purpose

The Prompt Payment Act expresses the Congress' concern that federal agencies pay the private sector on time for the more than $200 billion of goods and services provided annually. Adherence to federal guidelines for prompt payment would help reduce vendor complaints, a major factor that led to passage of the act, and enhance the government's reputation as a bill payer.

Continued indications of late payments led the Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations, to ask GAO to assess the timeliness of commercial payments by federal agencies.

Background

GAO reported in 1978 that the federal government did not have uniform criteria for establishing due dates for vendor invoices. Many were paid too early or too late, sometimes without regard to contract terms, the effect on vendors' cash flow, or government interest costs. (See chapter 1.)

Enacted in 1982, the Prompt Payment Act provides governmentwide guidelines for calculating due dates on commercial invoices. Except for contracts containing due date terms, agencies must pay within 30 days after the designated office receives the vendor invoice or the government accepts the items ordered as satisfactory, whichever is later.

Also, agencies are to (1) voluntarily pay interest on excessively late payments, (2) take discounts only within the offered period, and (3) submit payment performance data to the Office of Management and Budget (OMB) annually for inclusion in its summary assessment report to congressional committees.

GAO evaluated payment timing at 39 statistically selected payment centers for 13 departments and agencies. Its estimates of federal payment-timing performance are based on an analysis of 1,520 randomly selected invoices totaling about $17.4 million paid by those centers between May 1 and August 31, 1985. GAO analyzed payment policies and practices and discussed observed problems with agency headquarters and payment center officials.

Results in Brief

Passage of the act and its implementation led to substantial improvement in federal bill paying performance. These initiatives resulted in a noticeable reduction in excessively late payments (over 60 days late) and hundreds of millions in savings to the government by avoiding early payments.

At the same time, the full potential of the law has not yet been realized. A significant percentage of vendor invoices are still being paid later than they should be, and the number of excessively late payments remains too high. This was compounded by the fact that interest penalties meant to compensate vendors for such undue delays were not routinely paid. (See chapter 2.)

Also, OMB's annual performance reports under the act have been misleading, thereby not highlighting the need for corrective action. If agencies follow through on their recent initiatives to address the remaining problems, they will be able to move toward meeting the act's objectives. (See chapters 4 and 5.)

Principal Findings

Late and Early Payments

GAO estimated that 24 percent of federal vendor payments, involving $7.7 billion, were made after the due date during its 4-month test period. Some were extremely late. For example, GAO found that 7 percent of the late payments in its sample were between 46 and 150 days late and about 1.3 percent were more than 90 days late.

Required interest penalties were seldom paid. GAO's evaluation of its sample payments showed that agencies paid only one of every six penalties owed. GAO estimated that agencies should have paid approximately $15 million in late payment penalties during the 4 months. Annually, this would be much more than the $7.1 million OMB reported as paid during fiscal year 1985. Further, almost a fifth of the discounts taken occurred after the offered period had expired.

In contrast, agencies paid about 23 percent of the bills, covering $44 billion, too early—5 or more days before when due. GAO estimated an added cost to the government of $200 million during its 4-month test period. However, the loss would be lower if the Department of Defense (DOD) actually receives price concessions in exchange for early payments, as it claims.

Slightly more than half of the payments, involving $32.9 billion, were disbursed within a reasonable-to-achieve 5-day window. Increasing these statistics will be the key to ensuring that neither vendors nor the government benefits simply because payments are not timely. (See chapter 2.)

Reasons for Timing Errors

Payment-timing mistakes were attributable to problems such as missing data and inaccurate agency interpretations of prompt payment requirements.

Missing data. Three years after passage of the act, agencies still did not have adequate controls to ensure that date information and contracts needed to establish accurate due dates were available. In total, information was not available to establish exact due dates for almost a third of the invoices in GAO's sample.

Agency offices that received goods and services and accepted them as satisfactory for payment did not consistently record when these events occurred or forward the documentation to payment centers on time to avoid delays. Also, centers did not have contracts for over 200 of the sample payments. Without such information, center staff lacked the criteria for establishing due dates as well as the dates to use with the applicable contract terms.

Mistakes at payment centers. The staff did not consistently calculate accurate due dates even when they had the needed data. Reasons included not obtaining or referring to due date terms which tended to vary from contract to contract. Center staff also misinterpreted basic prompt payment criteria for determining due dates and often did not schedule payments consistent with the established due dates.

Varying due date terms and incorrect agency policies. The Federal Acquisition Regulation spells out government procurement policies for obtaining items from the private sector but still has not been modified to include prompt payment provisions. Instead, it instructs agencies to insert their own due date terms. GAO found widely varying and, in some instances, inappropriate terms. Such differences increase both the risk of errors and the level of effort needed to establish precise due dates.

Several DOD policies are not consistent with prompt payment provisions. Air Force regulations resulted in not paying required interest penalties on meat and perishable agricultural products. Also, DOD policy for interim payments, such as those based on reaching specified milestones for large scale acquisitions, caused billions of dollars to be disbursed much sooner than allowed under OMB guidelines. If DOD does not receive adequate concessions for these payments which are to be made within 5 to 10 days after receiving a payment request, the loss could have been about $85 million for the 4 months covered by GAO's analysis. (See chapter 3.)

Performance Data

OMB has reported annually since 1983 that the government pays over 99 percent of its bills on time. This is not an accurate assessment. In presenting information on agency performance, OMB concluded that any payments that did not include interest penalties had been paid on time regardless of whether payment occurred by the due date. In general, payments made during a grace period, those not incurring the minimum $1 interest threshold, and penalties owed but not paid account for the difference between OMB's figure and GAO's estimate that only three fourths are paid by the due date. (See chapter 4.)

Agency Awareness

Internal evaluations show that agencies are aware of prompt payment problems. Some initiatives have been taken, but the continuing problems call for added efforts to establish controls to obtain necessary data and ensure use of the appropriate criteria when paying vendor invoices. (See chapter 5.)

Matters for Congressional Consideration

The Congress may wish to consider amending the act to offer better internal controls over payments for meat and perishable agricultural products by requiring receipt of an invoice before payment. (See chapter 3.)

Recommendations

GAO is recommending several actions to improve payment timing. Relevant dates and pertinent contracts must be available in time and be used by payment centers to establish accurate due dates. Modifying the Federal Acquisition Regulation to require use of simple payment terms on a uniform basis would also reduce the risk of errors. As part of that revision, OMB, in coordination with agencies that make most of the interim payments, should establish the most appropriate due date terms for such transactions. Also, military agencies should modify their regulations to conform with federal requirements for paying interest and taking discounts. (See chapter 3.)

Finally, expanding reporting to cover all late payments, not just those involving penalties, would provide a better measure of payment-timing performance. (See chapter 4.)

Agency Comments

As agreed with the requester's office, GAO did not obtain official agency comments on a draft of this report. However, GAO did discuss its findings with agency headquarters and payment center officials.

Contents

Figures

Abbreviations

DCAA	Defense Contract Audit Agency
DCI	data collection instrument
DLA	Defense Logistics Agency
DOD	Department of Defense
DOT	Department of Transportation
FAR	Federal Acquisition Regulation
FIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
GSA	General Services Administration
HUD	Department of Housing and Urban Development
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget

Chapter 1

Introduction

Passage of the Prompt Payment Act in 1982 (P.L. 97-177; 31 U.S.C. 3901-3906) and improved guidance to federal agencies have not stopped business complaints that the government is slow in paying its bills. Late payments may increase businesses' borrowing costs, discourage them from competing for the government's business, or result in higher prices to compensate for delays in payment. Simultaneously, the Office of Management and Budget (OMB) has reported great improvement in the timeliness of federal bill paying since the act was passed.

In light of this conflicting information, the Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations, asked that we assess the timeliness of commercial payments by federal agencies. (See appendix I.) As part of this review, we also determined whether agencies paid commercial firms too early, thus unnecessarily depleting federal cash balances. During July 1986, we testified before the subcommittee on the results of our review.

Agency Payment Centers Schedule Billions in Commercial Payments

Federal agencies annually pay billions of dollars for goods and services purchased from private businesses (referred to as vendors throughout this report). These payments are for items ranging from low-cost office supplies to large construction projects, such as ships or weapons systems, that can take years to build and involve interim payments before final delivery and acceptance. According to estimates from 20 of the largest bill-paying agencies, the federal government's fiscal year 1985 commercial payments totaled approximately $200 billion, with the Department of Defense (DOD) paying about 75 percent and civil agencies paying the remainder.

At the time we initiated our review in June 1985, about 800 agency-operated payment centers scheduled commercial vendor invoices for payment by federal disbursing offices. These payment centers varied considerably in payment volume and automation. Some agencies had more than 100 offices to process commercial payments, while others had consolidated this activity at a few or even one location. According to agency estimates, individual payment center volume for fiscal year 1984 ranged from less than $50,000 at the smallest location to about $18 billion at the largest. Many centers scheduled payments manually, while others used partially automated systems.

Payment center staff are responsible for examining invoices and other documentation to determine if bills are accurate and properly supported, and to schedule them for payment as closely as possible to, but not later than, the due date. In line with GAO's Policy and Procedures Manual for Guidance of Federal Agencies, required documentation usually includes a proper invoice, a contract or other purchase agreement, and evidence that the goods and/or services have been received and are acceptable. After these examinations, a schedule listing authorized payments indicating when they are due is developed and forwarded to the appropriate disbursing office where checks are printed and mailed or funds are electronically transferred to vendors' banks. DOD operates its own disbursing offices, while Treasury makes disbursements for most civil agencies.

The Prompt Payment Act Strengthened Payment-Timing Requirements

In 1978, we reported on governmentwide payment performance and concluded that federal agencies paid most bills by their due dates.[1] However, excluding delays not caused by federal agencies, about 30 percent were paid more than 30 days after the vendor's invoice date. We also found that 37 percent, although paid by the due date, were paid more than 5 days early. A major contributor to these problems was the lack of a standard federal policy defining when a payment was due.

Subsequently, the Department of the Treasury issued regulations that provided payment-timing guidance. However, in 1981, agency records and reports to Treasury did not provide sufficient information to determine if agencies were following Treasury's policies.[2]

In 1982, the Congress passed the Prompt Payment Act, which provides specific criteria for determining when bills to vendors are due and requires interest payments on amounts paid after prescribed grace periods. To facilitate congressional oversight, the act requires agencies to file annual reports on their payment-timing performance with OMB, which consolidates this information and reports to congressional committees.

The implementing regulations for prompt payment requirements are set forth in OMB circular A-125 and other supplemental guidance. The circular spells out the legislative objectives and due date criteria established by the act. Along with the Treasury Financial Manual, which provides Treasury's guidance on the entire range of financial matters

[1] The Federal Government's Bill Payment Performance Is Good but Should Be Better (FGMSD-78-16, February 24, 1978).

[2] Actions To Improve Timeliness of Bill Paying by the Federal Government Could Save Hundreds of Millions of Dollars (AFMD-82-1, October 8, 1981).

including disbursements, the circular also instructs agencies to further cash management objectives by not paying too early. The Federal Acquisition Regulation (FAR) contains guidance that agencies are to use when acquiring goods and services from the private sector. It reiterates the circular's requirement that such agreements are to contain due dates. Individual agency regulations are to conform to the criteria in these documents.

Timely Payments Benefit Vendors and the Government

Both the private sector and the government recognize the time value of money. Vendors would like to receive payment for goods and services as soon as possible. However, the government benefits from not paying invoices until they are due. Because of these conflicting financial interests, payments should be made as closely as possible to, but not later than, their correct due dates so neither party is penalized. In addition, if agencies consistently follow this practice, vendors may be willing to offer more discounts (reduction in price in exchange for earlier payment) if the normal due dates are later than they desire.

Late federal payments can raise vendor costs by increasing the amounts they must borrow to maintain their operations. This can be especially important for small businesses whose cash flows may be significantly disrupted by a few late payments and who may experience higher borrowing rates than larger businesses.

Conversely, early payments can cost the government money in a combination of additional borrowing costs and decreased interest income. Cash not needed for current disbursements is held in banks where it earns interest for Treasury. Early payments defeat several objectives of effective cash management (maximizing interest income and minimizing interest cost) by unnecessarily depleting those balances and possibly requiring Treasury to borrow sooner to meet current obligations. Thus, timely payments may delay Treasury's borrowing needs or increase interest income by maximizing daily cash balances in Treasury's bank accounts.

Finally, late and early payments may result in fewer vendor-offered discounts. Before the prompt payment legislation was passed, some vendors said that they had quit offering prompt payment discounts because they did not result in faster payment and because agencies took too many discounts after the discount period. Conversely, paying too early may eliminate the incentive for offering discounts.

Objectives, Scope, and Methodology

This review assessed the timeliness of commercial payments by federal agencies. Our specific objectives were to

- measure governmentwide compliance with prompt payment requirements as outlined in the Prompt Payment Act, OMB circular A-125, the Treasury Financial Manual, and title 7 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies;
- compare the timeliness of federal bill paying in 1985 with that reported in our 1978 report;
- identify the internal control weaknesses and other causes of late and early payments;
- assess the adequacy of current prompt payment guidance in providing agencies with realistic criteria for handling a wide variety of billing and payment situations; and
- evaluate whether OMB's annual reports accurately portray agencies' payment-timing performance.

We conducted our review between June 1985 and April 1986 at selected payment activities. The selection was made from payment centers of 20 federal departments and agencies located within the 50 states. Together the departments and agencies account for over 95 percent of federal commercial payments. The departments and agencies are listed in appendix III, and the selected payment centers in appendix IV.

To measure payment performance, we audited a sample of 1,520 individual invoices paid at 39 payments centers in 13 departments and agencies. We selected both the payment centers and the invoices to be statistically representative of about 650 payment activities within the 50 states for the 20 departments and agencies included in our review.[3] (Appendix II contains a detailed description of our sampling methodology.) We examined each invoice and its supporting documentation to determine if the agency

- paid the invoice by the correct due date,
- paid any interest due on late payments,
- took vendor-offered discounts within the terms established by the vendor/agency agreement, and

[3]These payments were randomly selected from payments made during the 4-month period of May 1 through August 31, 1985. Therefore, the results can be projected with statistical accuracy to only a 4-month period and not the entire year. However, we did not encounter any unusual conditions which would cause us to expect disbursements during this 4-month period to differ from those for the rest of the year. Because our sample was designed only to estimate governmentwide performance, it does not allow any projections of how well individual agencies performed.

- prudently managed cash by not paying too early.

When we identified a payment problem, we attempted to determine its cause through discussions with payment center officials and by examining supporting documentation. Except for reviewing payment terms included in contracts, we generally limited our evaluation to information available at the payment centers. We did not verify dates essential for determining due dates which had been provided to the centers by agency activities which received the invoices from the vendors or received and accepted the goods and services being paid for. Also, we did not follow up to determine whether the centers had subsequently submitted payment to vendors for the unpaid penalties that we identified.

To compare the timeliness of federal bill paying in 1985 with that we reported in 1978, we collected additional individual payment data. This enabled us to compare our current findings with those of the previous report, recognizing the differences in due date criteria.

To assess the adequacy of current prompt payment criteria, we noted their strengths and weaknesses as we applied the criteria to determine the payment due dates for our sample of invoices. To better understand this area, we interviewed various interested parties to obtain their opinions on the reasonableness of prompt payment requirements and agency compliance. We met with officials at both agency headquarters and field-office levels, OMB, and business associations representing vendors that deal with federal agencies. (See appendix V.) We discussed our findings regarding payment performance with officials at each of the 39 payment centers we visited and obtained their suggestions for improving payment center operations and clarifying prompt payment criteria. In addition, we reviewed and compared the Prompt Payment Act and its legislative history, OMB circular A-125, applicable segments of GAO and Treasury guidance, the Federal Acquisition Regulation, and policies and procedures issued by individual agencies.

To supplement our analysis, we examined agency efforts to identify and correct their own payment system weaknesses. This included reviewing annual Federal Managers' Financial Integrity Act (FIA) reports to the President and the Congress, internal audit reports, and management reviews addressing prompt payment issues.

Finally, to assess the accuracy of OMB's annual report, we examined agency procedures for recording and reporting their fiscal year 1985 prompt pay performance to OMB. We also examined OMB's procedure for summarizing this information.

We performed our work in accordance with generally accepted government auditing standards except that we did not request official agency comments on a draft of this report. However, we did discuss our findings with agency headquarters and payment center officials and included their comments as appropriate.

Chapter 2

Too Many Payments Made Early or Late

Federal agencies have achieved some of the intended payment-timing benefits of the act and the related OMB regulations and Treasury initiatives. Compared with the governmentwide statistics we reported in 1978, the percentages of early and excessively late payments have been noticeably reduced. This has tended to help concentrate payments more closely around the due dates, a principal objective of the 1982 legislation and OMB's implementing regulations. In addition, substantial reductions in early payments have saved the government millions of dollars in interest costs annually.

However, our analysis showed that federal agencies were not yet satisfactorily implementing the requirements to pay in a timely manner. We estimated that the government made three quarters of its payments by the due date, but many of these were paid too soon. Considering both late and early payments, agencies paid just slightly more than half of their invoices in accordance with the basic requirement that payment occur as closely as possible to, but not later than, the due date.

Payment delays, including taking discounts after allowable periods had expired, and rarely paying required interest penalties adversely affected vendors doing business with the government. Conversely, continuing to pay many invoices well in advance of the due date increased federal interest costs.

The Prompt Payment Act Established Specific Due Date Criteria

The Prompt Payment Act established governmentwide payment standards for determining when federal agencies should pay commercial vendors. In 1978, we reported that no governmentwide criteria existed. This led to inconsistent payment-timing practices among federal agencies and disagreement with vendors as to when payment was due. Under the act, agencies are to pay in accordance with terms specified in the purchase order or contract. If these documents do not include payment terms, payment is due within 30 days of the later of (1) the date the government office designated in the contract receives a proper invoice, or (2) the date the government accepts the goods or services. Exceptions to the 30-day rule are that payment is due 7 and 10 days after delivery for meat and perishable agricultural commodities, respectively. Agencies may use other payment terms for perishable agricultural products, but the criteria for paying for meat may not be amended. The act also provides some criteria for taking prompt payment discounts.

To encourage timely payment, the act requires agencies, in the absence of contractual agreements stating otherwise, to pay an interest penalty when they do not pay an invoice by the due date. However, the act also allows an extra 15 days after the payment due date (3 days for meat and 5 days for perishable agricultural products) in which to pay and avoid interest penalties. The act provides this additional interest-free time, commonly referred to as the grace period, to relieve agencies of the administrative burden of paying penalties on bills paid only a short time after the due date.

Interest penalties must also be paid on improperly taken discounts. However, the OMB circular provides that interest need not be paid if the improperly taken discount is repaid within 15 days (3 days for meat, 5 days for perishable agricultural commodities) after the last day that a discount could have been properly taken.

OMB circular A-125 and the Treasury Financial Manual also instruct agencies to avoid early payments by scheduling invoice payments as closely as possible to, but not later than, their due dates. The circular also provides that no interest is due on payments made solely for financing purposes, on payments representing an advance for goods or services to be provided at a later date, or on amounts temporarily withheld in accordance with the contract. The circular further provides that agencies do not have to pay interest penalties of less than one dollar. The Treasury Financial Manual also includes criteria for taking discounts if the contract or invoice does not specify when a discount period is to begin.

Overview of Agency Performance

Federal agencies need to improve their payment timing in order to achieve the principal objectives of prompt payment requirements as set forth in the 1982 legislation and the implementing regulations, OMB circular A-125. Our evaluation of 1,520 statistically selected invoices at 39 payment locations showed that agencies paid 68 percent of the invoices, involving about 85 percent of the dollars, by the due date. However, almost a third of those payments were made too soon. Thus, fewer than half of our sample payments were paid within the 5-day period that could reasonably be considered "on time" (not late, but also not too early).[4]

[4]Although OMB recently revised circular A-125 to define early payments as 3 or more days before the due date, we used OMB's previous 5-day criterion because the change was so recent some agencies had not been notified or had not incorporated the new guidelines into their payment systems.

Table 2.1 summarizes the results of our analysis of these 1,520 statistically selected invoices paid between May 1, 1985, and August 31, 1985. Except for the 23 invoices for which we could not obtain sufficient information to establish a due date, we characterized these sample payments as late, early, or on time. Excluding discounts, we defined these terms as follows:

Late: The check was dated after the due date.

Early: The check was dated 5 or more calendar days before the due date.

On time: A check paying for the goods or services was dated on the due date or any of the previous 4 calendar days.

We considered a discounted payment to be on time if the check was dated on or before the date when the discount period had expired. Otherwise, we classified it as late.

Table 2.1: Timeliness of Payments for Invoices in Our Sample

	Invoices		Dollars	
Payment timing	**Number**	**Percent**	**Amount**	**Percent**
Late				
During a grace period	282	19	$2,187,099	13
After a grace period	186	12	429,116	2
Total late	468	31	2,616,215	15
Early	317	21	7,197,280	41
On time	712	47	7,455,196	43
Could not determine	23	1	96,528	1
Totals	**1,520**	**100**	**$17,365,219**	**100**

Based on this information from our sample payments, we estimate that between May 1, 1985, and August 31, 1985, federal agencies paid 24 percent of their commercial invoices, totaling $7.7 billion, late; 23.5 percent, totaling $44 billion, early; and 52.5 percent, totaling $32.9 billion, on time. Although we have limited our projections to the 4 months covered by our analysis, we are not aware of any circumstances that would suggest that these performance results are different than those for the rest of the year.

Agency activities had not consistently documented when an invoice had been received from the vendor or when merchandise or services were received and accepted for over 200 of our sample invoices. As a result, neither we nor agency payment centers could determine exact due dates for these transactions.[5] Because precise due dates are needed to make finer distinctions concerning payment timing, such as whether interest was due or discounts were improperly taken, we based the following evaluations on the 1,303 payments for which we could calculate exact due dates. (See appendix II for more details on the remaining 217 invoices.)

Agencies Must Reduce Late Payments

The 372 late payments in our adjusted universe ranged up to about 5 months late; however, the vast majority (96 percent) were paid within 60 days of the due date. Table 2.2 shows how late these payments were in relation to their due dates.

Table 2.2: Number of Days by Which Late Payments Missed Due Dates

Days after due date	Number of invoices	Cumulative percent
1 to 15	283	76
16 to 30	45	88
31 to 45	19	93
46 to 60	10	96
61 to 90	10	99
91 to 120	2	99
121 to 150	3	100
Total	**372**	

Many Payments Made During Grace Periods

Further analysis of these 372 late payments showed that almost 63 percent were paid during a grace period and, thus, did not require late payment penalties. Although the Congress specifically established grace periods for avoiding penalties on marginally late payments, it is clear that the intent was not to diminish the requirement that agencies pay their bills by the required payment date. We agree on the need for grace periods to handle occasional payments which for a variety of reasons may be paid late. However, the 233 grace-period payments represent about 18 percent of our sample of 1,303 invoices.[6] Paying almost a fifth

[5]We established approximate due dates for those invoices using assumptions very similar to General Services Administration policies regarding due date calculations when needed date information is missing.

[6]Grace periods are not available for all payments, and some grace periods are shorter than 15 days. These are the main reasons that the number of grace-period payments (233) is less than the number of payments (283) listed as up to 15 days late in table 2.2.

of the payments during grace periods seems to defeat the purpose of having grace periods.

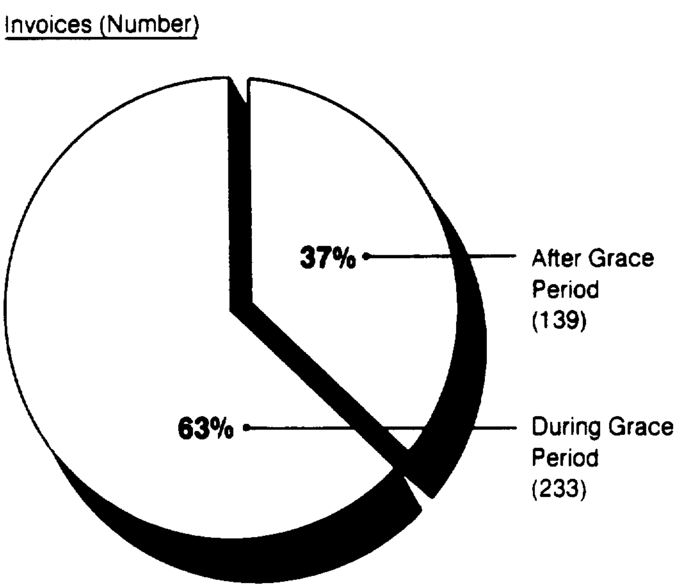
This situation, however, is not as severe as it may initially seem. We did not identify any intentional abuse of grace periods in which payment centers would routinely pay as closely as possible to the end of the grace period to avoid penalties. Further, as shown in table 2.3, most grace-period payments occurred within 5 days of the due date.

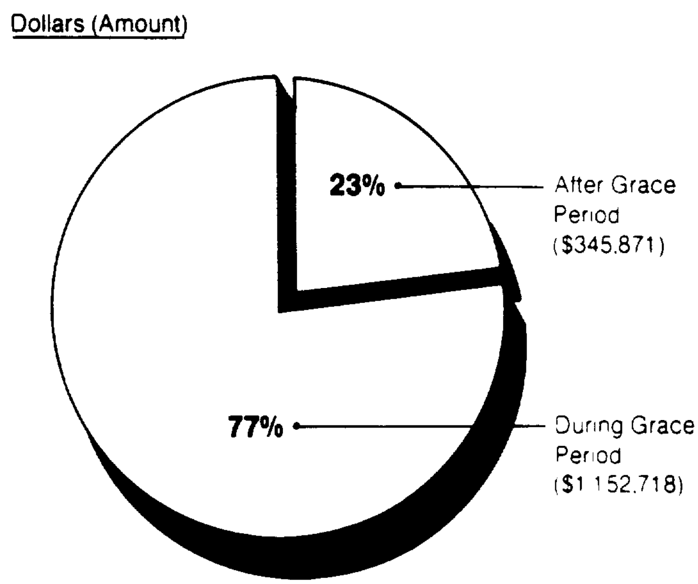
Table 2.3: Distribution of Payments Made Within the Grace Period

	Invoices		Dollars	
Days paid late	**Number**	**Percent**	**Amount**	**Percent**
1 to 5	135	58	$603,539	52
6 to 10	55	24	432,712	38
11 to 15	43	18	116,467	10
Total	**233**	**100**	**$1,152,718**	**100**

Of greater concern, especially to vendors awaiting payment, are the 139 payments in our sample that were made after any available grace period. Figure 2.1 illustrates the breakout, in terms of numbers of invoices and amounts, of the 372 late payments in our sample that were made during and subsequent to grace periods.

Figure 2.1: Invoices Paid During or After Applicable Grace Period





Based on this information, we estimate that during the 4 months covered by our evaluation, the government paid 8.6 percent of its commercial vendor invoices after any applicable grace periods.

Few Penalties Paid or Improperly Taken Discounts Refunded

Results from our sample showed that agencies paid only one out of every six late payment penalties due to vendors. In addition, we could not confirm that any of the 44 improperly taken discounts we identified were refunded. In our view, most of these errors were administrative oversights caused by payment technicians calculating incorrect due dates or not adhering to established due dates when forwarding approved payments for disbursement. (See chapter 3.) Therefore, agencies often may not have been aware that penalties were due or that discounts were taken too late. However, at three payment centers, penalties were not paid unless requested by the vendor. These practices are not consistent with the Prompt Payment Act, which prescribes voluntary payment of late penalties by agencies.

Late payments requiring penalties can occur because either the agency paid after any available grace period expired or did not repay an improperly taken discount within 15 days after the end of the discount period. Except where the contract specifies otherwise—for example, utilities for which penalty terms are generally set forth in state- or federally-approved tariffs and rate schedules—penalty amounts are determined by applying the Treasury-established interest rate in effect at the time payment is made.

We identified 139 payments (those made after any available grace period) that were late enough to be considered for addition of late payment penalties. Of these, 95 were for amounts paid after the grace period, and 44 were for improperly taken discounts that had not been refunded at the time of our review.

Using OMB criteria, we found that 66 of the 139 late payments should have included a penalty payment, but only 10 were paid. Of the 56 penalties that should have been paid but were not, 45 were for amounts paid after expiration of the grace period and 11 were for improperly taken discounts that had not been refunded. The principal reason that the remaining 73 did not require penalties was that according to OMB guidelines, agencies do not have to pay interest penalties of less than one dollar.[7] We found that all but 7 of these 73 were in this category. The remaining 7 did not require penalties for reasons such as the contract precluded penalties, the disbursements were interim payments, or the payments represented advance payments for training and magazine subscriptions.

Not paying required penalties was not isolated to a few centers. We identified unpaid penalties at 24 of the 39 payment centers we visited. As stated above, in most cases payment technicians probably did not know the payment was late and thus that a penalty was due. However, personnel at 3 payment centers told us they routinely did not pay late penalties even though they were aware that such penalties were due. At one Army location, we calculated $239 of interest penalties owed but not paid on six late payments. Two of the unpaid penalties exceeded $90 each. A payment technician at this Army location told us that technicians had not paid interest because the center's policy was not to pay penalties unless vendors complained. However, the official in charge of payment operations did not acknowledge such a policy even though his center had reported no late penalties paid during fiscal year 1985. At another Army location and at a Department of Housing and Urban Development (HUD) payment center, we found that seven of the late payments in our sample should have included penalties. Officials in charge of payment operations at both of these locations acknowledged having informal center policies not to pay interest unless the vendor requested it.

Table 2.4 compares the number and dollar amount of late payment penalties owed to vendors at the time of our review with those that were actually paid.

[7] In general, interest calculations are to be handled as follows. If the invoice amount of a late payment has been paid in full and if the interest penalty as of the date payment took place is not $1 or more, no penalty is payable. On the other hand, if the invoice was not fully paid, such as those involving an improperly taken but not refunded discount, or the unpaid interest is at least $1 as of the payment date, interest can continue to accrue for up to 1 year beyond the payment date. For purposes of our review, we calculated penalties owed as of the date that we reviewed the sample invoice. If the accrued interest exceeded $1 at that time, we considered that a penalty was owed.

Table 2.4: Comparison of Late Payment Penalties Owed and Paid

	Invoices		Dollars	
	Number	Percent	Amount	Percent
Penalties due but not paid[a]	56	85	$779	87
Penalties paid	10	15	120	13
Total	**66**	**100**	**$899**	**100**

[a]Includes 8 invoices for utility services for which a total of $44 in penalties was owed. Because utility companies generally include such penalties in subsequent bills, these penalties may have been paid.

Included in the analysis above are interest penalties that should have been paid on 11 of the 44 improperly taken discounts. These 44 discounts, totaling $686, were taken after the discount period expired and, according to available documentation and discussions with payment center officials, were not repaid. The improperly taken discounts represented 18 percent of the 239 discounts taken in our sample of invoices.

Projecting the results of our statistical sample to the government, we estimate that for the 4-month period during which the invoices we examined were paid, agencies should have paid vendors about 278,000 late payment penalties, totaling about $15 million. In addition, we estimate that during this period about 146,000 discounts, totaling approximately $2 million, were taken after the discount period had expired but were not repaid.

Too Many Bills Are Paid Early

We found that agencies paid about 20 percent of the invoices in our sample earlier than good cash management dictates. Treasury and OMB regulations require agencies to pay as closely to the payment due date as administratively possible to avoid unnecessary borrowing and maximize the amount of cash available to Treasury for investment. Prior to April 1985, OMB required agencies to report as early any payments made 5 or more days before the due date. In April 1985, OMB issued new guidance to agencies instructing them to report any payments made 3 or more days before the payment due date. In both cases, discount payments were excluded from the early payment reporting requirements.

Although the payments in our sample were subject to OMB's revised provision for reporting early payments, we used the 5-day instead of the 3-day period because the policy change did not become effective until April 1985, just 1 month before the period we used to select our sample of invoices. At that time, the change was so recent that some agencies had not fully adjusted their systems to accommodate the new criteria, and some payment centers had not yet been notified of the change.

Our analysis of early payments included 27 interim payments, totaling $2.8 million, made by defense activities for long-term, high-dollar projects before their completion and delivery. Although these are considered early by strict definition, they differ from other payments in that they are generally paid early in accordance with DOD policy. (See chapter 3.)

Table 2.5 shows that agencies made 75 percent of the early payments more than 9 days before the payment due date.

Table 2.5: Invoices Paid 5 or More Days Before the Due Date

Number of days before due date	Invoices		Dollars	
	Number	Percent	Amount	Percent
5 to 9	66	25	$2,790,770	40
10 to 14	67	26	593,672	9
15 to 19	57	22	574,437	8
20 to 34	55	21	2,382,045	34
35 or more	15	6	644,556	9
Total	**260**	**100**	**$6,985,480**	**100**

Had the 260 early invoice payments in our sample been delayed until 4 days before their due dates, the government theoretically could have saved about $23,000 in interest on the additional available funds. Eliminating the DOD early payments for long-term, high-dollar projects from this analysis would reduce the potential savings to about $10,000. We calculated these figures by applying the 8-percent average annual interest rate earned by Treasury on its bank accounts during 1985. Projecting these results to governmentwide commercial payments, we estimate that early payments made during the 4-month period covered by our sample, including those made in accordance with DOD policy, could have cost the government $200 million. This amount would be reduced by about 40 percent if the potential effect of the interim DOD payments is not considered.

Large Amounts Paid Earlier Than Low-Dollar Invoices

Our analysis of early and late payments by dollar value showed that as invoice amounts increased, the likelihood of early payment increased. For example, invoices exceeding $25,000 were almost twice as likely to be paid early as those for $400 or less. Conversely, small payments were much more likely to be paid late. Table 2.6 shows the differences in payment timing by invoice amount.

Table 2.8: Timeliness of Early and Late Payments in Our Sample by Invoice Amounts

Amount of Invoice: More than	Amount of Invoice: Up to	Number of invoices in each category	Percent early	Percent late
$ 0	$400	645	20	33
400	2,500	330	15	27
2,500	10,000	168	20	27
10,000	25,000	72	24	19
25,000		88	38	15
Total		**1,303**		

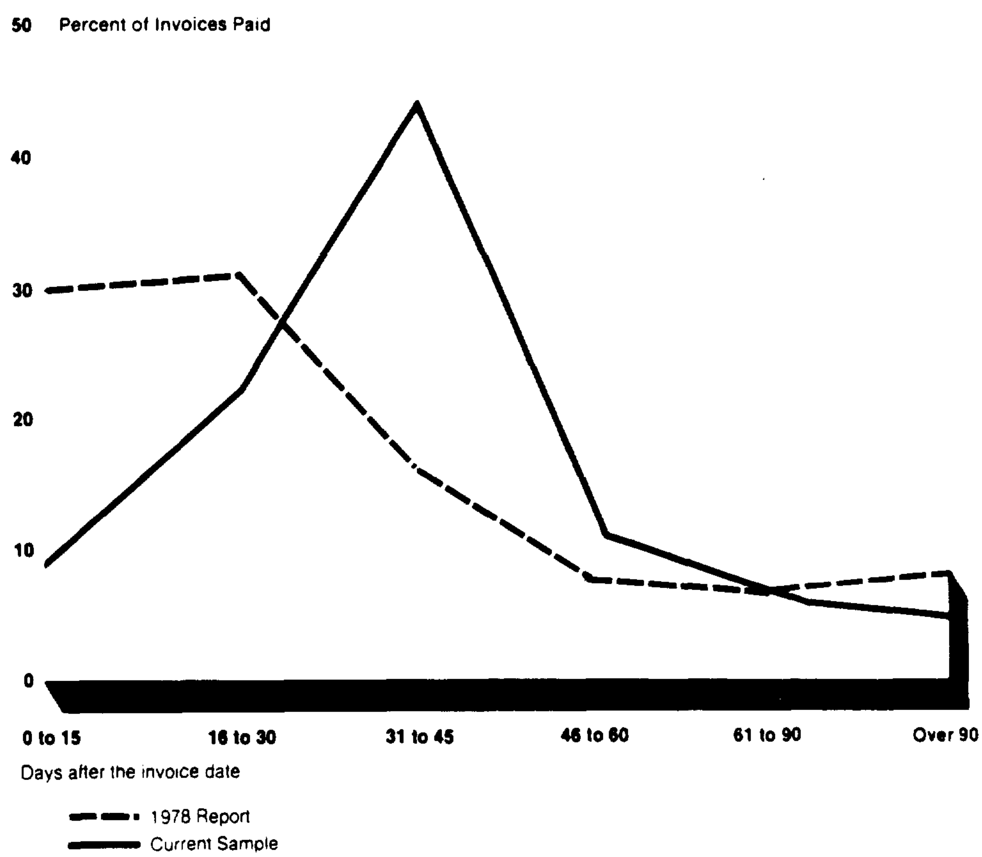
Payment-Timing Performance Has Improved

Comparisons of current and past federal payment-timing performance show that the Prompt Payment Act and the implementing OMB regulations have had a positive influence on agencies' payment performance. Although the changes in due date criteria introduced by the act and OMB circular A-125 limit the types of comparisons that can be appropriately made, we found that payments in our current sample were clustered more closely around their due dates. Also, there were fewer very early (within 15 days of the invoice date) and very late (more than 90 days after the invoice date) payments in this sample than in the sample on which our 1978 report was based.

The main reason that it is not appropriate to compare results from these two samples, without some qualifications, is that current payment-timing criteria can be expected to produce due dates that are a few days later than the criteria we used in developing our 1978 report. In the absence of other specific payment terms in the contractual agreement, current payment-timing criteria require determining due dates by adding 30 days to the later of the date an invoice is received or the date goods or services are accepted. In contrast, our earlier analysis established due dates as 30 days from the vendor's invoice date, thus not allowing any additional time for either receiving the invoice or accepting the goods or services. In addition, governmentwide payment-timing standards did not exist at the time of our earlier review, and agencies may have been scheduling their payments according to varying criteria. Now, all agencies are to comply with the same criteria, including cash management requirements that discourage early payment.

To compare current payment timeliness with that which we reported in 1978, we used the time elapsed between the vendor's invoice date and the payment date because these are the only comparable data available for both payment samples. Although, as stated above, these dates cannot be used to determine if a payment is precisely on time in accordance with current criteria, they can provide an indication of payment timeliness. Figure 2.2 shows significantly fewer invoices in our current sample were paid extremely late or early when compared with the invoices examined for our earlier report. The greatest improvements in payment performance were the decrease in the number of early payments and the concentration of payments in the 31-to-45-day range, as could be expected under existing guidelines.

Figure 2.2: Comparison of Current Payment Timeliness With Statistics in Our 1978 Report



Regarding the excessively late payments, figure 2.2 shows that currently, about 5 percent, as opposed to approximately 8 percent earlier, continue to be paid more than 90 days after the invoice date.

We also contacted 12 trade and business associations that represent vendors who deal with federal agencies to obtain their opinions on the success of the Prompt Payment Act. (See appendix V.) None could provide us any formal studies or surveys of their membership's experience since passage of the act, and 6 told us that they had no opinion on whether the act had been beneficial. Based on discussions with their members, the composite impression of officials at the other 6 associations was that the act had improved the timeliness of federal payments but that many payments are still late and that the government rarely pays late penalties or refunds improperly taken discounts to vendors.

DOD Centers' Payment Performance Was Better Than That of Civil Centers

Defense agencies paid a higher percentage of their invoices on time than did the civil agencies combined. When late payment penalties were due, however, DOD centers were somewhat less likely to pay them. We could identify no specific cause for DOD's better performance other than more careful adherence to prompt payment requirements in general and more frequent performance review and testing by DOD auditors and management. These reviews are discussed in chapter 5.

Defense Agencies Paid a Smaller Percentage of Their Invoices Late

Although payment performance is not yet fully satisfactory for either civil or defense activities, our analysis showed that civil agency payment centers paid invoices late more than twice as often as defense centers, as shown in table 2.7.

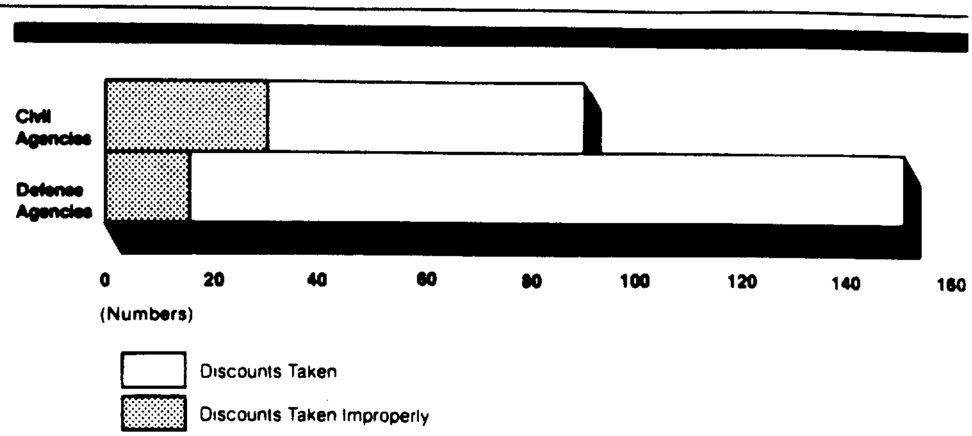
Table 2.7: Comparison of Sampled Invoices Paid Late by Civil and Defense Agencies

Dollars in Thousands

	Invoices			Amount		
	Total	Paid late	Percent	Total	Paid late	Percent
Civil	**573**	247	43	**$7,357**	$1,223	17
Defense	**730**	125	17	**8,287**	275	3
Total	**1,303**	**372**		**$15,644**	**$1,498**	

Included in table 2.7 are 44 improperly taken discounts that apparently had not been refunded. As shown in figure 2.3, civil agency centers were much more likely to take discounts improperly than were defense centers.

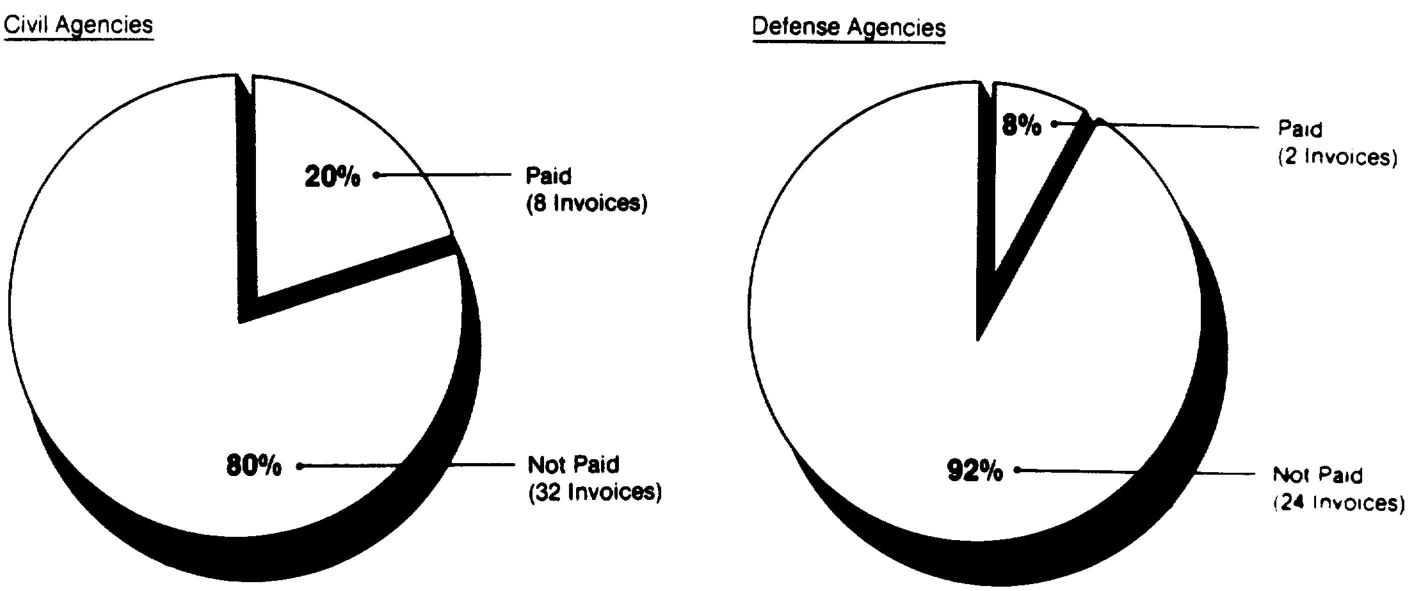
Figure 2.3: Comparison of Improperly Taken Discounts by Civil and Defense Agencies



Civil and Defense Agencies Seldom Paid Required Interest Penalties

We also analyzed the number of late payment penalties that should have been paid, but were not, to identify any material differences between civil and defense agency performance. Although figure 2.4 suggests that civil agencies adhered to the requirement to pay interest somewhat more frequently than did DOD activities, substantial improvements are needed for both civil and defense centers.

Figure 2.4: Comparison of Late Payment Penalties Due and Paid by Civil and Defense Agencies



Little Difference Between Defense and Civil Agency Early Payments

Civil and defense agencies both paid 20 percent of their invoices early. However, 27 of DOD's 146 early payments were interim financing payments, paid early in accordance with DOD policy. (See chapter 3 for more discussion of this issue.) If these payments are eliminated for purposes of measuring payment center compliance with their respective agency policies, DOD's early payments decrease to 16 percent of their invoices that we reviewed.

Conclusions

Implementation of the Prompt Payment Act has yielded substantial improvements in the timing of federal agencies' payments to commercial vendors. Our evaluation revealed that payments in our current sample were much more concentrated around the due date than those we reported on in 1978. This clustering effect had resulted in a noticeable reduction in the excessively late disbursements while significant cash management benefits had been achieved through a marked decrease in early payments.

Collectively, however, federal agencies still face a major challenge to improve the government's image as a bill payer. Only three fourths of the bills are paid by the due date and many of these are paid too soon. In addition, agencies did not consistently take discounts only during the offered time frame or voluntarily pay any interest penalties owed.

On an overall basis, agencies are not consistently adhering to prompt payment requirements. The best indication that administration of these requirements needs to be upgraded is that only slightly more than half of the payments can be defined as on time, that is, they are made neither too early nor too late. As evidenced by continuing complaints, delays adversely affect some vendors. Conversely, early payments increase overall government cost.

The causes of the prompt payment problems we identified and our recommendations for further improving federal payment-timing performance are discussed in chapter 3.

Improving Payment Performance Will Require a Cooperative Federal Effort

A variety of internal control weaknesses and other problems caused the late and early payments we identified. Many agency activities contributed to untimely payments either by not completely carrying out their responsibilities or, in the case of those not directly involved in the payment process, by not fully considering the effects of their actions on payment timing.

Our review showed that 3 years after passage of the Prompt Payment Act, many agencies did not have adequate internal controls in place to ensure that payment centers consistently received all the information required for compliance with the act. Centers did not consistently have copies of contractual agreements needed to identify due date terms. Also, agency activities receiving and accepting goods and services did not always furnish payment centers enough date information on documents acknowledging that goods or services were satisfactory or provide this data on time to avoid payment delays.

Even when complete data were available in time, centers sometimes calculated incorrect due dates by not considering contract terms or by misinterpreting or disregarding prompt payment criteria. In other instances, centers did not carefully schedule payments according to the due dates that they had established.

Lack of specific guidance on payment terms in the Federal Acquisition Regulation (FAR) contributed to the problem of varying contractual due date terms. This, in turn, increased the work load at payment centers and the risk of errors. In addition, some agency and payment center policies and procedures differed from the law and related regulations. We also identified problems concerning purchases of meat and perishable agricultural products that could be reduced through legislative changes.

Avoiding Late Payments Is an Agencywide Responsibility

Although payment centers are the focal point for paying bills, three other agency activities—procurement, receiving and accepting, and disbursement—are usually directly involved in the payment process. They, as well as the payment centers, can cause late payments.

Procurement activities are responsible for including specific payment due date terms in contractual agreements and for forwarding these documents to the payment centers. Agency activities using or receiving goods or services are responsible for recording when such goods or services are received and accepted and must also send this information to the payment centers. Disbursing offices print checks and perform electronic fund transfers.

Payment centers' primary role is to determine that vendor payments are proper and made on time, neither early nor late. Payment technicians at the centers make these determinations based on matching information on vendor invoices, purchasing documents from agency procuring activities, and receipt and acceptance reports from agency user or receiving activities. Thus, in most instances, a payment cannot be processed until the payment center has all of the documents related to a particular purchase.

No standard organization for these centers exists; some agencies have many centers, while others have one or a few that service the entire agency. Each agency establishes its own payment system or systems, some using automated and others manual systems in various combinations. For example, 5 of the 39 payment centers we visited had automated features for scheduling payments according to due dates, determining if late payment penalties applied, and calculating the amount of such penalties. Six more centers had either one or two of the above features automated, while the remaining 28 centers performed these tasks manually.

After verifying that the government is obligated to pay and determining when payment is due, payment centers schedule invoices for payment. The schedules are either typed or recorded on magnetic tape and forwarded to a disbursing activity. Checks for civil agency payments are, for the most part, issued by one of seven Department of the Treasury disbursement activities. Military payment centers normally have their own disbursing component, but Treasury makes all electronic fund transfers.

Data Essential for Compliance Not Available

Many of the payment centers we visited did not have the necessary information required for compliance with the Prompt Payment Act and related regulations, indicating that agencies did not have basic internal controls in place for compliance. Without such information, personnel at these centers could not be sure of calculating correct payment due dates for almost one third of the invoices in our sample. Contracts containing due date terms were often not available. Also, other documents which are to provide the dates required to calculate precisely when an invoice must be paid were frequently not available or not complete. In many cases, it was not clear why contracts were not available at the centers.

However, we found that, for the most part, agency activities which had received the vendor's invoice, or which had received and accepted the goods or services being paid for, had not provided the payment center the dates when such actions had occurred.

According to prompt payment criteria, contract due date terms, if any, govern in determining when an invoice is due for payment. The criteria also require, in many instances, that due dates be calculated based on specific dates, usually the date an agency receives an invoice or accepts goods or services. Consequently, it is essential that payment center staff have contracts available for reference, that required dates be noted on invoices and acceptance documents by agency activities which have this information, and that these activities promptly forward the documents to the payment centers.

We found that 28 of the 39 centers we reviewed did not have all required contracts available for use by their staff. Fourteen centers did not have contracts for 20 percent or more of the payments we sampled, with the percent missing ranging as high as 77. To complete our evaluation, we searched for and secured over 200 contract documents from various agency activities and from vendors whose invoices we reviewed.

Contracts are to be provided to payment centers by agency procurement activities or, in some instances, by another payment center if the task of paying bills is transferred from one center to another. In many instances, we could not determine whether the centers we visited had never received the required contracts or had failed to file them properly for use by their staff. The chief of the accounts payable branch at a General Services Administration (GSA) payment center told us that he had been unsuccessful in obtaining some contracts from the responsible agency procurement office. He also told us that his office was not required to have on hand copies of all contracts related to payments it made. However, according to GSA policy and headquarter officials from the agency's Office of Finance, copies of contracts are to be on file at the center making payments under such contracts even though they did note that the size and volume of the documents involved may make this difficult to achieve. GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires establishing the propriety of payments before they are made, including verification of contract-related information. Consequently, agency policies generally require that contracts be available to payment center staff.

We also found that 26 of the 39 payment centers we visited did not have available all the dates when invoices in our sample were received or when goods or services were received or accepted. As stated above, such dates are generally essential for determining when payment is due. Missing dates affected about 270 of the 1,520 invoices in our sample. At some locations, missing dates were a severe problem. For example, we could not determine the precise due date for 18 of the 21 invoices we examined at a Department of Justice Marshals Service payment center because the Service had not routinely recorded the date it had received a proper invoice from the vendors. On a cumulative basis, essential dates were also missing for a third of our sample invoices at a Department of the Interior, two HUD, and two GSA payment centers. In the majority of the cases, the activity which had received the vendor's invoice or had received and accepted the goods or services being paid for had not provided these dates to the payment center.

Obtaining some missing dates from these activities and securing contracts from various sources allowed us to calculate precise due dates for 1,303 of the 1,520 invoices in our sample. As described in chapter 2, using the invoice date and other available information also allowed us to determine approximate due dates for all but 23 of the remaining 217 invoices. However, because information required for more detailed evaluations was not available, the following discussions on causes for untimely payments in our sample are, for the most part, based on the 1,303 invoices for which we could determine precise due dates.

Various Agency Activities Cause or Contribute to Untimely Payments

We found that payment centers and receiving and accepting activities caused most of the untimely payments in our remaining sample of 1,303 invoices. Payment centers did not consistently determine the correct due date for invoices or did not ensure that they were scheduled for payment according to established due dates. Receiving and accepting activities caused or contributed to many of the late payments because they either did not forward sufficient data to payment centers to allow precise calculation of due dates or did not send required information in time to allow timely payment.

To determine which federal activity had caused delays, we analyzed the 372 late payments in our sample for which sufficient data were available to establish precise due dates. We based our analysis on the data in documents supporting each payment, on dates when the centers had received these documents, when centers had forwarded their scheduled payments to the disbursing activity, and when that activity had issued the checks.

We allowed payment centers 1 week after receipt of all pertinent documents to determine that payment was proper, establish due dates, and schedule invoices for payment. We also considered the number of days center officials said it usually takes for their scheduled payments to reach the disbursing activity and for that activity to issue the checks. Table 3.1 shows the results of this analysis.

Table 3.1: Activities Which Caused Late Payments

Activity	Number	Percent
Payment center	169	45
Location receiving and accepting the goods or services	135	36
Disbursement center	14	4
Unable to determine[a]	54	15
Total	**372**	**100**

[a]We could not determine which activity had delayed payment. This was because the payment center did not record the date it had received documentation from the receiving activity acknowledging that goods or services had been accepted.

Payment Centers Should Calculate Due Dates and Schedule Payments More Precisely

Payment centers caused 45 percent of the late payments. They also caused all early payments because they determine when an invoice should be paid and schedule it for payment on a particular day.

In many instances, we could not identify the precise payment due date the centers had calculated for each invoice. This prevented us from identifying in each case if a late or early payment in our sample was the result of errors in determining the due date or of not carefully scheduling the invoice for payment according to an established due date. However, we found evidence of problems in both areas, and some illustrations follow.

Disregarding Payment Terms Leads to Calculating Incorrect Due Dates

We found that a number of payment centers calculated incorrect due dates and took improper discounts because payment technicians did not consistently consider payment terms specified in contracts.

For example, in determining when an invoice was due, staff often apparently used payment terms specified on delivery orders. However, a delivery order is not a contract. It is a purchasing document prepared by an agency procurement officer when requesting a vendor to deliver merchandise or services pursuant to prior contractual agreements. The delivery order should refer to the related basic contract.

The chief of the payment branch at a GSA payment center and officials from other centers said that when calculating due dates, they relied on payment terms on delivery orders without verifying that they were identical to provisions in the underlying contractual agreements. We found that a number of these orders had incorrect or incomplete terms. For example, five delivery orders at one GSA payment center did not include any payment due date terms or included terms of either "net" or "net 30." Alone, such terms are not sufficiently specific to allow calculating precise due dates. The contractual terms, however, were very specific in four cases stating that payment was due 30 days after the receipt of a proper invoice or acceptance of the goods or services, whichever was later. The four contracts further stated that for payment purposes, acceptance was deemed to have occurred a certain number of days after delivery of the goods or services. All five payments were late, and disregarding the contractual terms may have caused four of the late payments. We also found that other payment centers apparently made early payments by disregarding contract provisions concerning predetermined acceptance dates (discussed later in this chapter). For example, a Treasury center which did not compare delivery orders with contractual terms paid a $37,000 invoice 30 days early and a $23,000 invoice 17 days before the due date.

Other examples of late payments and improperly taken discounts caused by not following contract terms appear below.

- A National Aeronautics and Space Administration (NASA) payment center paid an invoice for $171,000 a month late because the payment technician calculated the due date based on when the item was accepted. The contract provided that "Payment Terms shall be net thirty (30) days from date of invoice."
- An Air Force payment center took a 2 percent discount 18 days after the discount period had expired. The delivery order did not specify how to calculate the discount period, and the payment technician did not follow contract terms which defined the start of the discount period as the merchandise delivery date. Instead, the technician used the invoice receipt date as the start of the discount period.
- Two delivery orders at a Navy payment center showed payment terms which included a 3 percent prompt payment discount, and the center took the two discounts as indicated in the orders. However, neither the

contract nor the invoices showed that the vendor had offered a discount. Although the vendor had complained about the erroneous discount terms on the delivery orders, this did not prevent the payment center from taking the improper discounts.

As discussed later in this chapter, more uniformity in contract terms would help prevent errors in calculating due dates. In addition, payment centers could operate more efficiently if agency procurement officers would ensure that delivery orders include accurate and complete contractual payment terms.

Center Officials Used Incorrect Due Date Criteria

We also found that payment delays can occur because payment center officials either are not familiar with or otherwise do not follow existing criteria for determining when payment is due. For example, according to prompt pay criteria, unless the contract states otherwise, the date an agency receives a proper invoice at the place named in the contract is one of the dates to be considered in calculating due dates.

However, when calculating due dates, payment technicians at one Army center routinely used the date the center had received invoices even though another Army activity, the designated location, had often received the invoice first. The other location subsequently forwarded them to the center. The chief of the center told us that he had assumed that the method used to determine due dates was correct.

A NASA payment center, which was the designated place for receiving the invoice, sent some invoices to another agency office for approval. In calculating due dates, the center incorrectly used the date these invoices had been returned from the approving office, rather than when it had originally received them from the vendor. The same center also chose the wrong start date when computing due dates for other invoices. Instead of using the date the goods or services had been accepted, it used the date acceptance was posted to accounting records.

We found that 40 and 48 percent of the payments at the Army and NASA locations, respectively, were late. Although we also identified other problems at these centers, using the incorrect criteria in calculating due dates appears to have been a contributing factor for some of the late payments we found.

A Department of the Interior payment center routinely added 4 days to the invoice date to establish the receipt date when an agency office that received an invoice did not record the receipt date on the invoice. We contacted the agency offices which had neglected to record the invoice receipt date and determined that the invoice and the invoice receipt date were often the same.[8] The center had paid 56 of the 58 sampled invoices late. Using the correct invoice receipt date could have prevented 20 of these late payments.

This payment center may have reacted to an agency audit conducted 2 years previously. The auditors also had found that offices designated to receive invoices from vendors did not always record the receipt date on the invoice. At the time of the audit, the center was using the date of the vendor's invoice as the receipt date and the auditors, assuming that the invoice date would generally be at least several days before the invoice was received, indicated that the center may have made early payments. However, as noted above, we found that by routinely adding 4 days to the invoice date, the center actually made late payments. This points out that payment centers cannot arbitrarily create invoice receipt dates. To prevent late and early payments, agencies must have adequate internal controls in place to ensure that responsible activities record dates required to calculate precise due dates on the appropriate documents.

Careful Scheduling Can Prevent Late and Early Payments

We found that some payment centers did not schedule payments in accordance with established due dates. Instead, some combined several invoices for payment without considering due dates and others apparently paid invoices as they arrived or at random. These practices resulted in both late and early payments.

Combining or batching invoices can be a useful approach for centers which receive many invoices from the same vendor because it offers opportunities to save some processing or check issuance costs. Small centers may also resort to batching to avoid preparing and forwarding payment schedules for disbursement every day. This is particularly true for civil agency centers which routinely record their payments on magnetic tape because Treasury, in the interest of efficiency, wants such tapes to include at least 100 payments. To reach this minimum, however, low-volume centers may either pay early or delay some invoices.

The official responsible for payment operations at one low-volume HUD payment center told us that some of their late payments may have been

[8]This could occur when agency personnel pick up merchandise from a local vendor and receive the invoice at the same time.

caused by Treasury's minimum requirement for payment tapes. However, officials at this center assured us that because of their backlog in processing invoices, they never made early payments. Nevertheless, while 29 of the 40 invoices we sampled at this center were paid late, 8 were paid early, indicating that inappropriate batching may have resulted in early as well as late payments.

Combining several invoices for payment with one check led to other untimely payments. For example, a Treasury payment center combined three invoices from one vendor, resulting in one invoice being paid late and the other two being paid 12 and 19 days early. The same center paid another vendor for nine invoices on the same day; seven of the invoices were paid up to 13 days late, while the remaining two were paid 19 and 21 days early. An official of an Army payment center also told us that combining payments to issue only one check may have caused some of their late payments.

Although combining invoices for payment can help save some processing and check issuance costs, it is important to consider payment due dates. Otherwise, efforts to calculate precisely when payment is due are wasted because intended benefits are not achieved.

Center Officials Can Try to Compensate for Staff Shortages and High Turnover

Some payment center officials blamed high staff turnover— which indirectly contributed to inadequate training—and excessive work load at the centers for late and early payments. We agree that both of these factors—poorly trained personnel and inadequate staff resources—have contributed to payment-timing errors. However, payment center management could lessen the adverse effects of staffing problems somewhat by closer supervision of payment technicians and implementing changes in center operating procedures such as screening invoices upon arrival for possible close due dates and having them processed accordingly. Similarly, correcting problems in areas discussed throughout this chapter should help avoid many late and early payments.

User and Receiving Activities Should Send Complete Data Sooner

We found that 36 percent of the late payments were delayed by agency activities which use or receive the goods or services because they did not forward required information or acceptance documents to the payment centers in time to allow processing invoices and issuing checks by due dates.

Activities Did Not Provide All Required Data

In some instances, payment centers had difficulties in determining payment due dates because user and receiving activities had not provided the dates for when an invoice had been received or goods or services had been received and accepted. For example, we had to contact 15 Department of the Interior activities to obtain or clarify required dates to calculate due dates for 36 invoices in our sample. We believe it is not practical to expect payment centers to routinely make such follow-up calls.

We made other follow-up calls to Defense Contract Audit Agency (DCAA) activities which, in some instances, were the designated location for receipt of the invoice. In most cases, DCAA could provide us with dates they had received and approved invoices for payment. A DCAA official told us that, if requested, they could provide payment centers the required information without any problems. He told us that DCAA had not been aware that the centers needed these dates.

One contributing factor was that a commonly used DOD receiving/acceptance report did not provide space for recording both the receipt and acceptance dates for the goods or services purchased. We also noted that in many instances, an approving official had annotated (certified) on the invoice that payment was proper, thus making the invoice also serve as the acceptance report. Such combined invoices and acceptance reports also were often missing crucial dates, such as when invoices were received and when goods or services were received and accepted.

Activities Slow in Forwarding Required Documents

We reported in 1978 that delays in forwarding acceptance reports were a major reason for late payments. This is still the case. We found that in 81 of the 135 cases where the receiving or user activity had caused the delay, payment centers had received the acceptance or approval documents too late to pay on time.

Based on our sample, table 3.2 shows that activities receiving and accepting goods and services met the allowed time for forwarding acceptance reports to the payment center only 62 percent of the time. It also shows that when the delay in forwarding the acceptance reports increased, more invoices were paid after the due date.

Table 3.2: Elapsed Time From Date of Acceptance Until Payment Center Received Documentation for Invoices in Our Sample

Days elapsed	Documents involved Number	Documents involved Percent	Related invoices paid after the due date Number	Related invoices paid after the due date Percent
0 to 7	622	62	149	24
8 to 14	161	16	58	36
15 to 21	68	7	26	38
22 to 28	46	5	19	41
29 and over	105	10	46	44
Total	**1,002**	**100**	**298**	

Note: For 301 of the 1,303 invoices in our sample, the date the payment center received the acceptance report was not available.

The actual number of late payments caused by agency activities receiving and accepting the goods and services is probably larger. This is because in making our assessment, we considered the documents to have been sent on time if the payment center received them at least a week, plus any needed mailing and check issuance time, before the due date. In contrast, OMB and agency policies require that they be received within 7 days after acceptance. Depending on due date terms and other circumstances, our approach allowed an additional week or two for the documents to reach the payment center without holding these activities responsible for the delay in payment.

A major benefit of forwarding acceptance reports to payment centers immediately after acceptance is that this provides the centers more flexibility to schedule their work, an important factor for centers with high staff turnover and limited staff resources.

Delays in Issuing Checks

We attributed only 4 percent of the late payments to delays in forwarding authorized payment requests to a disbursing activity or to delays in issuing checks.

Because military payment centers normally have their own disbursing component, they can frequently issue checks either on the same day as or the day after receiving schedules of authorized payments. However, we found that it took from 1 to 10 days after the civil agency payment centers had forwarded their schedules for Treasury to receive them and issue the checks. According to an analysis by one NASA payment center, the time required for this process varied from 3 to 6 days depending on the day of the week it sent its schedules to Treasury.

Unable to Determine

In 54, or 15 percent, of the cases, we were unable to determine which activity had caused the delay because key dates, such as when the payment centers had received the invoices and/or acceptance reports, were missing. Although date-stamping all incoming documents is a basic internal control feature, 32 of the 39 centers we reviewed did not always do this. By neglecting this task, centers had lost the "audit trail" that shows which activity caused the late payment. Without this information, agency managers cannot identify reasons for delays and, thus, cannot precisely target corrective actions.

Simple and Uniform Payment Terms Needed

Some payment-timing problems were attributable to procurement practices and other agency policies beyond the control of the activities discussed above. The FAR, which outlines federal procurement policy and includes specific clauses to be used in contracts, does not include the provisions of the 1982 prompt payment legislation.

As a result, many contractual agreements did not include specific due dates and, in some instances, agency procurement offices were using varying payment terms. The resulting uncertainties over whether contracts contained any specific terms and searching for the terms require more payment center effort to avoid mistakes, thereby increasing processing time and the need for training and supervision. Also, it was not clear, given the increased risk of errors, that the different terms used necessarily offered any benefits to the government or, in some cases, whether they were appropriate.

Utility bills presented unique problems because of the variability in payment terms and occasional difficulty in defining due dates. Handling these through automated monthly payments may present opportunities for increased productivity and avoidance of late payment penalties.

Also, we found that some agency policies for handling interim payments, discounts, and meat and perishable agricultural products were inconsistent with existing legislative or regulatory guidelines.

Federal Acquisition Regulation Should Establish Use of More Uniform Payment Terms

The FAR, which establishes policies that federal executive agencies are to follow in acquiring goods and services from the private sector, is issued jointly by the Administrator of General Services, the Secretary of Defense, and the Administrator for NASA. Although one of its stated purposes is to provide for coordination, simplicity, and uniformity in the acquisition process, the FAR does not, for the most part, offer specific payment terms to be included in contracts. Instead, it instructs agencies to insert due date terms in accordance with their own policies, thus inviting variety in payment terms. At the close of our review, the three agencies had published proposed modifications to the regulation which would address agencies' responsibility for payment timing.

Financial managers at agency headquarters and payment center levels cited the need for more uniformity. A Navy official said that a standard clause should be developed for inclusion in contracts that would provide exact payment and discount terms, including how to determine start dates for discounted and nondiscounted payments. A Defense Logistics Agency (DLA) Deputy Accounting and Finance Officer told us that it would be appropriate to establish uniform terms, use them consistently, and encourage vendors to offer discounts if they wished to be paid sooner than the normal due date.

A major DOD report on payment policy also recommended moving in this direction. It proposed that contracts should not normally include payment terms of fewer than 30 days. Defining the start dates as those outlined in the act and adopting 30 days as the uniform payment period would offer substantial uniformity. Of course, items of a highly technical nature which require longer inspection periods may merit different terms. Highlighting such differences in the contract and subsequent delivery orders based on those contracts would serve as a quick, efficient notice of the variation.

Tangible benefits from such an approach include reducing the risks of paying late or early and the corresponding costs to either the vendor or the government. Less visible but important factors are that this could also make payment technicians' tasks easier and improve vendor relations by making payment dates somewhat more predictable.

Varying Payment Terms Contributed to Missed Due Dates

Varying payment terms combined with other problems such as not having access to or not following contract terms contributed to making early and late payments. If payment technicians must search for the appropriate contractual terms and determine their meaning, the time required to process payments increases. While some of the different payment terms we encountered, such as requiring monthly rather than individual billings for small purchases made during the month, were designed to reduce work loads, others as described below often did not appear to have valid advantages. Variances were particularly apparent when agency contracting staff included predetermined acceptance dates.

Need for Different Terms Questionable

We found variances in payment clauses in GSA and DLA contracts which are used by these and other agencies when purchasing supplies and other items. Many of the GSA contracts contained predetermined acceptance dates for calculating payment due dates. That is, for payment purposes, the acceptance date would be a specified number of days after the date the goods or services are delivered. The primary purpose for using other than the actual acceptance dates was to address vendor complaints that agencies were taking an inordinately long period to officially accept goods and services after they had been delivered. However, because these periods varied considerably, they also led to mistakes in calculating due dates. Some were specified as 5, 7, 10, 15, or even 30 days after a specific event, commonly the delivery date. Also, we could not find valid reasons for some of the differences.

The director of GSA's Office of Acquisition Policy told us that including predetermined acceptance date clauses in GSA contracts was designed to minimize any adverse effect to the vendors of slow acceptance of goods or services by agency receiving activities. She said that adhering to the predetermined terms would ensure that the payment period, such as 30 days, would begin reasonably soon after agencies received goods or services. This is because actual acceptance dates would not be a factor in determining the due date.

Our 1978 report, in which we defined the due date as 30 days after the invoice date, noted that slow acceptance of goods and services contributed considerably to late payments. Our current comparison of receipt and acceptance dates does not suggest existence of widespread delays. However, these dates were not available for all invoices in our current sample, and we have concerns that recorded receipt dates may not always have been actual receipt dates. One reason for this uncertainty is that some purchase order forms also serve as acceptance documents but do not ask that both dates be provided. As a result, no assurance exists that the single date recorded represents the receipt date, acceptance date, or possibly the date of both events. Similarly, invoices annotated to serve as acceptance reports, a practice used by many agencies, usually contained only one date.

Although we recognize that timely acceptance is an essential element of the payment process, establishing predetermined acceptance dates is only a partial solution because it does not directly address the need for agency receiving activities to accept items as soon as possible after they have been delivered. Predetermined acceptance periods, for purposes of establishing due dates, do not prevent late payments because payments generally may not be made before <u>actual</u> acceptance has occurred and the center has received the confirming documents. Basing due dates on such predetermined periods will, however, be more equitable to the vendors. This is because delays in actual acceptance will not automatically extend the due date as would be the case if the due date was based on the later of when the invoice was received or the items accepted. Thus, agencies may be required to pay interest for any excessive delays in accepting goods or services.

Regarding the large differences in predetermined acceptance periods, we could not find valid reasons for some of them. For example, contractually defined acceptance periods varied from 5 to 30 days after delivery for purchases of paper. Actual acceptance periods for this merchandise varied from 4 to 12 days after delivery, suggesting that 30 days was excessive. We had anticipated that contracts containing lengthy acceptance terms would be for rather specialized items requiring extensive inspection prior to authorizing payment. However, one invoice for routine office supplies had a predetermined acceptance period of 30 days after delivery. Another contract included the same 30-day acceptance period for a $67 quarterly bill for trash removal. In both cases, payment could have been made up to 75 days following delivery or completion of the service, and no interest would be due the vendor.

At the close of our review, both OMB and the agencies responsible for issuing the FAR were proposing changes to limit acceptance periods used to establish due dates. OMB had proposed that acceptance be defined as 5 working days after delivery of goods or receipt of services. In contrast, the agencies responsible for the FAR had published for comment a proposal that the maximum time between delivery and acceptance of satisfactory goods or services would be 30 days. Thus, actual dates would be used if acceptance took place before 30 days, but the date could not exceed 30 days regardless of when the agency accepted the items. Although the second alternative would address the most serious delays, it could imply that 30-day acceptance periods are appropriate.

We also identified different terms for similar products (food items) in DLA contracts. For example, a contract for frozen dairy products required payment in "10 days"; another for refrigerated or perishable pastries "11 days after arrival"; and a third for frozen juices in "30 days."

An official at DLA's Defense Personnel Support Center, Commissary Procurement Section, told us that the section has previously paid little attention to due dates in vendor offers because they were under the impression that the act called for payment in 30 days regardless of contract terms. Since being informed by agency counsel that contract terms govern payment, he said the procurement section was attempting to include 30-day terms as contracts were written or renewed. He said it was doing this to achieve uniformity and because procurement personnel realize that it would not be practical to assume that payments can be processed and made in less time.

Paying Utility Bills Presents Special Problems

We identified several problems involving payment of utility bills which need to be addressed. In those instances where the federal government does not have a contract with the utility company, agencies are required to follow any due date terms included in the company's tariff or rate schedule as approved by state regulatory bodies.

Due date terms varied considerably from company to company and often were too ambiguous to allow payment technicians to calculate or verify that due dates contained on invoices were correct. For example, a telephone company tariff provided that payment was late if not paid within 17 days of the bill mailing date. A company spokesperson could not tell us how to establish the "bill mailing date" or assure us that the payment due dates printed on the invoice consistently reflected the 17 days allowed for payment as approved by the state regulatory commission. Another tariff provided that late penalties were due unless payment was received within 20 days of when the bill was rendered. A spokesperson for one company told us that "rendered" identified the date the company prepared the bill, while one for another company said it identified the date the bill was mailed. Other payment terms in other tariffs were equally ambiguous.

In addition, companies often considered the payment date to be when the company had recorded payments received in company accounting records, thus adding to existing difficulties of paying on time. A headquarter's official from GSA's Office of Finance noted that utility companies often automatically charged late payment penalties if prior-month payments were not recorded when current month billings were being prepared. He said that GSA generally does not challenge these penalties because it would require too much time to determine in each case whether the company had not promptly recorded the payment or whether the government was at fault. GSA records showed that it had paid about $69,000 in such penalties during fiscal year 1985 and for fiscal year 1986 had already paid $133,000 as of February 1986. GSA officials attributed this increase to better reporting rather than paying more late penalties. Because the extra time needed for mailing the checks and recording of payments by utility companies are beyond the agencies' control, it is very difficult for agency officials to try to avoid late payment penalties and simultaneously try not to pay too early.

GSA processed about 80,000 utility payments during fiscal year 1985, or about 320 each work day. The section chief responsible for paying utilities at one center told us that trying to determine precise due dates for each invoice under such circumstances would consume too many staff resources. Instead, he said they disregard due dates and try to pay these bills as soon as possible to avoid paying penalties.

An alternative payment procedure, considered but not yet actively pursued by GSA, could reduce processing time and eliminate penalties. This option would involve paying for such services on a level-payment plan, as is available to private households. Under this approach, agencies would pay an equal amount per account for the first 11 months and reconcile actual usage with the amounts paid in the twelfth month. We have not attempted to estimate administrative savings achievable by reducing payment technician roles in paying utilities, but we believe work load savings combined with elimination of late payment penalties could produce substantial benefits.

GSA's payment system already automatically authorizes monthly payments for certain level-amount recurring bills, such as rent, for which no invoice or acceptance report is needed. Such practices also may be appropriate for paying utilities since there is an ongoing business relationship and, therefore, an opportunity to offset any improper payments against future obligations. However, considerable preparation would be needed to implement this approach. In some instances, utility companies would need to obtain approvals from state regulatory bodies. Agencies would need to discuss monthly payment amounts and check-issue dates with utility companies to arrive at a consensus that considers seasonal use fluctuations and eliminates penalty charges. In fact, before any decision to proceed with such an approach is made, steps would need to be taken to address the possibility that seasonal usage differences, combined with a level-payment plan, could violate the general prohibition against the government paying for goods and services prior to receipt.

At the user level, adequate documentation would still have to be maintained and periodically reviewed to ensure that disbursements are accurate. Results of exploring this alternative should offer data on the comparative advantages of paying for actual monthly usage versus flat monthly rates reconciled every so often, such as annually, and should consider factors such as system costs, productivity matters, late payment penalties, internal controls, and the cost of money.

Military Policies Deviate From Legislation and Regulations

DOD and some military services do not follow legislative and OMB guidance for specific types of payments or merchandise. We found that some military services' policies related to paying bills for meat and perishable agricultural products differed from legislative requirements. Also, DOD policies and practices related to the timing of certain interim payments were inconsistent with OMB criteria.

Interest Not Paid as Required by Law

Military services' late payment policies for meat and perishable agricultural products are not consistent with the act. The act calls for agencies to pay for meat and meat food products within 7 days of delivery. Perishable agricultural products are to be paid within 10 days after delivery unless contracts contain other terms. Also, interest penalties are required if meat items are not paid by the third day after the due date and perishable agricultural products by the fifth day. The act does not relieve an agency of the requirement to pay within these time frames even if it does not receive an invoice from the vendor or to pay interest if it delayed payment beyond the grace period because it was waiting for an invoice.

Although there were only 11 invoices for meat and perishable agricultural products in our random sample (all of which were paid by Air Force payment centers), 10 were paid after the grace period. Of these, 7 required interest penalties, but none were paid.

Air Force, Navy, and DLA regulations instruct payment centers not to pay for these types of items until an invoice is received. The Air Force regulations also extend the grace periods for avoiding interest penalties. They state that interest is not paid unless payment occurs after the grace period <u>and</u> 4 or more business days after receipt of the invoice.

Since the date an invoice is received could be well after the grace period has expired, the regulations improperly permit not paying interest beyond the time provided for in the act.

Although delaying payment until after an invoice has been received is also not in line with the act, it does offer better internal controls over disbursements. GAO's Policy and Procedures Manual for Guidance of Federal Agencies generally requires that agencies have invoices to support that payments are valid unless payments are for fixed amounts paid at regular intervals, such as rent. Also, agency payment systems sometimes compare vendor invoice numbers as an internal control to prevent duplicate payments.

We are aware that the Prompt Payment Act calls for quicker payments for certain commodities such as meat and perishable agricultural products. However, for the government's best interest, we do not believe that agencies should be placed in the position of disregarding good internal controls in an effort to avoid paying interest penalties if vendors do not furnish invoices soon enough. In five of the above late payments, vendors' invoices were dated at least 5 days after delivery, and one was 21 days later. Based on current payment criteria, in these instances the government owes the vendors interest for late payments even though the vendors did not promptly provide invoices. Requiring vendors to submit invoices as a condition of payment would offer more assurance that payments for such items are proper. Further, it would address any uncertainties concerning whether interest should be paid if an invoice is not received.

DOD Does Not Follow Prompt Payment Requirements for Interim Payments

DOD has not followed OMB requirements to include payment due date terms in contracts which provide for a series of payments based on partial executions or deliveries. The department pays billions of dollars annually for high-cost items such as ships, aircraft, and weapons systems based on progression of the project or levels of cost incurred before delivery of the final product. By DOD policy, such interim payments are to be made 5 to 10 days after receipt of a company's request for payment.

OMB amended circular A-125 in July 1984 to highlight that such interim payments are subject to its cash management requirements. The revision emphasized that unless contracts contained other due date terms, agencies were not to pay too far in advance of the 30 days required by law.

One of OMB's concerns was that DOD may not be receiving adequate benefits for making these interim payments early.

Based on the results of our work and the OMB regulations, we estimate that DOD's policy of paying within 5 to 10 days rather than making these types of payments in 30 days could have unnecessarily increased Treasury's fiscal year 1985 interest costs by about $85 million during the 4 months covered by our sample. DOD recognizes that payment timing has major cash management implications for the government and that it affects contractors' profit margins. Based on a major study of its payment policies and contractor profitability, DOD continues to believe that paying within 5 to 10 days after receiving the payment request is the most appropriate approach. DOD's report concludes that considering all of the factors that cumulatively determine contractor profitability—and payment timing is only one of many factors—compensation levels were proper. In addition to the issue of appropriate compensation levels, payments in line with DOD's policy of paying within 5 to 10 days would reduce contractors' carrying costs and could increase private sector competition for these types of contracts. We are currently reviewing the DOD report's conclusions and recommendations in a separate evaluation.

By not including due date terms in these types of contracts, DOD has avoided being contractually obligated to pay by certain dates. DOD also has not followed OMB's requirement to report these as early payments. Using prompt payment requirements, 2 of the 30 DOD interim payments in our sample were on time, 1 was late, and 27 were early. In addition, we found that 9 of the DOD interim payments in our sample were made before and 15 were made after the 5- to 10-day period. The date of payment ranged from 1 to 36 days after DOD had received vendors' requests to pay.

It is not clear whether or not paying early has had any financial effect on overall government costs. However, delays either in including due date terms in such contracts or in paying as closely as possible to, but not later than, the end of the 30-day period after receiving a proper payment request mean that annually billions of dollars in vendor payments will not be made in accordance with the OMB circular. The proposed modification to the FAR, mentioned earlier, includes a due date clause to be included in contracts involving interim payments in order to address this federal policy.

NASA, which deals with the same types of procurement actions but on a smaller scale, now includes due date terms in most of these kinds of contracts. A NASA official told us that until recently, it made interim progress payments in an average of about 18 days but that it had revised the payment terms in its contract solicitations to provide for payment in 30 days. He said that these terms were being added as contracts were renewed or new contracts issued. He estimated that about 90 percent of active contracts contained the 30-day terms. NASA officials told us that the changeover had to be phased in because if earlier contracts were awarded with the understanding of speedy payment, delaying payments for 30 days may be inequitable. Using prompt payment criteria, 16 of the 36 NASA interim payments we reviewed were on time, 14 were late, and 6 were early.

In summary, OMB's approach is intended to save the government money by not making any payments earlier than the act requires. DOD's position is that any additional Treasury costs incurred for payment within 5 to 10 days are offset by a number of factors included in its pricing and profit policies. However, in August 1986 testimony before the Subcommittee on Defense, Senate Committee on Appropriations, the Deputy Secretary of Defense outlined several payment-related proposals for controlling the rate of federal outlays. One of these would slow interim progress payments to other than small businesses by specifying that beginning September 1, 1987, such payments are not to be made earlier than 15 days after submission of contractors' request for payment.

We believe that the large dollar amounts involved in these interim payment transactions dictate that DOD and OMB resolve whether or not a shorter DOD payment period is in the best interest of the government. Regardless of how this issue is ultimately resolved, including due date provisions in new contracts or amendments to existing agreements would satisfy the OMB requirement to contractually define due dates and increase the predictability of payment timing.

OMB Emphasis on Avoiding Early Payments May Increase Late Payments

Recently tightened OMB reporting requirements for early payments may actually increase the numbers of late payments. Until April 1985, OMB required agencies to report payments made 5 or more days before the due date, thus providing a 5-day window—the due date and the 4 previous days—during which payment was considered neither early nor late. However, OMB's April 1985 revision required any payment at least 3 days early to be reported.

Satisfying this more stringent cash management objective could reduce federal interest costs by millions of dollars annually. However, we have reservations whether this narrow payment window is realistic for all payment operations. Civil agency payment centers close to a Treasury disbursement center should be able to comply. Similarly, by and large, all DOD facilities prepare their own checks, and several DOD officials advised us that after payments are authorized, they generally allow 1 day to prepare checks.

The principal problem lies with those facilities who rely on Treasury disbursement but which also must allow for mailing time when scheduling invoices for payment. At least 14 of the 39 centers we reviewed are in this category, and several expressed doubts that they could consistently schedule payments to obtain a Treasury check dated within the 3-day window.

We believe this change could result in more payments being made in the early part of the 15-day grace period. Given the stringent reporting requirement, payment centers may only allow the minimum estimated mailing and check issuance time when scheduling payments. This will avoid the possibility of having to report early payments simply because mailing and check issuance, over which centers have no control, took less time than anticipated. Any resulting increase in these marginally late payments would not be visible through reporting since OMB currently does not ask for data on payments made in the grace period. Reverting back to a 5-day payment window would seem appropriate for centers which must mail payment schedules to Treasury for disbursement.

Discount Policies Should Be Clarified

We also identified several issues regarding taking discounts that should be addressed to provide uniform policies. OMB circular A-125 does not specifically mention the terms in the FAR which define the appropriate method for calculating the start of discount periods and which agencies are to include in contracts. In the absence of specific contractual provisions or terms on the invoice, agencies must follow terms provided in the Treasury Financial Manual. However, using the invoice receipt date as called for by Treasury is less favorable than the later of that date or when goods or services are delivered as specified in the FAR. Consequently, it is important that agencies consistently include the FAR provisions in contracts.

We also found that some agency and payment center policies for determining the start of discount periods differed from these governing federal policies and, in our view, may not be equitable to the vendor. For example, some military policies delayed the start of the discount period until after goods or services were accepted. Because acceptance is an event beyond the control of the vendor, it potentially creates an open-ended discount period.

Conclusions

Many opportunities exist in the acquisition and payment process to improve payment timing. Clear and comprehensive guidance for all activities involved in the payment process, combined with uniformity and simplicity of payment terms, would be an effective first step.

OMB has a central role in directing the government's payment performance and, accordingly, is responsible for initiating improvements. An initial step would involve revising its prompt payment policies to establish clearer guidelines for getting all the data needed to calculate due dates. Also, OMB's initiatives to lower federal interest costs by delaying payments until shortly before due dates should be accomplished without risking increases in late payments. Further, OMB needs to work with individual agencies to bring their payment criteria and operations in line with both prompt payment legislation and its own guidance.

Receiving activities must complete acceptance documents in sufficient detail to allow calculating accurate due dates. Centers must also ensure that they have contractual payment terms available for reference by their staff. If the required documentation is provided to payment centers quickly enough to allow orderly processing, the centers can concentrate on preventing technician errors in establishing due dates and on carefully scheduling invoices for payment.

Use of simple and uniform payment terms by contracting activities and highlighting variations in contracting documents would make it easier for payment centers to establish accurate due dates. Accomplishing this will require cooperation by agencies responsible for the Federal Acquisition Regulation as well as the individual agency procurement activities. We also identified opportunities for more productive processing of utility bills and encourage exploring alternatives, such as automating these disbursements, to reduce work load and avoid late payment penalties. Finally, modifying the legislative criteria for calculating due dates on meat and perishable agricultural products could help improve payment performance and eliminate uncertainties concerning when penalties should be paid.

Matters for Congressional Consideration

We suggest that the Congress consider amending the Prompt Payment Act to add invoice receipt dates to the existing criteria for establishing due dates for meat and perishable agricultural products. This could be accomplished by defining payment periods for these items as starting on the date the items are delivered or the date the invoice is received from the vendor, whichever is later.

Recommendations to Agencies

To promote better agency adherence to prompt payment requirements, we recommend that the Director, Office of Management and Budget

- direct agencies to review their receiving and acceptance documents and associated procedural guidance to ensure that these documents (including invoices if used for this purpose) contain all pertinent data, including actual receipt and acceptance dates for goods or services. Also, receipt dates should be recorded on invoices and all such data should be forwarded to the appropriate payment center within OMB-established time frames;
- ensure that agencies have their procurement activities include payment due date terms in all contracts. Also, terms from the underlying contracts should appear on delivery orders;
- instruct agencies to strengthen their payment process by ensuring that payment centers obtain applicable contracts and establish due dates and take discounts based on contract terms;
- establish in coordination with DOD and other agencies that commonly make interim payments what payment period would be in the best interest of the government;
- revise circular A-125 to require that agencies include discount terms from the FAR in procurement contracts; and
- modify circular A-125 to define early payments as 5 or more days before the due date for payment centers which mail scheduled payments to Treasury for check issuance.

We recommend that the Secretary, Department of Defense, direct the military services to modify portions of their regulations to conform with

- policies in the Treasury Financial Manual if contracts or invoices do not contain due date terms for offered discounts, and

- existing requirements for paying interest on any late payments of meat and perishable agricultural products. Pending any legislative change, interest should generally be paid regardless of whether an invoice was received in time to avoid paying late.

We also recommend that the Administrator of General Services, the Secretary of Defense, and the Administrator for the National Aeronautics and Space Administration, modify the Federal Acquisition Regulation to incorporate prompt payment provisions. This modification should specify payment within 30 days of receipt of a proper invoice or acceptance of goods or services, whichever is later. If the revision defines acceptance for calculating due dates as a specific number of days after (for example) delivery, the number of days specified should be used consistently unless other terms are justified. Any differences should be highlighted in contractual agreements.

Finally we recommend that the Administrator of General Services investigate the feasibility and cost-effectiveness of paying utility bills based on equal monthly payments and reconciliation of payments against actual usage at the end of an established period, such as 12 months. If the results of this study are positive, GSA should take steps to implement such an approach, including submission of any needed legislative recommendations.

OMB's Annual Report Does Not Disclose Timeliness Problems

OMB's report to the Congress that agencies paid more than 99 percent of their bills on time is not an accurate assessment of the government's payment performance. OMB had not gathered enough information to offer overall conclusions regarding payment timeliness because its fiscal year 1985 and earlier reports were based solely on interest penalties that agencies reported paying during those years. Providing an adequate basis for an overall assessment of performance would require agencies to report additional data to OMB, including a summary of the many late payments that do not require an interest penalty. Also, as noted earlier, agencies often did not voluntarily pay interest that was due, and they sometimes did not accurately report the number of penalties paid.

We found that OMB's instructions to agencies were not clear regarding the basis for reporting penalties paid. In addition, some agencies did not follow OMB's guidelines for computing the percentage of payments on which they had paid interest.

More Visibility of Late Payments Is Needed

On the basis of information provided by federal agencies, OMB reported for fiscal years 1983 through 1985 that agencies paid over 99 percent of their vendor invoices on time. Anyone not familiar with payment and reporting requirements under the act and OMB circular A-125 could be misled by these statistics and conclude that less than 1 percent of the federal government's payments were made late during these years. A more accurate description of the data in OMB's reports is that agencies cumulatively reported paying interest penalties on less than 1 percent of their vendor payments during these years. However, since agencies do not always pay interest when required, the statistics reported do not accurately reflect all interest penalties owed to vendors.

OMB's Annual Report Does Not Include All Late Payments

Section 5 of the Prompt Payment Act and OMB circular A-125 require agencies to report to OMB each year on selected aspects of their payment performance. OMB is to summarize the agency-submitted data and report to specified congressional committees annually on the government's bill paying performance. The basic reporting requirements include the number and amounts of interest penalties paid and the percentage of commercial vendor payments on which interest was paid. The law does not require agencies to report how many invoices are paid after the due date, and OMB did not request this information.

As discussed earlier in this report, the number of late payments on which interest has been paid represents only a small fraction of payments made after the due date. However, OMB used this subset of late payments as the basis for reporting that over 99 percent of the government's payments were made on time. For fiscal year 1985, agencies reported that they had paid vendors $7.1 million in interest penalties on 281,000 late payments. If OMB wished to offer an overall assessment of payment timeliness, it would have had to require agencies to report all payments made after the due date. Otherwise, OMB should have pointed out in its reports that it did not have an adequate basis for assessing government payment performance because (1) agencies do not have to pay an interest penalty on late payments made during a grace period, (2) they are not required to pay interest penalties of less than $1, and (3) as discussed below, it does not know if agencies pay all interest penalties as required.

We found that about four out of every five late payments in our sample were not required to be reported because they fall into either the first or second of the above three categories. As discussed in our overview of agency performance in chapter 2, 63 percent of the late payments we reviewed were made during a grace period. Of the remaining 37 percent which were paid after the end of any applicable grace period, slightly less than half—47 percent—were not late enough to generate at least a $1 interest penalty. Frequently, we found that interest costs on small late payments did not reach this amount unless they remained delinquent for extended periods. For example, based on the interest rates which ranged from about 10 to 12 percent during the period covered by our review, an invoice for $100 could have been at least 29 days late and one for $50 could have been at least 58 days late without reaching the $1 minimum interest penalty.

In addition, we found that agencies did not pay all late payment interest penalties as required by the act. We believe that in many instances such nonpayment was the result of payment technicians calculating incorrect due dates and, consequently, not knowing that the payment was sufficiently late to require the addition of interest penalties. However, we did find that at least 3 of the 39 payment centers we visited did not pay interest penalties unless the vendor requested it. This is contrary to the provisions of the act.

Expanded Reporting on Late Payments Would Require Little Added Effort

Because so many late payments are included in the unreported categories, expanding the criteria in accounting for late payments would provide a better picture of payment timeliness and offer a more balanced reporting effort. Under the act only late payments for which interest penalties were paid need be reported. As a result, payments made as much as 15 days late, or even later if the amounts due were small and did not result in a penalty of at least $1, are not being reported. More importantly, payments on which penalties were due but not paid are not reported.

OMB has taken the initiative to augment the legislative reporting requirements by instructing agencies to report any payments (excluding discounted payments) made 3 or more days before the due date. Measuring the number and dollar value of invoices paid after the due date would require the same data now used to report early payments—the payment due dates and the date the check was issued or wire transfer was made. Thus, accumulating the data needed to report both early and late payments would require little additional effort. Payment centers currently using statistical sampling to project the number of early payments could use information from the same sample to project the number of late payments. Although some added costs may be associated with reporting and monitoring the number and dollar value of late payments, the high percentage of payments in these late categories requires more visibility and management attention.

Accuracy of Agency Data Is Questionable

Most interest penalties due on payments in our sample were not paid and, consequently, agency reports to OMB do not reflect actual payment performance. In addition, vague OMB reporting criteria also contributed to inconsistencies in agency reported data. These problems, coupled with the fact that some centers did not follow OMB's guidelines for calculating the percent of vendor payments involving interest penalties, raise questions about the accuracy of the information agencies submitted.

Centers Did Not Report All Data Relevant to Penalty Payments

We identified three reasons why payment center reports on interest penalties paid did not provide accurate information concerning late payment penalties. First, centers did not always pay interest even when they knew it was due, and, second, they did not always establish accurate payment due dates and, thus, were not aware they should have paid an interest penalty. Finally, several centers did not have adequate procedures for compiling information on penalties they had paid.

As discussed in chapter 2, managers at two payment centers acknowledged that they did not voluntarily pay interest that was due to vendors and such a policy, although not acknowledged, may have existed at a third. Because reporting is based on the number of interest penalties paid rather than on the number of penalties required, cumulatively these three centers reported paying only two interest penalties during fiscal year 1985. In contrast, our review of 98 randomly selected invoices at these three locations showed that 13 payments should have included interest penalties.

Apparently recognizing that not all required penalties would be paid, OMB's instructions for fiscal year 1985 reporting asked agencies to "include comments on any instances discovered where late payments were made that did not include the required interest penalty." Our review of agency reports to OMB showed that only one small commission volunteered such information. However, many internal agency evaluations have identified payment problems which could alert OMB to such circumstances. For example, internal audit reports at GSA and the departments of the Interior and Transportation questioned whether the payment performance reports issued by the payment centers reviewed accurately reflected operating results. (See chapter 5.)

GSA's system for paying utilities allows automatic counting of payments with penalties if payment technicians record the penalties separately from the normal invoice amount. We found examples at one GSA payment center where penalties were combined with the invoice amount. In those instances, the system cannot count the number of penalties paid. A deputy financial manager at GSA headquarters said that this payment center was recently closed, and GSA's records now show a significant increase in penalties paid. He attributed this mainly to better recording of penalties at the payment center which took over the closed center's work.

Similarly, an Army Corp of Engineers' report to OMB indicated that a payment center had not paid any penalties. However, an official at the payment center told us its payment system could not accumulate data needed to report payment timeliness, and the center did not attempt to accumulate this information manually.

Clarification of Reporting Criteria Needed

OMB also contributed to inconsistent reporting. Circular A-125 and letters soliciting payment performance data from departments and agencies asked for the number of payments involving interest penalties without defining the term "payments." As a result, some agencies reported on the basis of the number of invoices for which they had paid interest penalties. Others reported the number of checks issued—which on occasion cover multiple invoices—that included penalties. Twenty of the 39 payment centers we visited reported on a basis other than invoices.

Using other reporting bases creates the potential for underreporting the number of invoices on which penalties were paid and can distort statistics on the percentage of invoices involving penalties. Officials from HUD and DOD recognized this possibility and told us that OMB should define the term "payments" more precisely. Defining "payments" as invoices in order to prescribe consistent reporting criteria would eliminate potential upward or downward distortions inherent in other reporting bases. Further, this would be in line with a principal purpose of the act—to pay each invoice by its due date.

Also, some question exists whether all types of late payment penalties are reported, or even subject to reporting. For example, agencies sometimes pay prescribed penalties rather than interest when utility bills are paid late. By strictly interpreting the reporting criteria to mean interest only, our evaluation indicates that some agencies may not be reporting all penalties paid. During our review we found that several military payment centers did not consider the added charges for late payments on certain utilities as penalties. In keeping with agency policies and procedures, these charges were viewed as lost discounts. Hence, they are not recorded or reported as penalties. Considering that the additional amounts are added to the net payment once the payment due date passes, it is at least arguable that such charges may be penalties within the spirit of the act and should be reported accordingly.

In addition, 17 of the 39 payment centers used an incorrect number to compute the percentage of payments on which penalties had been paid. OMB's instructions specifically asked that this percentage figure be calculated by dividing the number of interest penalties paid by the number of payments subject to prompt pay requirements. These centers had incorrectly included payments not subject to the act such as employee travel, petty cash fund reimbursements, and interagency payments when calculating the percentage involving penalties. As a result, the percentage of commercial invoices involving interest penalties for those centers is understated and affects the validity of OMB's overall statistics.

Conclusions

OMB's summary reports overstated federal agencies' performance in paying commercial invoices on time. In reporting that more than 99 percent were made on time, OMB did not consider the fact that a substantial number of late payments were made during grace periods or did not result in penalties of at least a dollar. Including all payments made after the due date, as well as those involving interest paid, in the reporting requirements would present a more balanced view of payment timeliness and improve the Congress' oversight capabilities.

In addition, although OMB cannot be expected to guarantee the accuracy of agency-reported data, it should stress the need for reliable information. It could address data quality by selectively obtaining and reviewing internal evaluations as a basis for validating or questioning agency input to the annual report. Being more precise regarding data needs would reduce agency reporting inconsistencies and, consequently, help OMB improve the accuracy of its report.

Recommendations to the Office of Management and Budget

We recommend that the Director, Office of Management and Budget, expand agencies' reporting requirements and the summary report on late payments to selected congressional committees to also include

- the number, amounts, and percentage of commercial invoices paid during a grace period; and
- the number, amounts, and percentage of commercial invoices paid after any applicable grace period that did not include any late payment penalties.

We also recommend that the Director, Office of Management and Budget,

- modify circular A-125 to require reporting of both interest penalties under the act and other kinds of late charges, such as those assessed against utility payments made after the payment due date;
- clarify OMB circular A-125 and its annual request for information from individual agencies by defining the term "payment" when used for reporting purposes to mean invoices; and
- analyze internal agency evaluations of payment timeliness on a selective basis to validate or question agency-reported statistics.

Chapter 5

Agencies Recognize Prompt Payment Problems

Internal audits and agency management reports on prompt payment compliance identify many of the same problems discussed in this report, including misinterpretation of prompt payment requirements, slow forwarding of documentation to payment centers, and failure to voluntarily pay interest on late payments. In their fiscal year 1985 annual reports required by the Federal Managers' Financial Integrity Act (FIA) of 1982 (31 U.S.C. 3512 (b) and (c)), 10 of the 20 agencies included in our review reported weaknesses that affected their ability to comply with prompt payment requirements.

Agency Reviews Vary in Scope and Frequency

All 20 agencies included in our universe have reviewed some aspect of their prompt payment compliance since implementation of the Prompt Payment Act. These reviews have ranged from departmentwide assessments to examinations of individual payment centers. Some were performed in response to a November 1984 OMB directive that agencies review and report on their payment systems as part of their responsibilities under FIA. Others were initiated by internal audit organizations or were included in management reviews. Internal auditors at four departments— Transportation, Commerce, Interior, and Defense—have recently reviewed or are in the process of reviewing significant segments of their commercial payment systems.

Managers or internal auditors had recently reviewed compliance with prompt pay requirements at 24 of the 39 payment centers we visited. Generally, the military had reviewed its paying activities more often than had civil locations. Sixteen of the 19 military centers and 8 of the 20 civil activities had been reviewed at least once since the beginning of fiscal year 1984. Of these, six DOD payment centers have been reviewed and tested annually since implementation of the act, while only one civil activity, a NASA payment center, has been examined as frequently.

Agencies Have Many Payment Problems in Common

The internal audits and management reviews described above repeatedly disclosed many of the same problems that we found in our review. In addition, they identified the same basic causes: inadequate understanding of prompt payment requirements by agency activities involved in the procurement and payment process, and insufficient controls to ensure proper dating and scheduling of payments. Reviewers sometimes cited high staff turnover as a contributing cause. Some examples of problems reported by agencies since 1984 follow.

Failure to Date-Stamp Invoices Upon Receipt

At Department of the Interior, Veterans Administration, Air Force, and DLA payment centers, auditors had difficulty determining if payments were made on time because documents were not routinely date-stamped. Department of the Interior auditors found that payment technicians at a National Park Service location scheduled payments using the vendor's invoice date as a starting point because they did not know when the agency had received the invoice.

Slow Forwarding of Receiving Reports and Other Documents to Payment Centers

Internal audits at both Navy and Commerce showed that the major cause of late payments was that receiving activities did not promptly send receiving reports to payment centers. In its fiscal year 1985 FIA report, the Navy also reported that contracting offices were not sending contracts and contract modifications to receiving and paying offices quickly enough.

Not Following Contract Terms

Department of Transportation (DOT) and Army auditors reported that early payments resulted when payment center staff did not follow terms specified in contractual agreements. At one DOT location, staff disregarded a 40-day payment clause in the purchase contract and instead calculated due dates on a 30-day basis because they thought that the payment clause seemed "to violate the intent of the [Prompt Payment] Act." At an Army location, invoices supported by contracts specifying a 30-day payment period were paid an average of 19.5 days early because payment center staff misinterpreted agency guidance and scheduled them for payment 5 days after receipt of the vendor's invoice.

Payment-Scheduling Problems

At two DOT locations, payment center staff caused early and late payments by scheduling invoices for payment in batches regardless of differing invoice due dates. In one case, a single payment covered four invoices from the same vendor, three of which were paid from 11 to 51 days late and the fourth 7 days early. In addition, auditors found that payment due dates were calculated incorrectly and discounts were not taken because payment center staff were inadequately trained and supervised. Payment technicians did not clearly understand the provisions of the act and OMB circular A-125, and their supervisors were unaware of their payment practices.

Department of Commerce auditors found payment due dates had been incorrectly computed for both manually scheduled payments and those scheduled by an automated system because payment technicians selected the wrong start date. In some cases, they chose the date that the bill was posted to accounting records and, in others, the date that the payment center received the invoice from another Commerce location. For some payments, they apparently chose a starting date at random.

Not Paying Interest on Late Payments

Department of the Interior, Transportation, and Commerce auditors reported that payment centers were not paying interest on late payments unless vendors requested penalty payments. Officials at one DOT payment center said that they followed this practice because they thought that not paying voluntarily was in the best interest of the government.

Reporting Inaccurate Payment Performance

GSA, DOT, and Interior reviews showed that the number of late payments reported to agency headquarters for inclusion in an annual report to OMB on the agencies' payment-timing performance were significantly understated. Interior auditors found that a National Park Service payment center had reported only about half of its interest penalty payments to Park Service headquarters. A GSA regional office reported that 95 percent of its commercial payments were on time. However, reviewers at that office found that 18 percent of the payments they examined had been paid late.

Problems Continue Despite Reported Improvements

Agencies' initiatives have reportedly improved compliance with prompt payment requirements. Among these are

- increased automation of payment systems to promote speed, accuracy, and adherence to regulatory requirements;
- consolidation of smaller payment activities into one or a few larger payment systems;
- increased use of electronic fund transfers; and
- improved training of payment center staff.

However, we noted repeated reporting of the same problems, sometimes at the same locations, indicating that needed controls have not been implemented or have not been effective or lasting. For example, a February 1984 management assessment at an Army location indicated that controls to ensure proper and timely matching of payment documentation were inadequate. A subsequent review in August 1985 found similar problems, including numerous unpaid invoices and unmatched receiving reports which were months old and on which no action had been taken, thus indicating corrective actions either had not been taken or were not effective. In another example, during our visit to the Department of the Interior's Denver Fish and Wildlife payment center, we found that field offices frequently did not date-stamp invoices that they received although internal auditors had reported the same weakness at this location in June 1983 and had recommended implementing this key control.

Conclusions

Agencies are aware of prompt payment problems similar to those found during our review. According to agency reports, these problems, which result in both late and early payments, stem from misunderstanding of prompt payment criteria, lack of adequate internal controls, and failure to realize that prompt payment is an agencywide responsibility.

Although federal managers have taken some actions to correct known weaknesses, problems persist, apparently aggravated by high turnover rates among payment technicians. This strongly suggests that agencies will need to continue periodically evaluating their compliance with the act. Continuing assessments will offer opportunities to verify that any previous corrective action has been effective in reducing errors and to identify any problems that require additional measures.

Request Letter

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NINETY-NINTH CONGRESS

Congress of the United States
House of Representatives

LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-373
WASHINGTON, DC 20515

March 21, 1985

Honorable Charles A. Bowsher
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D. C. 20548

Dear General:

The Prompt Payment Act was enacted into law in 1982 after hearings by the Legislation and National Security Subcommittee revealed that 30 percent of the government's bills, amounting to 18 percent of the dollar total, were paid late.

Although the Administration reports that major improvements have been made in its bill paying systems, I continue to receive reports that small businesses are experiencing problems in obtaining payments for their bills. Examples of some of these problems include payments being made consistently on the 45th day, the last day of the grace period, and interest being withheld even though the law requires that it be automatically added when an invoice is paid late.

I would appreciate it if you would look into this subject at the earliest possible time to assist the Subcommittee in its preparation for oversight hearings on implementation of the Prompt Payment Act later this year. Please keep me advised of the progress made in this study.

Meanwhile, with every good wish to you, I am

Sincerely,

JACK BROOKS
Chairman

Detailed Scope and Methodology Regarding Sample Selection, Invoice Examination, and Statistical Projections

To assess governmentwide compliance with prompt payment requirements, we reviewed randomly selected invoices at 39 federal agency payment centers. We selected these payment centers to be representative of 657 payment centers operated within the 50 states by 20 executive agencies. The 657 payment centers included in our universe account for about 95 percent of all federal commercial payments.

Payment Center Identification and Sampling Approach

Because no central source identifies all federal agency payment locations, we developed a list of payment centers located within the 50 states for the 20 agencies (listed in appendix III) included in our review. We did this by contacting officials of individual agencies asking them to identify their payment activities. To provide reasonable assurance that our list was complete, we compared it to a Department of the Treasury list of agency location codes, which Treasury uses to identify agency accounting stations and disbursing offices. We measured payment center size based on agency estimates of dollar amounts processed during fiscal year 1984. We contacted many of the payment centers directly to verify estimated dollar volume.

To ensure that our final sample would represent the various sizes and types of federal payment activities, we stratified our universe into six groups representing large, medium, and small centers for both civil and military activities. We designated large payment centers as those that annually make more than $500 million in commercial payments, medium as those that annually pay between $10 million and $500 million, and small as those that pay less than $10 million per year in commercial payments. As a matter of efficiency, we excluded from our universe payment centers that processed less than $1 million per year in commercial payments. From this stratified universe, we randomly selected 39 payment centers to visit. (See appendix IV.) Table II.1 describes the 657 centers in the universe and the 39 that we randomly selected for our evaluation.

Table II.1: Universe of Payment Centers and Cluster Samples Selected According to Dollar Amount of Commercial Payments Made

Category of payment center	Number of centers in universe	Number of centers in sample
Large civil	17	5
Medium civil	142	9
Small civil	231	6
Large military	42	7
Medium military	216	8
Small military	9	4
Total	**657**	**39**

For each of the 39 payment centers, we randomly selected one payment date between May 1, 1985, and August 31, 1985, and obtained a list of the invoices that were scheduled for payment on that date. From each list, we randomly selected from 16 to 76 invoices to examine, depending on the volume of activity at that payment center. At 8 centers, we selected more than one date in order to obtain a minimum of 16 invoices to review.

Data Collection and Examination

For uniformity and to facilitate data analysis, we recorded the necessary payment information on standardized data collection instruments (DCIS). One DCI was completed for each invoice examined. We used another DCI to collect information on each center's payment system design, recent prompt payment compliance reviews, and reported payment-timing performance.

We visited each payment center to examine the selected invoices and their supporting documentation. We compared the actual payment date of each invoice with the date payment should have been made in accordance with contractual agreements. If the contract did not specify payment terms, we applied criteria provided in the Prompt Payment Act, OMB circular A-125, and the Treasury Financial Manual in determining the timeliness of payment. Title 7 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires that all disbursements shall be supported by basic payment documents, including contracts, receiving reports, and invoices.

The sampling method used allowed us to project the results of this examination, at a 95 percent confidence level, to the universe of vendor payments from which our sample was drawn. This means the chances are 19 out of 20 that if we reviewed all the invoices paid during the 4-

month period by the 657 payment centers in our universe, the results of such a review would differ from the estimates obtained from our sample by less than the sampling errors of such estimates. The scope of our evaluation precludes any estimates of individual payment center or agency performance. Tables II.2 and II.3 show details of projecting the results of our examination.

Table II.2: Estimated Timeliness of Vendor Payments by Number and Percent

Thousands

Category	Estimate	Sampling error	95 percent confidence limits: Lower	95 percent confidence limits: Upper
Invoices paid:				
Late	1,551 (24.0)	92 (1.4)	1,459 (22.6)	1,643 (25.4)
Early[a]	1,520 (23.5)	48 (.7)	1,472 (22.8)	1,568 (24.2)
On time	3,405 (52.5)	80 (1.2)	3,325 (51.3)	3,485 (53.7)
After a grace period[b]	556 (8.6)	21 (.3)	535 (8.3)	577 (8.9)
Interest penalties owed to vendors	278 (4.3)	14 (.2)	264 (4.1)	292 (4.5)
Improper discounts taken	146 (2.3)	9 (.1)	137 (2.2)	155 (2.4)

Note: Estimated percentages shown in parentheses.

[a]This includes 211,000 payments which are attributable to DOD's policy of making interim progress and cost-reimbursement payments within 5 to 10 days after receiving requests for payment.

[b]These payments are included in the statistics on late payments.

Table II.3: Dollar Estimates of the Timeliness of Vendor Payments

Dollars in Millions

Category	Estimate	Sampling error	95 percent confidence limits: Lower	95 percent confidence limits: Upper
Invoices paid:				
Late	$7,653	$622	$7,031	$8,27[illegible]
Early	44,111	3,184	40,927	47,29[illegible]
On time	32,900	2,805	30,095	35,70[illegible]
After a grace period[a]	1,217	117	1,100	1,33[illegible]
Interest owed vendors	15	1	14	1[illegible]
Improper discounts taken	2	.2	1.8	2.[illegible]
Interest cost from early payments[b]	200	16	184	21[illegible]

[a]These payments are included in the statistics on late payments.

[b]This includes $87 million which is attributable to DOD's policy of making interim progress and cost-reimbursement payments within 5 to 10 days after receiving requests for payment.

Invoices Lacking Sufficient Data to Calculate Precise Due Dates

In chapter 2 we pointed out that we could not obtain sufficient data to calculate precise due dates for 217 of the 1,520 invoices in our sample. However, regardless of whether sufficient data were available to calculate exact due dates, these invoices had to be paid. Thus, we retained these payments for purposes of developing our overall statistics on payment timeliness as presented in table 2.1. To analyze the timeliness of the payments with missing dates, we assumed that (1) the vendor mailed the invoice on the invoice date, and (2) it took 5 days for an invoice to reach the agency activity designated in the contract. We also used the date agencies accepted goods or services, if available, in estimating a due date.

We believe these assumptions were appropriate because they closely approximate GSA's written criteria for handling payments involving missing data. The results showed that invoices lacking complete data for establishing due dates were much more likely to be early and late. Given this tendency, it also follows that they were much less likely to be paid within the on-time criteria, a 5-day period beginning 4 days before the due date. Only 45 percent of payments with missing dates were made by the due date, as contrasted with 68 percent for our total sample

Federal Departments and Agencies From Which Our Sample of Payment Centers Was Drawn

Department of Agriculture

Department of Commerce

Department of the Army

Department of the Air Force

Department of the Navy

Defense Logistics Agency

Department of Education

Department of Energy

Department of Health and Human Services

Department of Housing and Urban Development

Department of the Interior

Department of Justice

Department of Labor

Department of Transportation

Department of the Treasury

Environmental Protection Agency

General Services Administration

National Aeronautics and Space Administration

Office of Personnel Management

Veterans Administration

Payment Centers Included in Our Review

Department of the Army	Ft. Benjamin Harrison, Indianapolis, IN U.S. Army White Sands Missile Range, White Sands, NM U.S. Army Engineer District, Corps of Engineers, Ft. Worth, TX U.S. Army Engineer District, Corps of Engineers, St. Paul, MN
Department of the Navy	Naval Supply Center, San Diego, CA Naval Air Engineering Center, Lakehurst, NJ Naval Weapons Station, Concord, CA Marine Camp H.M. Smith, Aiea, HI
Department of the Air Force	Griffiss Air Force Base, Rome, NY Hill Air Force Base, Ogden, UT Maxwell Air Force Base, Montgomery, AL K.I. Sawyer Air Force Base, Gwinn, MI Shaw Air Force Base, Sumter, SC Wurtsmith Air Force Base, Oscoda, MI
Defense Logistics Agency	Defense Contract Administration Services Region, Cleveland, OH Defense Contract Administration Services Region, Philadelphia, PA Defense Contract Administration Services Region, Dallas, TX Administrative Support Center, Alexandria, VA Defense Depot, Ogden, UT
National Aeronautics and Space Administration	Goddard Space Flight Center, Greenbelt, MD John F. Kennedy Space Center, Kennedy Space Center, FL Lewis Research Center, Cleveland, OH National Space Technology Laboratories, NSTL Station, MS
General Services Administration	National Capital Region, Washington, DC Region 9, San Francisco, CA
Department of Transportation	Mike Monroney Aeronautical Center, Federal Aviation Administration, Oklahoma City, OK

Department of Housing and Urban Development	Mortgage Insurance Accounting and Servicing, Washington, DC New York Regional Office, Region II, New York, NY
Department of the Interior	Fish and Wildlife Service Finance Center, Lakewood, CO
Department of Justice	Federal Prison Industries, Inc., El Reno, OK Federal Prison Industries, Inc., Terre Haute, IN Federal Prison Industries, Inc., Bastrop, TX U.S. Marshals Service, Cleveland, OH
Department of Health and Human Services	National Center for Toxicological Research, Jefferson, AR Region V, Chicago, IL
Department of the Treasury	Bureau of Engraving and Printing, Washington, DC
Department of Energy	Southwestern Power Administration, Tulsa, OK Albuquerque Operations Office, Albuquerque, NM Richland Operations Office, Richland, WA

Business Associations Contacted To Obtain Opinions on Federal Payment Performance

American Consulting Engineers Council

American Logistics Association

American Meat Institute

Coalition for Common Sense in Government Procurement

International Communications Industries Association

National Association of Manufacturers

National Association of Wholesaler-Distributors

National Federation of Independent Business

National Independent Dairy-Foods Association

Small Business Center, Chamber of Commerce of the United States of America

Small Business Legislative Council

United Fresh Fruit and Vegetable Association

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