Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Government Printing Office - Treatment of Prompt Payment Discounts

File: B-276509

Date: August 28, 1998

DIGEST

The Government Printing Office (GPO) may use the prompt payment discounts received from commercial printers in connection with printing ordered by federal agencies to offset its indirect costs instead of crediting the discounts directly to the ordering agencies. GPO charges its customers the full invoice price on procured jobs, and uses any prompt payment discounts received from commercial printers to offset its indirect costs. This has the effect of reducing GPO's surcharge on procured printing used to recover the indirect costs of procured printing. Since 44 U.S.C. § 309(b) requires only that GPO charge at rates that cover its costs, GPO has the discretion to use prompt payment discounts to reduce its surcharges on procured printing applicable to all its customers of procured printing instead of passing on specific discounts to specific customers.

DECISION

The Chief Financial Officer of the Internal Revenue Service (IRS) at the Department of the Treasury asks whether the Government Printing Office (GPO) must pass on prompt payment discounts received from commercial printers directly to agencies ordering printing from GPO or whether GPO may use the discount to offset indirect costs that it recovers through a surcharge applied to all procured printing. We conclude that GPO is not required to pass on prompt payment discounts received from commercial printers directly to federal agencies ordering printing from GPO. Instead, GPO may apply the discount to offset indirect costs and thereby reduce the surcharge used to recover indirect costs for all procured printing.

Background

All printing for the Government generally must be done by GPO. 44 U.S.C. § 501 (1994). When GPO is not able or equipped to provide printing services, it procures printing under 44 U.S.C. § 502. Under the terms of its contracts, GPO may receive discounts from printing contractors for paying the invoiced amount within a designated period. The revolving fund for departmental printing covers the payment of the invoiced amount of procured printing less any applicable prompt payment discounts. See 44 U.S.C. § 309(b). To reimburse the revolving fund, GPO charges its customers for procured printing based on the full invoice price charged by printing contractors (regardless of whether it receives the contractors' discounts for prompt payment) plus a six percent surcharge to cover the indirect costs associated with procured printing.[1] GPO treats prompt payment discounts up to five percent as an offset against its indirect costs, in effect reducing the surcharge it would otherwise charge its customers of procured printing. GPO treats any discount in excess of five percent as a trade discount that it passes on directly to the customer agency.

GPO does not function as an agent of its customers. Rather, GPO is the source of printing and related services and supplies for the Government. 44 U.S.C. § 501 (1994). With limited exception, GPO's customers do not have the authority to procure directly the printing that GPO is unable to provide. See 44 U.S.C. § 504 (1994). GPO's customer has no contractual relationship with the printing contractor and no influence over the terms of the contract. Further, the ordering agency has no control over GPO's ability or inability to pay the contractor within the designated period.

According to the submission, IRS ranks as GPO's second largest customer, obtaining large amounts of printing each year from GPO. The IRS estimates that under GPO's current policy with respect to prompt payment discounts, it loses over $1 million from discounts not being passed on to it.[2] The IRS asserts that GPO has no authority to retain prompt payment discounts received from commercial printers in connection with IRS printing and that such a policy violates various statutory and other legal principles.

Analysis

GPO's Authorizing Statutes

GPO's recovery of its printing costs is statutorily based. Section 309, title 44, United States Code directs that GPO's revolving fund for departmental printing "shall be reimbursed for the cost of all services and supplies furnished . . . at rates which include charges for overhead and related expenses . . . ." In addition, 44 U.S.C. § 310 requires an ordering agency to pay GPO, upon its written request, all or part of the estimated or actual cost of the delivered work, and GPO to adjust its billing on the basis of actual cost when a customer pays for delivered work in

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[1]Rush orders are subject to a nine percent surcharge.

[2]IRS' assertion does not appear to account for the reduced surcharge it pays as a result of GPO offsetting its indirect costs by the prompt payment discounts it receives.

advance. The IRS asserts that when reading these two provisions together, the most logical interpretation is that GPO must base its charges on its actual costs to the maximum extent possible and that allocations for indirect costs are limited to costs such as overhead which cannot be specifically attributed to work GPO does for any specific agency. Since GPO knows the amount of prompt payment discounts and the work they are attributable to, IRS asserts that there is no reason to treat them as overhead or any other allocable amount.

The essence of IRS' argument is that GPO's authorizing statutes require it to charge a price for each job that recovers only the direct and indirect cost of that job, and that as a matter of law, GPO must treat a prompt payment discount as a reduction in direct costs. We disagree.

Nothing in sections 309(b) and 310 explicitly requires GPO to charge a customer a price that reflects only the precise costs GPO incurred to fill that customer's specific order. GPO maintains, and we have no basis to disagree, that by charging its customers the full invoice price on procured jobs and using the retained discounts to reduce its surcharge on procured printing, GPO recovers the direct and indirect costs of procured printing at rates that reflect those costs as section 309(b) requires. Since section 309(b) requires only that GPO charge at rates that cover its costs and GPO's current practice satisfies this requirement without violating any specific statute, we have no basis legally to object to GPO's exercise of its discretion.

Although GPO can determine which customer's contract received a prompt payment discount, GPO does not view the discount as directly related to any individual customer's specific order. Rather, GPO views the discount as a product of efficiencies in its operations that should be credited to reduce its indirect administrative costs. Accordingly, GPO uses the discounts received to offset indirect costs that it recovers through a surcharge applied to all procured printing. A specific customer has no control over whether GPO acquires a discount and, arguably, should not be the sole beneficiary when GPO does so. We do acknowledge that there are alternative ways to account for these discounts. However, given GPO's discretion on how to recover its costs, we do not believe that GPO's current practices violates its authorizing statutes.

Other Legal Principles

The IRS also asserts that GPO's current handling of the discounts is contrary to generally accepted accounting principles for the federal government. Specifically, the IRS asserts that since GAO's Policy and Procedures Manual requires recording the acquisition cost of assets, net of purchase discounts, GPO, for purposes of billing agencies, should similarly determine the cost of the contract printing. See Policy and Procedures Manual for Guidance of Federal Agencies, title 2, App. I, Accounting Principles and Standards (TS 2-24, Oct. 31, 1984). There is nothing in the accounting standard that compels GPO to exercise its discretion in the manner suggested by IRS. Nor do we see why GPO's current handling of discounts is contrary to the accounting standard since IRS remains free to record the cost of assets acquired at net or not of purchase discounts in accordance with GAO's Policy and Procedures Manual.

Finally, the IRS asserts that GPO's current handling of the discounts violates appropriations law because the retention of the discounts in the GPO revolving fund improperly augments either the GPO revolving fund, a permanent indefinite appropriation, or other ordering agencies' appropriations. According to IRS, the use of prompt payment discounts attributable to the contract printing done for large volume customers subsidizes printing for smaller volume customers and thus improperly reallocates the appropriations of GPO's large volume customers to its low volume customers.

We disagree for the very same reasons that we disagreed with IRS' assertion that GPO could not treat the prompt payment discounts as a reduction of indirect costs. In our view, GPO's policy results in consistent billings to different customers for the same or similar product while satisfying its statutory obligations to recover its direct and indirect costs. IRS' argument focuses on only one part of GPO's method of recovering indirect costs and ignores the benefits that such method provides large volume customers. For example, IRS' assertion does not recognize that GPO caps the surcharge for each standard order at $15,000. As a result, the effective rate for a standard order in excess of $250,000 will be less than the nominal rate of six percent. IRS also ignores whatever additional indirect costs GPO may incur as a result of handling large volume customers. Accordingly, we would not view GPO's approach as significantly augmenting one agency's appropriation at the expense of another's.

Conclusion

For the reasons stated above, GPO's decision not to pass on prompt payment discounts received from commercial printers directly to federal agencies ordering printing from GPO does not violate any specific statutory or other legal principle. Therefore, GPO may continue to use prompt payment discount to offset indirect costs and reduce the surcharge that it applies to all procured printing to recover indirect costs.

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