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

OFFICE OF GENERAL COUNSEL

November 2, 1981

B-204163

Mr. Philip G. Read
Director
Federal Procurement Regulations
 Directorate
Office of Acquisition Policy
General Services Administration

Dear Mr. Read:

By letter dated July 20, 1981, you requested our comments on a proposed amendment to Federal Procurement Regulations (FPR). The amendment adds subpart 1-1.14 regarding payment to contractors, including establishing target dates for payment to contractors. The amendment also revises section 1-2.407-3 so as to eliminate the evaluation of prompt payment discounts.

PAYMENTS TO CONTRACTORS

As recognized by the cover memorandum to the proposed amendment, we have previously recommended that agencies should be required, whenever practical, to include specific payment terms in each contract and purchase order (FGMSD-78-16, February 24, 1978). On a subsequent follow-up survey we did earlier this year, we found that agencies generally still do not include specific payment due dates in purchase documents. This, in turn, is creating problems for agency financial managers responsible for paying bills and for contracts. Both recognize that not all payments can or should be made on the 30th day following the receipt of an invoice as specified in Federal fiscal regulations; however, they often cannot agree on when such payment should be made. Thus, we support your proposal to amend the FPR to require specified payment dates. This should aid agency payment centers to schedule and pay bills when due.

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As to the proposal to require agencies to monitor their payment performance and submit monitoring reports to you (§ 1-1.1405-2 and § 1-1.1405-3 of proposed amendment), we feel that the monitoring and reporting should include early payments as well as the timely and late payments specified in the proposed amendment. According to agency officials we recently contacted, early payments are often a greater problem than late payments. Such early payments are costly to the Government, which has to borrow funds and thus incur interest expense.

PROMPT PAYMENT DISCOUNTS

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. However, we do not believe evaluation of prompt payment discounts should be discontinued completely. Although the procedure of considering prompt payment discounts for evaluating offers may be too burdensome for routine procurement, 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.

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.

We have no further comments to offer.

Sincerely yours,

Harry R. Van Cleve

Harry R. Van Cleve
Acting General Counsel