19932 Lever

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

OFFICE OF GENERAL COUNSEL

B-204190

November 2, 1981

Mr. James T. Brannan
Director
Defense Acquisition Regulatory Council
Office of the Under Secretary of
Defense for Research and Engineering

Dear Mr. Brannan:

By letter dated July 31, 1981, you requested our comments on a proposed amendment to Defense Acquisition Regulation § 2-407.3. The proposed amendment eliminates the evaluation of prompt payment discounts in making contract awards.

We acknowledge that the practice of considering prompt payment discounts when evaluating offers sometimes results in inequities. We also agree that a procedure requiring the application of time value of money principles in the evaluation of offers can be complex and burdensome. Therefore, we agree that the prompt payment discount procedure should be reconsidered. However, we do not believe evaluation of prompt payment discounts should be eliminated completely. Although the procedure of considering prompt payment discounts for evaluating offers may be too burdensome for routine procurements, we believe that the procedure should be retained for high dollar value purchases.

Our belief concerning the need to retain the procedure for high dollar value purchases is based on our report of April 3, 1980 (PSAD-80-30) concerning the purchase price of strategic petroleum. In that report, we quantified the savings potential associated with properly evaluating offers by discounting all offers received by the Defense Fuel Supply Center to reflect the cost of various provisions affecting payment timing. After discounting the offers received, we found that six crude oil contracts should have been awarded to different offerors or different options by the same suppliers should have been taken. The important point here is the amount of savings involved. The Government's cost might have been reduced by $2.1 million for those six contracts by properly evaluating the discounts offered. Furthermore, projected savings related to price proposal evaluations over remaining crude oil purchases could be as much as $18.5 million.

019081

With these kinds of savings available by properly evaluating discounts for high dollar value purchases, we believe it would be cost effective to retain the procedure for such purchases.

Sincerely yours,

Harry R. Van Cleve

Harry R. Van Cleve
Acting General Counsel