



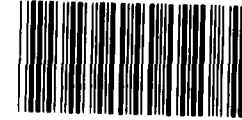
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-204733

OCTOBER 8, 1981

The Honorable David A. Stockman
Director, Office of Management
and Budget



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The Honorable Donald T. Regan
The Secretary of the Treasury

Subject: Actions to Improve Timeliness of Bill Paying by the
Federal Government Could Save Hundreds of Millions
of Dollars (AFMD-82-1)

This report discusses the results of a followup survey on our 1978 report, "The Federal Government's Bill Payment Performance is Good But Should Be Better" (FGMSD-78-16). Although we made specific recommendations more than 3 years ago for bill payment monitoring and changes in procurement regulations, little has been done in these areas. We noted continued ineffective monitoring of Federal bill payment practices and failure to provide appropriate guidance to Federal agencies on bill paying requirements.

Contractors continue to complain that the Government is not paying its debts when due--a situation that has been made more critical by high interest rates. Furthermore, we saw indications that Government agencies, while paying some bills late, are still paying others too early--a serious problem also identified in our prior review. Both late payments and early payments are costly. Together, late payments cost contractors and early payments cost the Government possibly hundreds of millions of dollars annually.

OBJECTIVES, SCOPE, AND METHODOLOGY

We performed this followup work in response to a request from the Chairman of the Subcommittee on Federal Expenditures, Research, and Rules, Senate Committee on Governmental Affairs to assess proposed legislation (S.1131) which would require that Federal agencies pay interest on overdue payments made to private contractors. On May 13, 1981, we testified before the chairman on this legislation.

The objectives of our survey were to

--assess the potential impact on the Government of requiring Federal agencies to pay interest on late payments and

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--determine if our previous recommendations for monitoring the Government's bill payment performance, for developing payment due date standards, and for including specific payment terms in contracts and purchase orders have been implemented.

We reviewed Federal cash management regulations issued by the Treasury in May 1978 and revised in June 1980, and various other payment guidelines for Federal agencies issued by the Office of Management and Budget (OMB) and the Treasury. We examined and evaluated Federal agency cash management reports submitted to the Treasury. We discussed with a responsible Treasury official the Treasury's monitoring of Federal agencies' cash management practices and performance as provided for in its regulations.

Payment performance monitoring procedures and practices were also discussed with senior officials at the Departments of Agriculture, Defense, and Energy; the General Services Administration; and the National Aeronautics and Space Administration. Current agency payment statistics were analyzed when available. We selected these agencies because each had annual contract actions of over \$1 billion, with the Defense Department contracts constituting over 70 percent of the total contract actions Government-wide.

In addition, we discussed Federal procurement policies related to timely payment of bills with responsible officials at OMB, the Department of Defense, and the General Services Administration. We reviewed various statements made by private contractors and their representatives addressing the extent of late payments by the Federal Government and the problems such late payments cause.

GAO PREVIOUSLY REVIEWED
GOVERNMENT BILL PAYMENT PERFORMANCE

More than 3 years ago we reviewed the Federal Government's bill payment performance. Companies had complained that Federal agencies were slow in paying their bills.

To determine how well the Government was doing as a bill payer and to identify any changes in policies or procedures that might be needed to improve the timeliness of payments, we analyzed a sample of contractor invoices, selected to be statistically representative of Government-wide performance. We also analyzed responses from 950 contractors to our questionnaire on payment performance in Federal agencies. In February 1978 we reported our findings: "The Federal Government's Bill Payment Performance Is Good But Should Be Better" (FGMSD-78-16). As part of our review, we testified in June 1977 before the Senate Select Committee on Small Business on the problems of late payments by Federal agencies.

We found that although the Government's bill payment performance was more often good than bad, lengthy delays did occur and many contractors believed they were not paid soon enough. We also

found that early bill payment was a problem that was costing the Government unnecessary interest and causing some contractors to stop offering discounts.

The reason for payment delays could usually be traced to lapses in agency receiving and acceptance procedures, although contractors contributed to the problem by not always providing a correct invoice promptly to the right payment center. However, an overall problem was a lack of Federal standards establishing when payment was due. Government procurement regulations and standard contract payment clauses did not specify due dates and, when contractor invoices included payment terms, Federal procurement and fiscal regulations were silent on whether agencies were required to abide by those terms.

We concluded that improving Federal payment performance would require changes in agency payment procedures and in Federal procurement policy. We made a series of recommendations for corrective actions in both areas. For example, we recommended that agencies speed up the payment process by simplifying procedures for certifying and paying invoices for recurring service, and by making wider use of fast payment procedures whenever possible. To ensure that agencies were adopting procedures to pay bills on time and to evaluate the need for further improvements, we recommended continued monitoring of Federal Government payment performance.

To improve Federal procurement policies, we recommended development of payment due date standards for the major types of goods and services for use by Federal agencies. We also recommended that agencies, when it is practical, include specific payment due date terms in each contract and purchase order.

ADEQUATE CORRECTIVE ACTIONS WERE NOT TAKEN

Although we made specific recommendations for continued bill payment monitoring and for changes in procurement regulations more than 3 years ago, adequate corrective actions have not yet been taken. The Treasury's monitoring of Federal Government bill payment practices has been ineffective, and responsible agency headquarters offices apparently do little payment performance monitoring themselves. Payment due date standards for the major types of goods and services have not yet been developed and contract documents generally still do not include specific payment due dates, although we have shown good reasons for doing both.

As a result, OMB and Treasury do not know how good the Government's current bill payment performance is, or if agencies have implemented recommended actions to improve payment procedures. Responsible agency headquarters offices apparently are also generally unaware of whether their agency is paying its bills when due and agency financial managers continue to have problems with non-specific payment terms in contract documents.

As we have pointed out, it is costly to both the Government and private contractors when Federal agencies do not pay their bills when due. Costs to the Government for early payments and costs to contractors for late payments can possibly total hundreds of millions of dollars annually.

Monitoring of Government bill paying performance should be more effective

Following our 1978 report, the Department of the Treasury in May 1978 issued cash management regulations requiring Federal agencies to make payments when due. The regulations also provide for monitoring of cash management, including agency bill paying, by both the agencies and the Treasury. However, almost 3 years later, little effective payment performance monitoring has been done by either the Treasury or the agencies. Thus, payment statistics, which could be used to identify the magnitude of the Government's current payment problems and to determine whether agencies have implemented effective corrective actions, are not readily available. In addition, Treasury is denied the opportunity to facilitate, as part of the monitoring effort, the exchange of information between agencies on payment procedures and techniques.

Beginning in 1979, Federal fiscal regulations required agencies to report to the Treasury at least annually on their cash management practices and include information on late payment of bills. However, 2 years later the Treasury had received only 18 reports, although 86 agencies were subject to reporting. In addition, the reports received were inadequate for monitoring the agencies' bill payment performance. They either did not address bill payment at all, made only broad statements such as the agency was doing a "good job," or simply promised further actions. A responsible Treasury official agreed that the reports were of little value, saying that staff shortages have prevented the Department from pursuing its monitoring efforts diligently.

To compound the problem, responsible headquarters offices of Federal agencies apparently do little effective payment performance monitoring themselves. Of the five agencies we contacted, only two made regular reports of some payment statistics to headquarters offices. The Department of Agriculture statistics showed the number and amounts of annual payments broken out by type of bill (such as purchase orders or utilities) and indicated how soon after receipt the bill was paid. In contrast, the General Services Administration statistics, developed as part of a work measurement report, indicated only how close the agency's payment centers came to an established goal of paying 90 percent of their invoices by the due date. The statistics did not show the number, amounts, or types of payments involved, or when payments were made.

Neither the Department of Defense nor any of the military services regularly reported payment performance statistics to responsible headquarters financial managers. The same was true for

the National Aeronautics and Space Administration and the Department of Energy. Officials we spoke to generally felt that early rather than late payment was the greater problem, but could not readily document this assertion. Nor could they document that their agencies had taken recommended actions to improve payment performance, although they indicated a belief that some corrective actions had been taken or were planned.

In reviewing agency reports submitted to the Treasury and in contacts with some agencies, we found that one reason for the poor results of payment monitoring by the Treasury was the absence of clear and specific Treasury guidelines on what agencies were required to do in the way of monitoring and reporting. For example, the Treasury was asked by the Department of Transportation to comment on the adequacy of a report it was submitting because Transportation considered the Treasury regulation too vague. A Department of Agriculture official said that one reason his agency had so far failed to submit the required annual report was the absence of a clear statement on what was required. Other agency financial managers we contacted generally echoed this view.

In commenting on the regulation when it was in draft form, we advised the Treasury that more specific guidance should be included for agency monitoring and reporting. We still hold to this view. As a minimum, agencies should monitor and report on

- actions completed, underway, or planned to strengthen bill payment procedures;
- the number and dollar total of (1) bills paid on time, (2) bills paid late, and (3) bills paid early;
- the range of time for payments made early and late; and
- reasons for early and late payments.

This information would enable the Treasury to (1) measure the extent of the problem Government-wide, (2) identify the agencies with the best and worst payment performance, and (3) facilitate exchange of information between agencies on efficient and effective payment procedures and techniques.

As interest rates remain high, companies continue to complain about the high cost of funds they must borrow to cover their operations while waiting for the Government to pay its bills. On the other hand, paying bills too early costs the Government money. It also must borrow funds and, in addition, earns interest on its operating accounts--tax and loan accounts--maintained at commercial banks throughout the country. If the situation is the same today as at the time of our previous review, we estimate--applying an interest rate of 12 percent and assuming annual Federal procurements of \$100 billion--that contractors are possibly losing at least \$150 million annually on late payments. The loss could be

as high as \$375 million. Delays in making payments also cost companies and the Government money in terms of additional time and effort spent tracking down unpaid bills and in resolving disputes over when payment is due. Applying the same analysis to early payments as we did to late payments, we estimate that the Government could save at least \$900 million and possibly as much as 3.8 billion annually if all the early payments are made on the due date.

The Government needs due date standards
and specific payment terms in contracts

Payment due date standards for the major types of Government purchases have not yet been developed and purchase documents generally still do not include specific dates when payment is to be made. We recommended these changes to Federal procurement regulations in our 1978 report because one rule--payment within 30 days of a vendor's invoice date--is not adequate. Our recent discussions with Federal financial managers responsible for paying the Government's bills confirm this belief.

The variety of goods and services being purchased by Federal agencies is so wide and the arrangements for making payments are so varied that it is difficult to establish a single payment standard that could be equitably applied in each case. Specific deviations from the generally accepted rule need to be worked out. Exception categories to be considered include advance payments, recurring payments that have a fixed due date, and payments for goods and services whose testing and acceptance are essential to protect the Government's interest.

Serious problems which significantly impact on the Government's bill paying performance continue because specific due date standards have not been established and specific payment terms are not included in contracts and purchase orders. Defense and General Services Administration officials told us that time-consuming disputes over when payment is due continue between Federal payment center personnel and contractors despite the fact that Treasury fiscal regulations call for inclusion of specific due dates in contract documents or payment on the 30th day from receipt of a valid bill, and Treasury and OMB have asked agency heads to abide by these rules. According to the officials, procurement and not fiscal regulations are applied, and because procurement regulations have not been amended, contracts still do not include specific due dates. Instead, standard contract clauses call for "prompt" or "timely" payments and contractors often argue that payment in 30 days is neither prompt nor timely.

Defense officials echoed our view that the remedy to this problem is the inclusion of a payment due date in each contract and purchase order. They said that this is generally not being done because the Defense Acquisition Regulation, currently applicable to the military departments, does not call for due dates.

Supported by a Defense consultant study on standard Defense payment clauses, Defense financial managers have repeatedly, but in vain, called for the necessary promised revisions to the military procurement regulations. A top Defense official, in a September 1980 memorandum to the Deputy Undersecretary of Defense responsible for procurement policy, stated that by allowing nonspecific payment due dates the procurement regulations are undermining efforts to improve cash management at Defense.

Officials of civil agencies we contacted generally voiced the same concerns about the Federal Procurement Regulations, published by the General Services Administration and currently applicable to the civil agencies. According to the Director of the General Services Administration's Office of Procurement Regulations, his office is in the process of developing payment standards for some types of goods and services the Government is procuring. These will be included in the Federal Procurement Regulations.

OMB has recognized that clear and practical payment standards and the inclusion of specific payment terms in Government contracts and purchase orders would facilitate timely payment of bills. Its Office of Federal Procurement Policy, responsible for administrative review of all Federal procurement policy since 1976, is developing a Federal Acquisition Regulation which will consolidate and replace existing military and civil procurement regulations. This is expected to be implemented in December 1981. In a July 1978 memorandum to heads of executive departments and agencies, OMB said that the consolidated Federal Acquisition Regulation would include the necessary guidelines. However, an official of the Office of Federal Procurement Policy told us that although the consolidated regulation will provide for the inclusion of payment due dates in Government contracts and purchase orders, it probably would not include payment due date standards for the major types of goods and services the Government purchases. As discussed in our 1978 report, we strongly believe that such standards are needed to guide agencies in setting consistent, specific payment terms to be included in Government contracts and purchase orders.

CONCLUSIONS

Oversight is one of the keys to ultimate improvement of Federal bill paying performance. The Treasury, by including in Federal cash management regulations the requirement for monitoring of cash management practices by Federal agencies and the Treasury, has taken a first step. However, the Treasury and OMB need to follow through and take the lead in effectively monitoring the Government's payment performance.

Also, specific payment due date standards for the major types of goods and services need to be developed and included, whenever practical, in each contract and purchase order. Nonspecific payment terms continue to cause problems for Federal agency financial managers trying to improve their payment procedures, and continue

to cause disputes over payments between Federal payment center personnel and private contractors. OMB's Office of Federal Procurement Policy must ensure that all needed provisions on payment due date standards are developed and included in the Federal Acquisition Regulation now being developed.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury:

--Revise cash management regulations to require each agency to submit, as part of the already mandated annual report on cash management practices, information on

- . actions completed, underway, or planned to strengthen bill payment procedures;
- . the number and dollar total of (1) bills paid on time, (2) bills paid late, and (3) bills paid early;
- . the range of time for payments made early and late; and
- . reasons for early and late payments.

--Establish and implement monitoring and evaluating procedures to ensure that

- . agencies comply with the above annual reporting; and
- . agencies not paying bills when due are identified continually.

As part of its monitoring effort, the Treasury should facilitate the exchange of information among Federal payment centers to promote efficient payment procedures and techniques.

RECOMMENDATIONS TO THE DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director, Office of Management and Budget direct the Administrator of the Office of Federal Procurement Policy to

--develop payment due date standards for the major types of goods and services procured by Federal agencies;

--incorporate these payment due date standards in the Federal Acquisition Regulation that is currently being developed; and

--include in the Federal Acquisition Regulation a provision requiring agencies to specify, when possible, in each contract and purchase order the date when payment is due.

If implementation of the Federal Acquisition Regulation, currently estimated for December 1981, is delayed, the Director, Office of Management and Budget should ensure that in the interim the Defense Acquisition Regulation, applicable to the military departments, and the Federal Procurement Regulations, applicable to the civil agencies, are revised accordingly.

Since the issues discussed in this report were addressed in our February 1978 report and our May 1981 testimony on the Government's bill payment performance, we did not obtain official comments from OMB or the Treasury. We did, however, discuss the contents of this report with officials of both organizations and we have considered their comments and made changes where appropriate. In this regard, after our May 1981 testimony, Treasury requested in a June 30, 1981, letter that agencies provide information on (1) what efforts they have taken to ensure that payments are made on time, (2) the total number and dollar value of late payments, (3) the reasons for late payments, and (4) their efforts to monitor their payment performance. We had recommended in our testimony that Treasury secure this and other information regularly, and we are reiterating the recommendations in this report.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. You must send the statement to the House Committee on Government Operations and the Senate Committee on Governmental Affairs within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

We are sending copies of this report to the committees mentioned above, the Senate Select Committee on Small Business, and the Subcommittee on Federal Expenditures, Research, and Rules of the Senate Committee on Governmental Affairs. In addition, copies are being sent to the agencies mentioned in this report and other interested parties.

We wish to express our appreciation for the cooperation received during this review.


W. D. Campbell
Acting Director