

DOCUMENT RESUME

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Testimony before the Senate Select Committee on Small Business; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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Provisions governing Federal payments for purchases have been established by legislation and regulations. Based on a GAO survey, it was found that 73% of firms considered Federal payment performance satisfactory, and 16% found it unsatisfactory. An analysis relating to vendor invoices revealed that basic causes of late payments were lack of consistent Federal criteria for determining when payment is due, and untimely processing of required documents before payment. Some examples of late payment resulted from untimely actions of contractors. Differences among agencies in payment performance were determined by reviewing invoices, with findings of late payment rates varying from 3% for a Department of Justice payment center and 74% for two General Service Administration payments centers. Some examples were also found of payments made too early. Methods for improving payment timeliness have been considered, and GAO is still assessing suggestions for interest charges on late payments. (HTW)

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STATEMENT OF
DONALD L. SCANTLEBURY, DIRECTOR
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION

BEFORE THE
SENATE SELECT COMMITTEE
ON
SMALL BUSINESS
CONCERNING PAYMENTS TO CONTRACTORS
BY THE GOVERNMENT

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

WE ARE HERE TODAY AT YOUR REQUEST TO DISCUSS THE PERFORMANCE OF FEDERAL AGENCIES IN PAYING THEIR BILLS. WITH ME TODAY ARE MR. JAMES WRIGHT, OF OUR FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION; AND MR. WILLIAM RIGAZIO, OF OUR NEW YORK REGIONAL OFFICE.

MY TESTIMONY WILL SUMMARIZE THE INTERIM RESULTS OF OUR REVIEW OF VARIOUS ASPECTS OF FEDERAL PAYMENT PERFORMANCE AND CONTRACTOR PERCEPTIONS OF THAT PERFORMANCE. SINCE OUR REVIEW IS NOT YET COMPLETED, THE RESPONSIBLE AGENCIES HAVE NOT BEEN GIVEN AN OPPORTUNITY TO FORMALLY COMMENT ON OUR FINDINGS.

IN THE FISCAL YEAR ENDED JUNE 30, 1976, THE FEDERAL GOVERNMENT PURCHASED SOME \$65 BILLION WORTH OF GOODS AND SERVICES OF ALL KINDS. THESE PROCUREMENTS WERE MADE BY OVER 10,000 FEDERAL BUYING OFFICES, AND PAYMENTS TO CONTRACTORS WERE MADE BY ABOUT 900 PAYMENT CENTERS.

OUR REVIEW HAD ITS IMPETUS IN CONSTITUENT COMPLAINTS TO MEMBERS OF THE CONGRESS CONCERNING THE LACK OF TIMELINESS WITH WHICH FEDERAL AGENCIES PAID THEIR BILLS. OUR REVIEW WAS MADE ON A GOVERNMENT-WIDE BASIS AND WAS INTENDED TO DETERMINE THE EXTENT TO WHICH FEDERAL AGENCIES PAY THEIR BILLS IN A TIMELY MANNER AND TO IDENTIFY ANY CHANGES IN POLICIES OR PROCEDURES THAT MIGHT BE NEEDED TO IMPROVE THE TIMELINESS OF PAYMENTS. AFTER THE REVIEW HAD BEGUN SEVERAL MEMBERS OF THE CONGRESS INCLUDING SENATOR PACKWOOD EXPRESSED INTEREST IN THE AREA. WE USED QUESTIONNAIRES AS WELL AS HIGHLY STRUCTURED DATA COLLECTION INSTRUMENTS TO OBTAIN INFORMATION DURING OUR REVIEW.

SOME BASIC FACTS ABOUT
FEDERAL PROCUREMENT

IN FISCAL YEAR 1976 THE DEPARTMENT OF DEFENSE (DOD) BOUGHT ABOUT \$47 BILLION WORTH OR 72 PERCENT OF THE TOTAL GOODS AND SERVICES THE GOVERNMENT PURCHASED, AND CIVIL AGENCIES BOUGHT ABOUT \$18 BILLION OR 28 PERCENT. LARGE PROCUREMENTS ACCOUNT FOR A HIGH PERCENTAGE OF TOTAL FEDERAL BUYING. FOR EXAMPLE, IN DOD, 200,000 PROCUREMENT ACTIONS OF OVER \$10,000 EACH ACCOUNTED FOR ONLY 2 PERCENT OF ALL ACTIONS, BUT REPRESENTED 89 PERCENT OF DOD'S TOTAL PROCUREMENT DOLLARS.

LEGAL AND ADMINISTRATIVE
PROVISIONS GOVERNING PAYMENT

THE BASIC PROVISION GOVERNING FEDERAL PAYMENTS WAS ESTABLISHED IN 1823 (31 U.S.C. 529) AND PROVIDES THAT PAYMENT SHALL NOT BE MADE BEFORE THE SERVICE IS RENDERED, OR THE ARTICLES ARE DELIVERED. MORE RECENT LEGISLATION (10 U.S.C. 2307, 41 U.S.C. 255) HAS PERMITTED PAYMENT IN ADVANCE OF THESE DATES PROVIDED THE CONTRACTOR GIVES ADEQUATE SECURITY AND THE HEAD OF THE CONTRACTING AGENCY DETERMINES THAT ADVANCE PAYMENT IS IN THE PUBLIC INTEREST. SPECIFIC GUIDELINES RELATING TO PAYMENT ARE CONTAINED IN THE FEDERAL PROCUREMENT REGULATIONS (FPR), USED BY CIVIL AGENCIES, AND THE ARMED SERVICES PROCUREMENT REGULATION (ASPR), APPLICABLE TO THE MILITARY SERVICES. THE REGULATIONS OF INDIVIDUAL AGENCIES ARE BASED ON EITHER THE FPR OR ASPR AND GUIDANCE PROVIDED BY THE COMPTROLLER GENERAL.

SINCE ITS CREATION IN AUGUST 1976, THE OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP) HAS BEEN RESPONSIBLE FOR THE ADMINISTRATIVE REVIEW OF ALL FEDERAL PROCUREMENT ACTIVITIES.

PERSONNEL AT FEDERAL PAYMENT CENTERS MAKE A DETERMINATION THAT PAYMENT IS DUE BY MATCHING ESSENTIAL CONTRACTOR AND GOVERNMENT DOCUMENTATION. WITH SOME EXCEPTIONS, THIS DOCUMENTATION CONSISTS OF AN INVOICE FROM THE CONTRACTOR, A CONTRACT OR PURCHASE ORDER FROM THE BUYING ACTIVITY, AND A RECEIVING REPORT FROM THE RECEIVING ACTIVITY. IN THE CASE OF PROGRESS OR COST REIMBURSABLE PAYMENTS, THE INVOICE AND THE RECEIVING DOCUMENTS ARE REPLACED BY A PAYMENT REQUEST SHOWING COSTS INCURRED AND/OR THE CONTRACTOR'S ESTIMATE OF CONTRACT PERFORMANCE. A COMPTROLLER GENERAL DECISION AND GUIDANCE HE HAS PROVIDED TO EXECUTIVE BRANCH AGENCIES REQUIRES

THAT A PURCHASE ORDER, VENDOR INVOICE AND RECEIVING REPORT OR THEIR EQUIVALENT ARE ON HAND BEFORE A PAYMENT CAN BE MADE. PAYMENT CENTER PERSONNEL PROCESS A PAYMENT ONLY AFTER ALL THE NECESSARY DOCUMENTS HAVE BEEN RECEIVED.

AN EXCEPTION HAS BEEN MADE TO THE BASIC DOCUMENTATION REQUIREMENTS TO EXPEDITE PAYMENT FOR PURCHASES OF \$10,000 OR LESS. IN ESSENCE THIS PROCEDURE ELIMINATES THE REQUIREMENT THAT A RECEIVING REPORT BE OBTAINED BEFORE PAYMENT IS MADE.

THE PRIMARY ROLE OF THE PAYMENT CENTER IS TO DETERMINE THAT PAYMENT TO A CONTRACTOR IS PROPER. SINCE EACH AGENCY ESTABLISHES ITS OWN PAYMENT SYSTEM, THERE IS NO STANDARD ORGANIZATION PATTERN FOR THE CENTERS. SOME AGENCIES HAVE DECENTRALIZED THEIR OPERATIONS WHILE OTHERS HAVE ONLY ONE CENTER FOR THE ENTIRE AGENCY. MILITARY PAYMENT CENTERS ISSUE THEIR OWN CHECKS, WHILE, IN MOST CASES, CIVILIAN AGENCY CHECKS ARE ISSUED BY A TREASURY DISBURSING OFFICE.

SCOPE OF REVIEW

AT THE 58 FEDERAL PAYMENT CENTERS WE VISITED, WE OBTAINED DETAILED INFORMATION CONCERNING 3,263 CONTRACTOR INVOICES INVOLVING 2,092 PAYMENTS VALUED AT APPROXIMATELY \$32 MILLION. WE SELECTED THE PAYMENT CENTERS AND THE PAYMENTS ACCORDING TO STATISTICAL SAMPLING METHODOLOGY DESIGNED TO PROVIDE RESULTS WHICH WOULD BE REPRESENTATIVE OF PAYMENT PRACTICES GOVERNMENT-WIDE INCLUDING THE TIMING OF PAYMENTS. AT THE 58 PAYMENT CENTERS WE ALSO REVIEWED PAYMENT POLICIES AND PROCEDURES AND ATTEMPTED TO IDENTIFY THE CAUSES OF UNTIMELY PAYMENTS.

IN ADDITION TO COLLECTING HISTORICAL DATA ON PAYMENTS AT THE PAYMENT CENTERS, WE MAILED A QUESTIONNAIRE TO 1,169 FIRMS THAT HAVE CONDUCTED BUSINESS WITH THE FEDERAL GOVERNMENT TO OBTAIN THEIR PERCEPTIONS AND OPINIONS ON HOW WELL THE GOVERNMENT PAYS ITS BILLS. THE CONTRACTORS WERE SELECTED STATISTICALLY FROM A UNIVERSE OF ABOUT 68,000 GOVERNMENT CONTRACTORS AND USABLE QUESTIONNAIRES WERE RECEIVED FROM 950 COMPANIES. AS WITH OUR SELECTION OF PAYMENTS WE BELIEVE THAT THE CONTRACTOR VIEWS OBTAINED IN OUR QUESTIONNAIRE SURVEY ARE GENERALLY REPRESENTATIVE OF THOSE OF THE ENTIRE CONTRACTOR COMMUNITY.

CONTRACTOR VIEWS OF
FEDERAL PERFORMANCE

CONCERNING THE RESULTS OF OUR REVIEW, I WOULD LIKE TO BEGIN BY GIVING YOU SOME OF THE MAJOR FINDINGS OF OUR SURVEY OF CONTRACTORS' VIEWS. FIRST, AND PROBABLY FOREMOST, THE LARGE MAJORITY OF FEDERAL CONTRACTORS SEEMED GENERALLY SATISFIED WITH THE TIMELINESS WITH WHICH FEDERAL AGENCIES HAVE PAID THEM. ABOUT 73 PERCENT OF THE FIRMS PARTICIPATING IN OUR SURVEY EXPRESSED A MODERATE TO HIGH DEGREE OF SATISFACTION WITH FEDERAL AGENCY PAYMENT PERFORMANCE. ABOUT 16 PERCENT, HOWEVER, EXPRESSED DISSATISFACTION. THUS, ALTHOUGH THE OVERALL RESULTS OF THE SURVEY ARE ENCOURAGING, THERE IS CLEARLY A SIZABLE NUMBER OF CONTRACTORS WHO BELIEVE THEY HAVE NOT BEEN PAID PROMPTLY ENOUGH. THE CONTRACTORS' LEVEL OF SATISFACTION WITH FEDERAL PAYMENT PERFORMANCE CLOSELY PARALLELED THEIR ACTUAL PAYMENT EXPERIENCE. FOR EXAMPLE, WE ASKED THEM TO ESTIMATE THE PERCENTAGE OF FEDERAL PAYMENTS

RECEIVED WITHIN EACH OF SEVERAL TIME RANGES. GENERALLY, THE FIRMS THAT REPORTED LESS FAVORABLE EXPERIENCE ALSO EXPRESSED THE MOST DISSATISFACTION WITH OVERALL GOVERNMENT PAYMENT PERFORMANCE. IN THIS REGARD, THE DISSATISFIED FIRMS INDICATED THAT 82 PERCENT OF THEIR FEDERAL PAYMENTS WERE RECEIVED MORE THAN 30 DAYS AFTER THE INVOICE DATE WHILE THE SATISFIED FIRMS SAID THAT ONLY 41 PERCENT OF THEIR FEDERAL PAYMENTS WERE RECEIVED MORE THAN 30 DAYS AFTER THE INVOICE DATE.

ALTHOUGH ONLY 16 PERCENT OF THE COMPANIES RESPONDING WERE DISSATISFIED WITH THE PAYMENT PERFORMANCE OF FEDERAL AGENCIES WE FOUND THAT FIRMS WITH CERTAIN CHARACTERISTICS WERE MORE LIKELY TO BE DISSATISFIED THAN OTHERS. COMPANIES THAT DEALT WITH FEDERAL AGENCIES FREQUENTLY WERE MORE DISSATISFIED THAN THOSE WHO HAD INFREQUENT DEALINGS. LIKEWISE, COMPANIES THAT EXPERIENCED SIGNIFICANT ADMINISTRATIVE AND CASH FLOW PROBLEMS DUE TO LATE FEDERAL PAYMENTS WERE MORE DISSATISFIED THAN THOSE THAT WERE NOT GREATLY AFFECTED BY THOSE PROBLEMS.

THE PROPORTION OF FIRMS THAT WERE SATISFIED WITH FEDERAL AGENCY PAYMENT PERFORMANCE ALSO VARIES AMONG DIFFERENT SIZES OF FIRMS. WE DIVIDED THE 950 FIRMS PARTICIPATING IN THE SURVEY INTO THREE SIZE CATEGORIES OF LARGE, MEDIUM AND SMALL. THE LARGE CATEGORY CONSISTED OF FIRMS WITH REPORTED ANNUAL SALES OF OVER \$50 MILLION, MEDIUM BEING THOSE WITH ANNUAL SALES OF BETWEEN ONE AND FIFTY MILLION DOLLARS AND SMALL CONSISTING OF THOSE WITH LESS THAN \$1 MILLION IN ANNUAL SALES. OUR ANALYSES INDICATED THAT A HIGHER PROPORTION OF LARGE FIRMS WERE

DISSATISFIED THAN WERE THOSE IN EITHER OF THE OTHER TWO CATEGORIES. FOR EXAMPLE, FIRMS CATEGORIZED AS LARGE WERE ALMOST TWICE AS LIKELY TO EXPRESS DISSATISFACTION AS WERE SMALL FIRMS.

APART FROM BEING DESIGNED TO ELICIT OPINIONS AS TO HOW WELL THE GOVERNMENT IS DOING IN PAYING ITS BILLS, A MAJOR PART OF OUR QUESTIONNAIRE SURVEY OF CONTRACTORS WAS CONCERNED WITH OBTAINING INFORMATION ON THE BASIS THEY USED IN ASSESSING THE TIMELINESS OF FEDERAL PAYMENTS. THE MAJORITY OF THE COMPANIES INDICATED THAT THEY ORDINARILY EXPECT PAYMENT WITHIN 30 DAYS OF THE INVOICE DATE.

IN A RELATED, BUT DIFFERENT QUESTION WE ASKED WHEN THEY CONSIDER PAYMENTS FROM FEDERAL AGENCIES TO BE LATE. ALTHOUGH 98 PERCENT HAD INDICATED THAT THEY CONSIDERED PAYMENT FOR GOODS TO BE DUE WITHIN 30 DAYS FROM THE INVOICE DATE, OR SOONER, ONLY 69 PERCENT CITED THIS SAME PERIOD AS AN APPROPRIATE BASIS FOR DETERMINING THAT A PAYMENT IS LATE. TWENTY-SEVEN PERCENT OF THE FIRMS SAID A PAYMENT IS LATE WHEN NOT PAID WITHIN 60 DAYS OF THE INVOICE DATE AND THE REMAINING 4 PERCENT CITED 90, 120, AND EVEN 150 DAYS FROM THE INVOICE DATE AS A BASIS. WHEN ASKED TO COMPARE THE TIMELINESS OF FEDERAL PAYMENTS TO PAYMENTS FROM COMMERCIAL FIRMS, 43 PERCENT OF THE SURVEYED FIRMS THOUGHT THAT COMMERCIAL FIRMS PAY FASTER, 21 PERCENT SAID COMMERCIAL FIRMS PAY SLOWER AND 36 PERCENT SAW LITTLE DIFFERENCE.

RESULTS OF PAYMENT ANALYSIS

MR. CHAIRMAN, WITH THIS OVERVIEW OF HOW THE RESPONDING FIRMS VIEW THE FEDERAL GOVERNMENT AS A BILL PAYER, I WOULD NOW LIKE TO DISCUSS THE RESULTS OF OUR ANALYSIS RELATING TO VENDOR INVOICES. AS I MENTIONED EARLIER, WE REVIEWED THE HISTORY OF OVER 3,200 SUCH INVOICES INVOLVING PAYMENT BY 58 FEDERAL PAYMENT CENTERS.

TO ASSESS THE TIMELINESS OF FEDERAL PAYMENTS, DETERMINATION OF A DUE DATE FOR THE BILL IS A MUST. GENERALLY, NEITHER THE FEDERAL PROCUREMENT REGULATIONS (FPR) NOR THE ARMED SERVICES PROCUREMENT REGULATION (ASPR), NOR FEDERAL CONTRACTS SPECIFY THE DATE FROM WHICH THE PAYMENT PERIOD IS TO RUN. FOR BILLS INVOLVING DISCOUNTS, HOWEVER, BOTH THE FPR AND ASPR PROVIDE THAT THE DISCOUNT PERIODS ARE TO BE COMPUTED FROM THE DATE OF DELIVERY OF GOODS AND SERVICES, OR THE RECEIPT OF AN INVOICE BY THE GOVERNMENT, WHICHEVER IS LATER.

BASED ON THE RESULTS OF OUR QUESTIONNAIRE SURVEY OF VENDORS, IT IS APPARENT THAT MOST FEDERAL CONTRACTORS BELIEVE THE INVOICE DATE SHOULD BE USED TO DETERMINE WHEN FEDERAL PAYMENTS ARE DUE AND THAT SUCH PAYMENTS SHOULD BE RECEIVED WITHIN 30 DAYS OF THE INVOICE DATE. THIS IS ALSO THE STANDARD WHICH PREVAILS IN COMMERCIAL PRACTICE.

ALTHOUGH SPECIFIC PAYMENT TERMS ARE LACKING FOR MANY FEDERAL PAYMENTS, A 30-DAY PERIOD FOR CALCULATING DUE DATES SEEMS MOST WIDELY RECOGNIZED IN FEDERAL CONTRACTS AND BY FEDERAL CONTRACTORS. BECAUSE AT THE TIME OF OUR REVIEW THERE WAS NO CONSENSUS, HOWEVER, CONCERNING THE DATE ON WHICH THE 30-DAY

PERIOD SHOULD BEGIN, AND BOTH THE FPR AND ASPR WERE SILENT ON THIS POINT, WE USED DIFFERENT STARTING DATES, TOGETHER WITH A 30-DAY PAYMENT CYCLE, TO MEASURE THE TIMELINESS OF PAYMENTS COVERED IN THIS REVIEW, THE TWO PRIMARY ONES BEING

--THE DATE OF THE INVOICE, AND

--THE DATE OF ACCEPTANCE.

ATTACHMENT 1 TO MY STATEMENT CONTAINS A TABLE THAT SHOWS THE NUMBER AND DOLLAR AMOUNTS OF THE INVOICES PAID WITHIN VARIOUS TIME PERIODS BASED ON THESE TWO DATES.

IN GENERAL MR. CHAIRMAN, THE PICTURE THAT SEEMS TO BE EMERGING IS MIXED. ALTHOUGH A GREAT MANY PAYMENTS APPEAR TO HAVE BEEN MADE IN A TIMELY MANNER, MANY HAVE NOT. SOME OF THE BASIC STATISTICS PROVIDED IN THE TABLE SHOW 61 PERCENT OF THE INVOICES, WHICH ACCOUNTED FOR 81 PERCENT OF THE TOTAL DOLLAR VALUE OF THE INVOICES WE REVIEWED, WERE PAID WITHIN 30 DAYS OF THE INVOICE DATE. AS I MENTIONED EARLIER THE CONSENSUS OF THE CONTRACTORS WAS THAT 30 DAYS AFTER INVOICE DATE IS A REASONABLE PERIOD WITHIN WHICH TO BE PAID. ON THIS BASIS 39 PERCENT OF THE INVOICES AND 19 PERCENT OF THE DOLLAR VALUE OF THE INVOICES WOULD BE CONSIDERED TO HAVE BEEN PAID LATE.

WE BELIEVE THERE ARE TWO BASIC CAUSES OF LATE PAYMENTS. THE FIRST IS THE LACK OF A CONSISTENT FEDERAL CRITERIA FOR DETERMINING WHEN PAYMENT IS DUE, AND THE SECOND INVOLVES THE UNTIMELY PROCESSING OF ALL THE REQUIRED DOCUMENTS BEFORE A PAYMENT CAN BE LEGALLY MADE. CONCERNING THIS LATTER CAUSE, WE HAVE FOUND THAT THE CONTRACTORS AS WELL AS THE GOVERNMENT

HAVE CAUSED PAYMENT DELAYS BY NOT PROCESSING THE NECESSARY PAPERWORK PROMPTLY AND CORRECTLY.

IN SOME CASES WE WERE ABLE TO IDENTIFY REASONS WHY PAYMENT SHOULD NOT HAVE BEEN EXPECTED WITHIN 30 DAYS OF INVOICE DATE. FOR THE REMAINING CASES THAT WERE NOT PAID WITHIN 30 DAYS OF THAT DATE, WE ATTEMPTED TO IDENTIFY THE PRIMARY CAUSE OF THE DELAY.

IN ABOUT 45 PERCENT OF THESE CASES THE PRIMARY CAUSE FOR DELAY INVOLVED TARDINESS ON THE PART OF THE GOVERNMENT IN (1) FORMALLY ACKNOWLEDGING RECEIPT OR ACCEPTANCE OF THE GOODS OR SERVICES PROVIDED; OR (2) FURNISHING THE REQUIRED DOCUMENTATION OF RECEIPT AND ACCEPTANCE TO THE PAYMENT CENTER. IN ABOUT 22 PERCENT OF THE CASES, DELAYS AT THE PAYMENT CENTER SEEMED TO BE THE MAJOR PROBLEM, WHILE IN ABOUT 9 PERCENT OF THE CASES THE CONTRACTING OFFICE WAS THE SOURCE OF DELAY. A VARIETY OF DELAYS OCCURRED IN 11 PERCENT OF THE CASES, WHILE IN 13 PERCENT OF THE CASES WE WERE UNABLE TO IDENTIFY A SPECIFIC CAUSE OF THE DELAY.

MR. CHAIRMAN, TO BETTER ILLUSTRATE HOW LATE PAYMENTS OCCUR, I WOULD LIKE TO DISCUSS SEVERAL CASE HISTORIES OF LATE PAYMENTS THAT WE DEVELOPED.

THE FIRST EXAMPLE DEMONSTRATES HOW UNTIMELY ACTION BY THE CONTRACTOR, RECEIVING ACTIVITY AND PAYMENT CENTER RESULTED IN A PAYMENT 340 DAYS AFTER THE DATE OF THE INVOICE.

ON APRIL 29, 1975, A MILITARY INSTALLATION PURCHASED MEDICAL SUPPLIES COSTING \$1,152 FOR USE AT THE BASE HOSPITAL. THE SUPPLIES WERE DELIVERED AND ACCEPTED ON MAY 8. THE

PAYMENT CENTER RECEIVED A COPY OF THE PURCHASE ORDER ON MAY 13, BUT IT DID NOT GET A COPY OF THE RECEIVING REPORT UNTIL JUNE 23 OR 45 DAYS AFTER THE SUPPLIES WERE ACCEPTED.

ON AUGUST 21, THE PAYMENT CENTER SENT A LETTER TO THE CONTRACTOR REQUESTING A COPY OF THE INVOICE. ON NOVEMBER 19, THE INVOICE ARRIVED AT THE PAYMENT CENTER WITH A LETTER FROM THE CONTRACTOR STATING THE INVOICE HAD BEEN ERRONEOUSLY SUBMITTED UNDER A DIFFERENT PURCHASE ORDER. A WEEK LATER ON NOVEMBER 26, THE PAYMENT CENTER REQUESTED THAT THE CONTRACTOR SEND A COPY OF THE PRE-PAID SHIPPING BILL, A DOCUMENT THAT IS NOT REQUIRED PRIOR TO PAYMENT FOR THE SUPPLIES THEMSELVES. ON APRIL 12, 1976, (5 MONTHS LATER) THE PAYMENT CENTER MADE THE PAYMENT. THE PAYMENT EXCLUDED THE PRE-PAID SHIPPING BILL SINCE IT HAD NOT BEEN RECEIVED--NOR HAD ANY OTHER DOCUMENTS BEEN ADDED TO THE PAYMENT FILE SINCE THE INVOICE WAS RECEIVED IN NOVEMBER.

IN SUMMARY,

- THE CONTRACTOR DELAYED FORWARDING THE INVOICE FOR 204 DAYS;
- THE RECEIVING ACTIVITY TOOK 45 DAYS TO FORWARD THE RECEIVING REPORT TO THE PAYMENT CENTER; AND
- THE PAYMENT CENTER DELAYED MAKING THE PAYMENT FOR THE GOODS FOR 144 DAYS WHILE WAITING FOR THE PRE-PAID SHIPPING BILL, EVEN THOUGH ALL THE DOCUMENTATION NECESSARY TO SUPPORT THE PAYMENT FOR THE GOODS THEMSELVES HAD BEEN AVAILABLE SINCE NOVEMBER.

IN ANOTHER CASE, A COMPUTER LEASING FIRM WAS PAID \$924 ON MARCH 5, 1976, FOR 11 INVOICES EACH OF WHICH REPRESENTED A MONTHLY FEE OF \$84. THE PAYMENT FOR THESE INVOICES RANGED 278 TO 613 DAYS AFTER THE DATES OF THE INVOICES. ACCORDING TO THE PAYMENT CENTER CHIEF, THE INVOICES WERE RECEIVED AT THE PAYMENT CENTER REGULARLY EACH MONTH BUT THEY COULD NOT BE PAID BECAUSE THE CENTER HAD NOT RECEIVED COPIES OF THE CURRENT LEASE AGREEMENTS. THE CHIEF SAID THAT "WE KEPT ASKING THE CONTRACTING OFFICER FOR COPIES OF THE AGREEMENTS, BUT IT WAS SEVERAL MONTHS BEFORE WE GOT THEM, AND APPARENTLY THE USER ACTIVITIES DID NOT PRESSURE THE CONTRACTING OFFICE INTO RENEWING THE LEASE AGREEMENTS ON A TIMELY BASIS." THE CHIEF ADDED THAT THIS SITUATION HAS IMPROVED CONSIDERABLY SINCE MARCH 5, THE DATE OF THE PAYMENT SELECTED FOR REVIEW.

IN ANOTHER CASE, ON JUNE 24, 1976, A MILITARY INSTALLATION PAID A COMMERCIAL LAUNDRY \$41.11 FOR NINE INVOICES RANGING FROM \$2.92 TO \$6.19 EACH. THREE OF THESE INVOICES REMAINED UNPAID FOR MORE THAN 300 DAYS, WHILE THE REMAINING 6 REMAINED UNPAID FOR 43 TO 182 DAYS, RESPECTIVELY. THE REASON THESE INVOICES WERE NOT PAID WAS THAT THE RECEIVING ACTIVITY HAD NOT "ACCEPTED" THE INVOICES UNTIL JUNE 16, 1976--8 DAYS LATER THE CONTRACTOR WAS PAID.

IN ANOTHER CASE, A CIVIL AGENCY AWARDED AN \$89,161 COST CONTRACT TO A MANAGEMENT CONSULTING FIRM ON JUNE 29, 1974, FOR A 1-YEAR STUDY OF THE BENEFITS OF ALTERNATIVE INFORMATION AND REFERRAL SERVICES FOR THE AGED. THE FINAL PAYMENT OF \$6,315 WAS MADE 8 MONTHS AFTER THE DATE OF THE INVOICE BECAUSE IT LACKED A REQUIRED APPROVAL. THE INVOICE WAS DATED JULY 1, 1975, AND WAS APPROVED BY THE PROJECT OFFICER ON JULY 30, 1975. HOWEVER, BECAUSE THE CLAIM WAS FOR THE FINAL PAYMENT, THE ADMINISTRATIVE CONTRACTING OFFICER WAS ALSO REQUIRED TO APPROVE IT. THE APPROVAL WAS NOT RECEIVED UNTIL APRIL 2, 1976. THE INVOICE WAS PAID 10 DAYS LATER.

DIFFERENCES AMONG AGENCIES

ALTHOUGH THE PAYMENT CENTERS WE VISITED AND THE PAYMENTS WE REVIEWED WERE BOTH SELECTED ON A BASIS THAT WOULD PRODUCE RESULTS REPRESENTATIVE OF GOVERNMENT-WIDE PAYMENT PERFORMANCE AND NOT INDIVIDUAL AGENCY PERFORMANCE, WE HAVE INCLUDED AS ATTACHMENT 2 TO MY STATEMENT A TABLE WHICH SHOWS, BY MAJOR FEDERAL AGENCY, THE NUMBER OF PAYMENT CENTERS WE VISITED AND THE NUMBER OF INVOICES WE REVIEWED AS WELL AS THE NUMBER OF INVOICES AND DOLLAR VALUE OF INVOICES PAID MORE THAN 30 DAYS

AFTER THE INVOICE DATE. WHILE THE DATA SHOWN IN THE TABLE MAY NOT BE REPRESENTATIVE OF AN AGENCY'S OVERALL PERFORMANCE, IT DOES SHOW THAT AMONG THE PAYMENTS WE REVIEWED THERE WERE CONSIDERABLE DIFFERENCES IN TIMELINESS OF PAYMENT AMONG AGENCIES.

FOR EXAMPLE, AT THE ONE DEPARTMENT OF JUSTICE PAYMENT CENTER WE VISITED, WE FOUND THAT OF 46 RANDOMLY SELECTED INVOICES, ONLY 3 HAD NOT BEEN PAID WITHIN 30 DAYS OF THE DATE OF INVOICE. SIMILARLY, WE REVIEWED A TOTAL OF 210 INVOICES PAID BY THE DEPARTMENT OF AGRICULTURE AT FIVE PAYMENT CENTERS AND FOUND ONLY 17, OR ABOUT 8 PERCENT, TO HAVE NOT BEEN PAID WITHIN 30 DAYS OF INVOICE DATE. CONVERSELY, AT THE TWO GENERAL SERVICE ADMINISTRATION PAYMENT CENTERS WE VISITED WE REVIEWED A TOTAL OF 168 INVOICES AND FOUND THAT 124 OR ABOUT 74 PERCENT HAD NOT BEEN PAID WITHIN 30 DAYS OF THE INVOICE DATE.

WE ALSO LOOKED AT THE TIMELINESS CRITERIA PROVIDED BY THE PAYMENT OFFICIALS AND FOUND THAT THERE WAS CONSIDERABLE VARIANCE BETWEEN AGENCIES AS WELL AS AMONG PAYMENT CENTERS WITHIN THE SAME AGENCY. WE FOUND THE DOD CENTERS TO BE FAR MORE CONSISTENT THAN THEIR CIVIL COUNTERPARTS. FOR EXAMPLE, 84 PERCENT OF THE 25 MILITARY PAYMENT CENTERS INCLUDED IN OUR REVIEW CITED SIMILAR TIMELINESS CRITERIA, WHILE FOR CIVILIAN CENTERS THE FIGURE WAS ONLY 52 PERCENT. FOR EXAMPLE, AT THOSE CIVIL AGENCIES WHERE OUR SAMPLE INCLUDED AT LEAST TWO DIFFERENT PAYMENT CENTERS (FOR EXAMPLE, COMMERCE, TRANSPORTATION, AND GENERAL SERVICES ADMINISTRATION) WE FOUND THAT THE AGENCIES AS WELL AS PAYMENT CENTERS WITHIN THE AGENCIES GENERALLY USED DIFFERENT MILESTONES AND TIMEFRAMES TO DEFINE TIMELINESS.

UP TO THIS POINT, MR. CHAIRMAN, I HAVE DEALT WITH THE MEASUREMENT OF TIMELINESS BASED ON THE DATE OF INVOICE. RECOGNIZING THAT A PURCHASE ORDER, VENDOR'S INVOICE, AND RECEIVING REPORT, MUST BE EXECUTED BEFORE PAYMENT CAN BE MADE, HOWEVER, ONE GETS A DIFFERENT PICTURE OF THE PAYMENT PERFORMANCE OF FEDERAL AGENCIES.

OUR ANALYSIS SHOWS THAT 82 PERCENT OF THE INVOICES REPRESENTING 94 PERCENT OF THE DOLLAR VALUE OF THE INVOICES MET THE STANDARD OF BEING PAID WITHIN 30 DAYS OF THE DATE OF ACCEPTANCE OF THE ITEM BY THE GOVERNMENT. HOWEVER, THE FACT REMAINS THAT 18 PERCENT OF THE INVOICES AND 6 PERCENT OF THE DOLLAR VALUE WERE PAID LATE.

EARLY PAYMENTS

OUR PREVIOUS COMMENTS, MR. CHAIRMAN, HAVE FOCUSED ON LATE PAYMENTS AND THE REASONS WHY THESE PAYMENTS WERE DELAYED. I WOULD NOW LIKE TO MAKE A FEW COMMENTS ON BILLS PAID TOO EARLY.

WHEN THE GOVERNMENT PAYS ITS BILLS TOO EARLY IT IMPACTS ON THE CASH MANAGEMENT PRACTICES OF THE TREASURY DEPARTMENT. FEDERAL DISBURSEMENTS ARE FINANCED BY TAX RECEIPTS AS WELL AS TREASURY BORROWINGS. IF THE FEDERAL GOVERNMENT DELAYED ITS DISBURSEMENTS (INCLUDING PAYMENTS TO VENDORS) AS LONG AS POSSIBLE WITHOUT BEING LATE IT WOULD TEND TO MINIMIZE TREASURY BORROWINGS AND THE RESULTANT INTEREST COST.

IN ITS MONEY MANAGEMENT STUDY ISSUED IN JANUARY 1976, THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM STATED THAT GOOD CASH MANAGEMENT PRACTICES GENERALLY DICTATE THAT DISBURSEMENTS ARE MADE WHEN DUE AND ONLY WHEN DUE. THIS MEANS THAT THE FEDERAL GOVERNMENT SHOULD PAY ITS BILLS ON THE 30th DAY OR SO THAT PAYMENT WILL REACH THE PERSON OWED THE MONEY ON THE 30th DAY. THE JOINT PROGRAM POINTED OUT IN THEIR STUDY THAT THE ARGUMENTS USUALLY GIVEN FOR MAKING DISBURSEMENTS EARLIER THAN THE DUE DATE INCLUDE THE GENERATION OF GOODWILL WITH SUPPLIERS, THEREBY BRINGING ABOUT INCREASED SERVICES, AND THE GRANTING OF OFFSETTING PRICE CONSIDERATION BY THE SUPPLIER.

THE DATA IN ATTACHMENT 1 TO MY STATEMENT CAN AGAIN BE USED TO GET SOME IDEA OF THE NUMBER AND DOLLAR AMOUNT OF INVOICES PAID EARLY. IF ONE USED 15 DAYS AS THE CUT-OFF FOR EARLY PAYMENTS, WE FIND THAT 882 INVOICES OR 29 PERCENT OF THE INVOICES WERE PAID WITHIN 15 DAYS OF THE DATE OF INVOICE. EXCLUDING FROM THESE PAYMENTS, CASES IN WHICH A DISCOUNT WAS TAKEN RESULTS IN 706 INVOICES, REPRESENTING \$18.7 MILLION BEING PAID EARLY. THIS MEANS THAT ABOUT 23 PERCENT OF THE INVOICES REPRESENTING 58 PERCENT OF THE DOLLAR AMOUNT OF THE INVOICES WERE PAID EARLY.

MR. CHAIRMAN, THESE ARE THE RESULTS OF OUR REVIEW TO DATE AND THE ANALYSIS OF THE DATA WE HAVE OBTAINED. IN ADDITION TO CONTINUING OUR ANALYSES, TO BETTER DETERMINE WHAT THESE RESULTS MEAN, WE ARE CURRENTLY CONSIDERING A NUMBER OF QUESTIONS WE HOPE TO ADDRESS IN OUR REPORT CONCERNING HOW TO IMPROVE THE

FEDERAL PAYMENT POSTURE. FOR EXAMPLE, ONE AREA OF CONSIDERATION IS WHAT IS THE CORRECT DUE DATE WHICH FEDERAL AGENCIES SHOULD TRY TO USE AS A TARGET FOR PAYING THEIR BILLS.

REGARDLESS OF HOW TIMELINESS SHOULD BE JUDGED ON AN OVERALL BASIS, IT SEEMS SAFE TO SAY THAT ONE RULE WILL NOT FIT ALL SITUATIONS. SPECIFIC DEVIATIONS FROM THE GENERALLY ACCEPTED RULE WILL PROBABLY NEED TO BE WORKED OUT REGARDLESS OF WHAT GENERAL RULE IS DEVELOPED. I SHOULD MENTION HERE THAT THE FEDERAL PAYMENT CENTER PERSONNEL WE INTERVIEWED GENERALLY BELIEVED THAT PAYMENT SHOULD BE MADE WITHIN 10 DAYS OF THE DATE THAT ALL DOCUMENTS REQUIRED FOR PAYMENT ARE RECEIVED AT THE PAYMENT CENTER.

MR. CHAIRMAN, ANOTHER ASPECT OF THE TIMELINESS QUESTION THAT SHOULD BE ADDRESSED IS HOW WE CAN MOST EFFECTIVELY BRING ABOUT WHATEVER IMPROVEMENT IS POSSIBLE, REGARDLESS OF WHETHER ON AN OVERALL BASIS WE CONSIDER THE EXISTING PERFORMANCE TO BE GOOD OR BAD. AS I AM SURE YOU ARE AWARE, MR. CHAIRMAN, BILLS HAVE BEEN INTRODUCED IN BOTH THE 94th CONGRESS AND THIS CONGRESS THAT WOULD ESTABLISH A REQUIREMENT FOR AGENCIES TO PAY AN INTEREST CHARGE ON PAYMENTS THAT ARE MADE LATE. SUCH A REQUIREMENT MIGHT SERVE AS AN INCENTIVE TO STIMULATING MORE TIMELY PAYMENT. HOWEVER, WE ARE STILL ASSESSING SOME OF THE DIFFICULTIES INVOLVED, INCLUDING THAT OF DETERMINING THE APPROPRIATE POINT AFTER WHICH INTEREST SHOULD BE CHARGED.

IN SUMMARY, MR. CHAIRMAN THUS FAR WE HAVE FOUND THAT THE MAJORITY OF GOVERNMENT CONTRACTORS ARE SATISFIED WITH THE TIMELINESS WITH WHICH THEY ARE PAID. IN ADDITION, OUR ANALYSIS TO DATE OF THE PAYMENTS WE REVIEWED TENDS TO SHOW THAT THERE IS A BASIS IN FACT FOR THE CONTRACTORS' ASSESSMENT. WE BELIEVE, HOWEVER, THAT THERE IS DEFINITELY ROOM FOR IMPROVEMENT AND WE ARE CURRENTLY LOOKING INTO HOW THAT IMPROVEMENT CAN BEST BE BROUGHT ABOUT. WE THINK THAT THE WAY IN WHICH THE GOVERNMENT GOES ABOUT PAYING ITS BILLS IS AN AREA THAT IS IN NEED OF ADDITIONAL ATTENTION.

THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS THE COMMITTEE MAY HAVE.

INVOICES PAID WITHIN VARIOUS TIME PERIODS

<u>Elapsed time to check issuance</u>	Invoices paid within various time periods					
	from Date of invoice			from Date of acceptance		
	Number	Cum. %	Cum.\$ %	Number	Cum. %	Cum.\$ %
Paid within 15 days	882 ^{2/}	29.3	59.0	1,140	55.7	67.0
Paid within 16 - 30 days	940	60.5	81.0	541	82.1	93.9
Paid within 31 - 45 days	473	76.2	90.7	145	89.2	95.8
Paid within 46 - 60 days	254	84.6	98.0	80	93.1	99.0
Paid within 61 - 90 days	224	92.0	99.1	73	96.7	99.5
Paid within 91 - 180 days	157	97.2	99.5	50	99.1	99.9
Paid within 181 - 360 days	59	99.2	100.0	17	99.9	100.0
Over 360 days	<u>20</u>	100.0	100.0	<u>2</u>	100.0	100.0
<u>TOTAL</u> ^{1/}	3,009			2,048		

^{1/} The 3,009 invoices referred to in the portion of the table related to date of invoice involved total payments of \$32,053,900. The 2,048 invoices referred to in the portion of the table related to date of acceptance involved total payments of \$18,909,400. The number of invoices differs because in many cases date of acceptance could not be determined from available records and therefore those invoices were excluded from the analysis related to date of acceptance.

^{2/} This number includes 176 cases valued at \$233,100 in which a discount was taken. Excluding these cases leaves 706 invoices or 23 percent of the invoices and 58 percent of the dollar value that were paid within 15 days of the invoice date.

PAYMENTS MADE MORE THAN
30 DAYS AFTER INVOICE DATE

Federal department or agency	Number of agency payment centers visited	Number of invoices reviewed	Invoices paid more than ^{1/} 30 days after invoice date			
			Number of invoices	%	Dollar value of invoices (000 omitted)	%
Justice	1	46	3	6.5	1	17.0
Agriculture	5	210	17	8.1	10	14.4
Navy	5	379	41	10.8	85	.8
AID	1	35	4	11.4	127	26.6
VA	5	224	33	14.7	7	8.0
DSA	3	178	27	15.2	389	31.0
Air Force	10	569	106	18.6	207	3.5
ERDA	3	153	30	19.6	586	13.2
Commerce	2	72	16	22.2	1,294	70.1
Interior	1	61	18	29.5	33	40.2
Labor	1	59	18	30.5	10	38.0
EPA	3	136	45	33.1	1,940	32.3
Army	7	382	129	33.8	177	19.0
HUD	1	42	15	35.7	4	37.4
NASA	1	94	48	51.1	46	6.5
Transportation	3	199	128	64.3	121	31.7
HEW	1	66	45	68.2	303	75.4
Civil Service	1	56	39	69.6	58	74.5
D.C. Government	1	84	61	72.6	28	53.0
GSA ^{2/}	2	168	124	73.8	666	56.4
Postal Service	1	50	-	-	-	-
OVERALL FIGURES	<u>58</u>	<u>3,263</u>	<u>947</u>	<u>29.0%</u>	<u>6,092</u>	<u>19.0%</u>

^{1/} The invoices shown in this attachment as not having been paid within 30 days of invoice date do not include cases in which we were able to identify a reason why payment should not have been expected within 30 days.

^{2/} These cases involved contractual obligations for the payments for services, primarily custodial, for which invoices were not prepared and thus invoice dates were not available. We found that in all cases, however, payment was made within 30 days of the date of completion of the services.