

**GENERAL SERVICES ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL**

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**REVIEW OF MULTIPLE AWARD SCHEDULE  
VENDORS' INVOICING PRACTICES RELATIVE TO  
PROMPT-PAYMENT DISCOUNTS  
REPORT NUMBER A090026/Q/7/P10001**

**MARCH 15, 2010**





U.S. General Services Administration  
Office of Inspector General

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Date: March 15, 2010

Reply to

Attn of: Regional Inspector General for Auditing  
Greater Southwest Region (JA-7)

Subject: Review of Multiple Award Schedule  
Vendors' Invoicing Practices Relative to  
Prompt-Payment Discounts  
Report Number A090026/Q/7/P10001

To: James A. Williams  
Commissioner  
Federal Acquisition Service (Q)

Houston W. Taylor  
Acting Assistant Commissioner  
Office of Acquisition Management (QV)

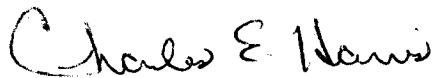
This report presents the results of the General Services Administration (GSA) Office of Inspector General's (OIG) review of Multiple Award Schedule (MAS) vendors' invoicing practices relative to prompt-payment discounts (PPD). Historically, OIG audits of GSA contractors noted that some MAS vendors cited incorrect PPD terms on their invoices. However, because the OIG conducts a limited number of these reviews each year, the extent of this problem was unknown. The purpose of this review was to determine the Government's potential risk exposure as a result of this practice. We also evaluated some of GSA's internal controls related to PPDs.

We found that MAS vendors routinely submit invoices citing incorrect payment terms. Consequently, significant savings to the Government have been, and may continue to be at risk of being lost.

GSA contracting officials compound the problem because they do not always include PPD terms on Orders for Supplies and Services (GSA Forms 300) as required by the GSA acquisition manual. In addition, GSA Industrial Operation Analysts are not always aware of applicable PPD terms and therefore may not identify MAS vendors who cite incorrect payment terms on their invoices when they perform their Contractor Assist Visits.

Finally, some MAS customers negotiate away PPD terms in exchange for other discount considerations even though the MAS contract does not specifically grant them the authority to do so.

If you have any questions regarding this report, please contact me at 817-978-2571.

A handwritten signature in black ink that reads "Charles E. Harris". The signature is written in a cursive style with a large initial "C".

Charles E. Harris  
Audit Manager  
Greater Southwest Region (JA-7)

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## EXECUTIVE SUMMARY

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### Purpose

The purpose of this review was to determine the extent to which the Government may be at risk of losing Prompt Payment Discount (PPD) savings as the result of Multiple Award Schedule (MAS) vendors citing incorrect payment terms on their invoices. In addition, we evaluated selected internal controls within the General Services Administration's (GSA) operations related to PPDs.

### Background

GSA negotiates PPD terms for many of its MAS contracts. PPDs represent significant potential savings to GSA MAS customers. Historically, OIG audits of GSA contractors noted that some MAS vendors cited incorrect payment terms on their invoices. However, the OIG conducts a limited number of such contract reviews each year. Therefore the extent of the problem and the potential financial impact (lost discounts) to the Government was unknown.

### Results in Brief

We found that MAS vendors routinely submit invoices that contain incorrect payment terms. Consequently, it is very likely that significant discount savings have been, and may continue to be, lost. We sampled 43 MAS vendors with contracts containing PPDs and found 28 (65 percent) did not cite applicable PPD terms on their invoices. FY 2007 sales for these 28 vendors exceeded \$900 million and the associated PPD savings at risk exceeded \$9 million<sup>1</sup>. The 1-year potential PPD savings for all vendors under the eight schedules included in our scope exceeded \$33 million<sup>1</sup> based on FY 2007 reported sales.

GSA contracting officials compound the problem because they do not always include PPD terms on Orders for Supplies and Services (GSA Forms 300) as required by the GSA acquisition manual. In addition, GSA Industrial Operation Analysts (IOAs) are not always aware of applicable PPD terms and therefore may not identify MAS vendors who cite incorrect payment terms on their invoices when they perform their Contractor Assist Visits (CAV).

Finally, we noted that some MAS customers negotiate away PPD terms in exchange for other discount considerations even though the contracts do not specifically grant them the authority to do so.

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<sup>1</sup> The \$33 million in potential PPD savings may be slightly mitigated because the FY 2007 sales may include credit card payments for which PPDs are not applicable. Moreover, Government paying offices' inability to obtain and gather required documentation in time to take advantage of the PPD could also impact PPD savings.

## **Recommendations**

We recommend that the Commissioner of the Federal Acquisition Service:

1. Remind all MAS vendors of their contractual responsibility to include applicable PPD terms on invoices.
2. Seek recoveries, when economical, advisable, and feasible from MAS vendors who fail to cite contractual PPD terms on invoices.
3. Take corrective actions to ensure that the Information Technology Solution Shop (ITSS) software application is corrected to allow entry of accurate contractual PPD terms for all applicable MAS vendors.
4. Take appropriate actions to ensure that GSA Forms 300, prepared manually and through the ITSS application, include applicable PPD terms in accordance with the GSA acquisition manual.
5. Take appropriate actions to ensure that IOAs are aware of PPDs when conducting CAVs.
6. Ensure that appropriate corrective actions are taken when IOAs identify MAS vendor invoicing discrepancies during their CAVs.
7. Take a formal position as to whether ordering activities can or cannot negotiate away PPD terms.

## **Management Comments to the Draft Report**

The Commissioner agreed with Recommendations One through Six and partially agreed with Recommendation Seven. Management Comments are included in their entirety as Appendix B to this report.

## INTRODUCTION

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### Background

Prompt-payment discounts (PPDs), when negotiated, allow purchasers the opportunity to realize additional savings and reduce their costs in exchange for early payments to vendors. Many Multiple Award Schedule (MAS) contracts awarded by the General Services Administration (GSA) contain negotiated PPDs.

Government agencies generally take advantage of PPD opportunities when: (1) PPD terms are cited on invoices; (2) it is economically advantageous to make an early payment; and (3) payment can be scheduled and made within the time period allowed. In fiscal year 2007, GSA's Greater Southwest and Heartland Regional Finance Divisions earned about 87 and 98 percent, respectively, of the PPDs offered. In FY 2008, they earned about 84 and 98 percent, respectively of offered PPDs. In scheduling payments, GSA and other government agencies rely on MAS vendors to cite applicable PPD terms on invoices. If PPD terms are not cited on vendor invoices, GSA paying offices look to agency purchase orders, if provided, to help determine the applicable PPD terms. If negotiated PPD terms are not contained on either vendor's invoices or agency purchase orders, the paying office will not be aware of, and may unknowingly lose the PPD savings.

### Objectives, Scope, and Methodology

The purpose of this review was to determine the extent to which the Government may be at risk of losing Prompt Payment Discount (PPD) savings as the result of Multiple Award Schedule (MAS) vendors citing incorrect payment terms on their invoices. In addition, we evaluated selected internal controls within the General Services Administration's (GSA) operations related to PPDs.

Our scope included GSA purchases from contracts on selected Schedules. We obtained electronic data consisting of contract payment terms and reported contract sales for FY 2005<sup>2</sup> and FY 2007<sup>3</sup>. The following tables show reported contract sales for these Schedules, potential savings for contracts with PPD terms, and the number of contracts we initially selected for the review for each of these years.

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<sup>2</sup> The FY 2005 reported sales (\$3.9 billion) in Table 1 were for Schedules managed by the General Products Acquisition Center and represented about 12 percent of FY 2005 reported sales for all Schedules (\$33.6 billion).

<sup>3</sup> The FY 2007 reported sales (\$26.7 billion) in Table 2 were for eight judgmentally select Schedules managed by various acquisition centers and represented about 75 percent of FY 2007 reported sales for all Schedules (\$35.8 billion).

TABLE 1						
SCHEDULES		FY 2005 SCHEDULE CONTRACTS WITH PPD TERMS			SELECTED CONTRACTS	
No.	Reported Sales	Total	Reported Sales	Potential Savings	Total	Potential Savings
78	\$ 387,834,937	289	\$ 238,538,740	\$ 3,863,396	3	\$1,371,498
84	2,219,838,319	337	329,837,453	3,201,630	9	1,144,896
56	512,603,849	349	197,273,052	2,135,867	4	329,199
73	178,204,286	296	50,159,942	667,574	4	140,254
06602N	254,313,426	46	34,363,428	258,880	1	7,997
06602J	260,504,199	34	36,966,615	199,524		
736	79,461,579	57	22,005,814	137,603		
06602Q	73,629,938	24	8,744,869	40,324		
873	26,853,992	9	291,114	4,311		
Total	\$ 3,993,244,525	1,441	\$ 918,181,027	\$10,509,109	21	\$2,993,844

For the 21 selected contracts, we obtained a judgmental sample of 30 invoices and 18 purchase orders submitted from FY 2003 through FY 2005.

TABLE 2						
SCHEDULES		FY 2007 SCHEDULE CONTRACTS WITH PPD TERMS			SELECTED CONTRACTS	
No.	Reported Sales	Total	Reported Sales	Potential Savings	Total	Potential Savings
70	\$16,410,907,570	740	\$ 1,851,878,595	\$ 24,431,597	14 <sup>4</sup>	\$ 7,411,403
874	3,594,550,353	246	381,864,340	4,384,303	3	540,587
71I	888,374,158	302	210,479,342	2,875,199	4	1,288,815
871	2,766,229,904	59	93,546,174	812,561	1	505,467
66	656,238,860	154	52,675,896	459,356		
520	945,769,330	5	39,308,924	333,929		
36	941,305,611	40	11,957,022	193,579		
48	594,591,353	1				
Total	\$ 26,797,967,139	1,547	\$ 2,641,710,293	\$33,490,524	22	\$ 9,746,272

For the 22 selected contracts, we obtained a judgmental sample of 423 invoices and 46 purchase orders submitted during the period FY 2004 through FY 2008.

In addition, we reviewed payment terms contained in 25 GSA price lists. We also looked at the findings contained in 43 Industrial Operations Analyst (IOA) Contractor Assist Visit (CAV) reports. Moreover, we accessed the following GSA websites to obtain pertinent financial information: (1) Office of the Chief Financial Officer (Payment and Invoice Search); (2) Schedules Sales Query; (3) Information Technology Solution Shop; (4) FSSOnline; (5) GSA Financial Reports Online; and (6) Pegasys Online.

<sup>4</sup> During the review we found that the prompt payment discount for 1 of the 14 contracts was no longer applicable.



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We also met with Federal Acquisition Service (FAS) officials in the Greater Southwest Region and Central Office and held conversations or corresponded with GSA Office of Assisted Acquisition Services personnel.

The review was conducted in accordance with generally accepted government auditing standards.

## RESULTS OF REVIEW

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### Results in Brief

We found that MAS vendors routinely submit invoices that contain incorrect payment terms. Consequently, it is very likely that significant discount savings have been, and may continue to be at risk of being lost. We sampled 43 MAS vendors with contracts containing PPDs and found 28 (65 percent) did not cite applicable PPD terms on their invoices. FY 2007 sales for these 28 vendors exceeded \$900 million and the associated PPD savings at risk exceeded \$9 million. The 1-year potential PPD savings for all vendors under the eight schedules included in our scope exceeded \$33 million<sup>5</sup> based on FY 2007 reported sales.

GSA contracting officials compound the problem because they do not always include PPD terms on Orders for Supplies and Services (GSA Forms 300) as required by the GSA acquisition manual. In addition, IOAs are not always aware of applicable PPD terms and therefore may not identify MAS vendors who cite incorrect payment terms on their invoices when they perform their Contractor Assist Visits.

Finally, we noted that some MAS customers negotiate away PPD terms in exchange for other discount considerations even though the MAS contract does not give them the authority to do so.

### Report Qualification

This report is qualified to the extent that our analyses were not based on statistical sampling techniques and were limited to invoice and payment information relative to GSA operations only.

### Finding 1 – MAS Vendors Citing Incorrect Payment Terms on Invoices

Over 65 percent (28 of 43) of selected MAS vendors consistently failed to cite correct PPD terms on 75 percent (342 of 453) of selected invoices submitted for payment under GSA MAS task/purchase orders. Consequently, GSA and possibly other MAS customers are at risk of paying more than they are contractually obligated to pay, thus losing significant PPD savings.

Contractual PPDs for the 28 vendors who cited incorrect payment terms ranged from 0.15 to 5.0 percent. The PPD terms offered by 27 of the 28 vendors were economically advantageous to the Government (See Appendix A). All 28 vendors submitted invoices

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<sup>5</sup> The \$33 million in potential PPD savings may be slightly mitigated because the FY 2007 sales may include credit card payments for which PPDs are not applicable. Moreover, Government paying offices' inability to obtain and gather required documentation in time to take advantage of the PPD could also impact PPD savings.

which cited “0” percent, “Net 30” or “PAYABLE UPON RECEIPT OF INVOICE” as payment terms instead of the contractual PPD terms.

The total PPD savings at risk under Schedule 70 alone could have exceeded \$24 million in FY 2007. Corrective actions, as recommended, may ultimately afford MAS customers opportunities to significantly increase savings from PPDs, effectively reducing their overall costs for goods and services. For GSA, the cost reductions may enhance “Net Operating Results”<sup>6</sup> particularly in the IT Acquisition Service Fund.

We did not attempt to determine why the vendors failed to cite contractual payment terms on invoices; however, the contract requires that invoices include:

“...— (i) Name and address of the Contractor; (ii) Invoice date and number; (iii) Contract number, contract line item number and, if applicable, the order number; (iv) Description, quantity, unit of measure, unit price and extended price of the items delivered; (v) Shipping number and date of shipment, including the bill of lading number and weight of shipment if shipped on Government bill of lading; (vi) **Terms of any discount for prompt payment offered...**” (Emphasis Added)

## **Finding 2 – GSA Controls Need Strengthening**

GSA internal controls related to order processing and contractor assessments need to be strengthened to help ensure PPDs are not lost.

Order Processing - GSA ordering offices do not always follow required procedures when completing GSA Forms 300. The GSA Acquisition Manual <sup>7</sup> requires ordering personnel to:

“...Enter the **prompt payment discount terms** provided for in the contract when placing an order against an established contract or the discount terms offered if purchasing on the open market.” (Emphasis Added).

GSA’s personnel prepare Forms 300 in two ways; manually and using the GSA ITSS<sup>8</sup> software application. Of the 18 manually prepared GSA Forms 300 we reviewed, 9 contained incorrect discount terms such as “Net 30 Day”. Of the 45 Forms 300 generated through ITSS that we reviewed, all contained erroneous payment terms. Most likely, this was due to the fact that “Net 30 Days” is the default payment term set in the ITSS.

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<sup>6</sup> In FY 2007, GSA recorded \$1.7 billion in cost of goods and services and a \$45.4 million loss in “Net Operating Results” for its Acquisition Service Fund (Regional IT Solutions).

<sup>7</sup> 553.370-300-I (Instructions for using the GSA Form 300, Order for Supplies and Services)

<sup>8</sup> ITSS is an online web-based purchase order system that’s designed to facilitate the development of delivery and purchase orders within the FAS program.

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The GSA Forms 300, are used by GSA paying offices to verify payment terms, therefore it is extremely important that they be completed in accordance with required control procedures.

Contractor Assessments - Industrial Operations Analysts (IOA) conduct Contractor Assessment Visits (CAV) to evaluate the contractor's compliance with contract terms and conditions. Revised guidance for IOAs in conducting these assessments requires IOAs to determine if PPDs are properly applied on the contractor's invoices.

Of the 28 noncompliant vendors identified in our review, CAVs were performed on 15 using the revised guidance. Of these 15 CAV reports, seven cited "NA" in response to the question "... are the prompt payment terms shown on the invoices?" This could indicate that some IOAs were unaware of the applicable PPD terms. It is imperative that the IOAs know the PPDs in order to effectively perform their assessments relative to the vendors' compliance with invoicing requirements.

### Finding 3 – GSA Contract Language

GSA should consider taking a formal position regarding MAS customers' rights to negotiate away contractual PPD terms in exchange for other discount considerations. OIG audits of MAS contractors found that some MAS customers negotiated away PPD terms when entering into Blanket Purchases Agreements (BPAs) with the vendors. The current language incorporated into GSA MAS contracts does not specifically grant MAS customers the authority to change or negotiate away PPD terms. The current MAS contract language states:

"Changes in the terms and conditions of this contract may be made only by written agreement of the parties."<sup>9</sup>

We presume that "parties" cited in the clause above are GSA FAS contracting officials and the applicable MAS vendor. Further, under the terms cited in MAS contracts, orders placed under BPAs shall be issued in accordance with all applicable regulations and terms and conditions of the contract. The major purpose of BPAs is to allow ordering agencies to take advantage of available volume or quantity discounts. Clause I-FSS-646 (BLANKET PURCHASE AGREEMENTS) incorporated in MAS contracts state in part:

"...The Contractor agrees to enter into BPA's with ordering activities provided that:

(a) The period of time covered by such agreements shall not exceed the period of the contract including option year period(s);

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<sup>9</sup> Clause 52.212-4 (CONTRACT TERMS AND CONDITIONS—COMMERCIAL ITEMS (MAR 2009) (DEVIATION FEB 2007).

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(b) Orders placed under such agreements shall be issued in accordance with all applicable regulations and the **terms and conditions of the contract**; and

(c) BPAs may be established to obtain the maximum discount (lowest net price) available **in those schedule contracts containing volume or quantity discount arrangements.**” (Emphasis Added)

Moreover, negotiated PPDs are binding for all orders placed under MAS contracts as stated below in Clause 552.232-8 (DISCOUNTS FOR PROMPT PAYMENT (APR 1989) (DEVIATION FAR 52.232-8) (ALTERNATE I — MAY 2003)) incorporated in MAS contracts:

“Discounts that are included in offers become a part of the resulting contracts and are **binding on the Contractor for all orders placed under the contract.** Discounts offered only on individual invoices will be binding on the Contractor only for the particular invoice on which the discount is offered.” (Emphasis Added)

The Discounts for Prompt Payment Clause is listed among other major MAS contract clauses as shown below:

<b>Number</b>	<b>Title</b>	<b>Clause/Provision<sup>10</sup></b>
552.203-71	RESTRICTION ON ADVERTISING (SEP 1999)	Clause
552.211-73	MARKING (FEB 1996)	Clause
552.215-71	EXAMINATION OF RECORDS BY GSA (MULTIPLE AWARD SCHEDULE) (JUL 2003)	Clause
552.215-72	PRICE ADJUSTMENT--FAILURE TO PROVIDE ACCURATE INFORMATION (AUG 1997)	Clause
552.229-70	FEDERAL, STATE, AND LOCAL TAXES (APR 1984)	Clause
552.232-23	ASSIGNMENT OF CLAIMS (SEP 1999)	Clause
552.232-71	ADJUSTING PAYMENTS (SEP 1999)	Clause
552.232-72	FINAL PAYMENT (SEP 1999)	Clause
552.232-78	PAYMENT INFORMATION (JUL 2000)	Clause

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<sup>10</sup> 552.212-71 CONTRACT TERMS AND CONDITIONS APPLICABLE TO GSA ACQUISITION OF COMMERCIAL ITEMS (JUL 2003)

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Number	Title	Clause/Provision <sup>11</sup>
552.232-8	DISCOUNTS FOR PROMPT PAYMENT (APR 1989) (DEVIATION FAR 52.232-8) (ALTERNATE I-MAY 2003)	Clause
552.233-70	PROTESTS FILED DIRECTLY WITH THE GENERAL SERVICES ADMINISTRATION (MAR 2000)	Provision
552.237-71	QUALIFICATIONS OF EMPLOYEES (MAY 1989)	Clause
552.238-71	SUBMISSION AND DISTRIBUTION OF AUTHORIZED FSS SCHEDULE PRICELISTS (SEP 1999) (DEVIATION I -DEC 2004)	Clause
552.238-74	INDUSTRIAL FUNDING FEE AND SALES REPORTING (JUL 2003)	Clause
552.238-75	PRICE REDUCTIONS (MAY 2004) (ALTERNATE I -MAY 2003)	Clause
552.243-72	MODIFICATIONS (MULTIPLE AWARD SCHEDULE) (JUL 2000)	Clause
552.246-73	WARRANTY--MULTIPLE AWARD SCHEDULE (MAR 2000)	Clause

The inclusion of Clause 552.232-8 among other major clauses implies its significance, and we believe supports any argument that the PPD is a material contract term that should not be negotiated away by ordering activities without proper FAS authorization. By the same token, we found no formal GSA policy or procedure either allowing or prohibiting this practice. To help clarify this situation, we believe GSA should consider issuing guidance relative to customer authority to modify these contractual terms.

### Conclusion

Prompt-payment discount terms represent significant potential savings to GSA contract users and ultimately the American taxpayer. However, these savings have been and may continue to be lost because vendors are not citing applicable PPD terms on invoices. We believe that it is critical for GSA to take immediate action to ensure that vendors halt such a practice.

During the course of this review, GSA officials correctly pointed out that our projected amounts “at risk” might be somewhat overstated, because: a) credit card purchases are not subject to PPD because of the additional costs associated with using this payment means; b) agencies might negotiate away PPD in exchange for lower prices; and c) the Government’s acceptance (which is required prior to payment) of the products or services may not happen in time to take advantage of the discount offered.

While we agree that the conditions cited above might somewhat reduce the OIG’s calculated dollars “at risk,” we reiterate that the amounts cited are based on a judgmental sample and are simply projections based on the limited sample we conducted. Projections based on a statistical sample with considerations given for the conditions cited above might also result in a significant increase in amounts determined to be at risk. However, even with these considerations, the current operations do little to prevent or reduce the impact the actual dollars “lost” to vendor non-compliance with negotiated terms and conditions.

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<sup>11</sup> 552.212-71 CONTRACT TERMS AND CONDITIONS APPLICABLE TO GSA ACQUISITION OF COMMERCIAL ITEMS (JUL 2003)

## **Recommendations**

We recommend that the Commissioner of the FAS:

1. Remind all MAS vendors of their contractual responsibility to include applicable PPD terms on invoices.
2. Seek recoveries, when economical, advisable, and feasible from MAS vendors who fail to cite contractual PPD terms on invoices.
3. Take corrective actions to ensure that the ITSS software application is corrected to allow entry of accurate contractual PPD terms for all applicable MAS vendors.
4. Take appropriate actions to ensure that GSA Forms 300, prepared manually and through the ITSS application, include applicable PPD terms in accordance with the GSA acquisition manual.
5. Take appropriate actions to ensure that IOAs are aware of PPDs when conducting CAVs.
6. Ensure that appropriate corrective actions are taken when IOAs identify MAS vendor invoicing discrepancies during their CAVs.
7. Take a formal position as to whether ordering activities can or cannot negotiate away PPDs, and if FAS takes exception to ordering activities negotiating away PPDs, they should take action(s) to ensure that such a practice does not continue.

## **Management Comments**

The FAS Commissioner agreed with Recommendations One through Six and partially agreed with Recommendation Seven. Although Management agreed with Recommendations One and Two, we took exception to Management's comments relative to the recommendations. We also took exception to Management's comments relative to Recommendation Seven. The Commissioner's full response is provided in Appendix B of this report. Appendix C of this report contains our responses to Management's comments to the Draft report. Below is our response to Management's partial agreement to Recommendation Seven.

### **Recommendation Seven**

**Take a formal position as to whether ordering activities can or cannot negotiate away PPDs.**

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### Management Comment:

FAS partially agrees. FAS will revisit whether the negotiation of PPD terms at the base contract, even when the offeror has PPDs commercially, is in the best interest of the government customer; or whether the procurement contracting officer should seek additional discounts in the base award. In addition, FAS will revisit the relevant FAR and GSAR clauses to determine if it is necessary to develop a formal policy addressing MAS customers negotiating away PPDs at the task order level.

### OIG Response:

Since it is a practice for ordering activities to negotiate away contractual PPD terms in exchange for better upfront discounts, we believe that there is an urgent need for Management to establish and publicize its formal position as to whether ordering activities have the authority to do so. We believe that a formal position on the issue will either encourage more ordering activities to seek better upfront discounts if Management authorizes them to do so, or discontinue the current practice if it is Management's position that the practice is not within the ordering activities' authority.



## APPENDIX A

### Multiple Award Schedule Vendors Who Failed to Cite Correct Payment

\* - Denotes payment terms that were economically advantageous to the Government.

VENDOR NAME	CONTRACT NUMBER	SCH	FY 2007 SALES	CONTRACTUAL PAYMENT TERMS	EFF. ANNUAL DISC. RATE OF PROMPT PYMT DISC. TERMS	POTENTIAL LOST PROMPT PYMT DISC. SAVINGS
A	B	C	D	E	F	G=D x E
INTERNATIONAL BUSINESS MACHINE	ZF4984H	70	\$452,434,571	1%-25 Net 30*	12.5%	\$4,524,346
LOCKHEED MARTIN GOV'T SERVICES	ZF4415G	70	80,674,749	1%-20 Net 30*	12.5%	806,747
LOCKHEED MARTIN	XF0232K	871	50,546,659	1%-10 Net 30*	12.5%	505,467
ADVANCED TECHNOLOGY SYSTEMS	ZF4704G	70	46,545,448	1%-20 Net 30*	12.5%	465,454
SYBASE, INC	ZF5212H	70	40,416,925	1%-20 Net 30*	12.5%	404,169
I2 INC.	ZF0241J	70	18,878,832	2%-15 Net 30*	25.3%	377,577
DELOITTE	TF0083L	520	37,520,441	1%-20 Net 30*	12.5%	375,204
TRENDWAY CORPORATION	UF0165G	71I	12,513,342	2%-20 Net 30*	25.3%	250,267
SPACESAVER	OF1003C	71I	21,411,967	1%-10 Net 30*	12.5%	214,120
SMARTRONIX, INC.	ZF0362J	70	19,946,300	1%-29 Net 30*	12.5%	199,463
JMA ASSOCIATES, INC.	ZF0553L	70	18,284,224	1%-15 Net 30*	12.5%	182,842
ACS DEFENSE, LLC	ZF4039G	70	17,256,332	1%-29 Net 30*	12.5%	172,563
CAMELBAK PRODUCTS, INC.	F9727H	78	7,767,382	2%-10 Net 30*	25.3%	155,348
CI INTERNATIONAL LLC	TF0034J	874	2,372,540	5%-20 Net 30*	65.3%	118,627
BUCON, INC	F9665G	56	18,952,849	.5%-10 Net 30*	6.2%	94,764
SPIN SYSTEMS INC.	ZF0598N	70	4,008,414	2%-20 Net 30*	25.3%	80,168
ADVANTOR SYSTEMS CORPORATION	F8785D	84	8,003,440	1%-20 Net 30*	12.5%	80,034
BELLEVILLE SHOE MANUFACTURING	F9990H	84	28,401,233	.15%-20 Net 30	1.9%	42,602
EAGLE MARKETING GROUP INC	F0103J	73	3,776,218	1%-10 Net 30*	12.5%	37,762
TAC AMERICAS INC	F7851C	84	3,249,886	1%-20 Net 30*	12.5%	32,499
KEATING OF CHICAGO INC	F8901G	73	381,412	4%-30 Net 31*	50%	15,256
APCO GRAPHICS INC	F0347J	78	1,211,669	1%-20 Net 30*	12.5%	12,117
CRYO ASSOCIATES INC	F5099C	06602N	693,116	1%-20 Net 30*	12.5%	6,931
TEKSOUTH CORPORATION	ZF5563H	70	9,852,162	.5%-20 Net 30*	6.2%	4,926
IRON AGE CORPORATION	F0016H	84	138,571	3%-60 Net 67*	16.9%	4,157
DAWN ENTERPRISES	F9929H	73	74,100	2%-10 Net 30*	25.3%	1,482
SEGUE TECHNOLOGIES INC	ZF0246K	70	1,617,193	.5%-10 Net 30*	6.2%	809
PROTECH ARMORED PRODUCTS	F9947H	84		2%-10 Net 30*	25.3%	-
Total			\$906,929,975			\$9,165,702

**Columnar Notes:**

- A. The name of the vendor whose Multiple Award Schedule (MAS) contract contains prompt-payment discount (PPD) terms.
- B. Represents the MAS contract number of the vendor in Column A.
- C. The GSA Schedule under which contracts in Column B were awarded.
- D. The contract sales reported in FY 2007 by vendors in Column A.
- E. The PPD terms for contracts in Column B.
- F. Represents the effective annual discount rate relative to the PPD terms in Column E. The percentage was obtained by entering the necessary information into the Department of the Treasury discount calculator ([fms.treas.gov](http://fms.treas.gov)). Our input included the discount percentage (as stated in Column E), total days in the payment period (as stated in Column E), and days left in the discount period (judgmental). We used 1 day as the number of days left in the payment period, which was the most conservative approach. The resulting Effective Annual Discount Rates were compared to the Treasury's Current Value of Funds Rate (4 percent) for FY 2007 to determine if it would be economically justified for payment offices to take the PPD.
- G. Represents the potential PPD savings at risk of being lost for FY 2007, due to the MAS vendors' (Column A) practice of citing incorrect payment terms on invoices (Column D x the discount in Column E).

## APPENDIX B

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### Management Comments to the Draft Report



GSA Federal Acquisition Service

JAN 29 2010

MEMORANDUM FOR RODNEY J. HANSEN

REGIONAL INSPECTOR GENERAL FOR AUDITING  
GREATER SOUTHWEST REGION (JA-7)

FROM:

JAMES A. WILLIAMS  
COMMISSIONER  
FEDERAL ACQUISITION SERVICE (Q)

A handwritten signature in cursive script that reads "James A. Williams".

SUBJECT:

GSA Draft Report, "Review of Multiple Award Schedule Vendors'  
Invoicing Practices Relative to Prompt-Payment Discounts"  
(A090026/Q/7/XXXXX)

We have reviewed the subject draft report and appreciate the opportunity to comment. We agree with the OIG on the first six recommendations and FAS is in the process of developing plans to address these recommendations. We partially agree with recommendation seven and will revisit whether the negotiation of prompt payment discount terms at the base contract is in the best interest of the government.

Comments on all three of the report findings and all seven recommendations are provided in the attached statement.

Please call me at (703) 605-5400 if you have any questions. Your staff may contact Mr. Kirk Martinelli at (703) 605-5432 or [kirk.martinelli@gsa.gov](mailto:kirk.martinelli@gsa.gov) for additional information.

One Attachment

cc: Theodore Stehney (JA)  
Kenneth L. Crompton (JA-A)

U.S. General Services Administration  
2200 Crystal Drive  
Arlington, VA 20406-0003  
[www.gsa.gov](http://www.gsa.gov)

**Report Number A090026/Q/7/P10001**

QBOB: KMartinelli:01/26/10  
(IG MAS Vendor Invoice draft resp)  
Bcc: Official File – QB0C (W. Williams)  
QB0C (Jason, Wayne, Claudia Davis)  
QV (Steve Kempf) QV0B (Judith Nelson, Robin Bourne, Rachael Stevens)  
JAA (Ken Crompton)

Concur:

QV: See email

QB: See 3401

Q: See 3401

QD: See 3401

FEDERAL ACQUISITION SERVICE COMMENTS ON THE  
GSA DRAFT REVIEW OF MULTIPLE AWARD SCHEDULE VENDORS  
INVOICING PRACTICES RELATIVE TO PROMPT-PAYMENT DISCOUNTS  
(A090026/X/7/XXXXX)

General Comments

Customers who purchase goods and services through the Multiple Award Schedules (MAS) program are able to attain discounts compared to commercial pricing. These discounts are achieved through the base contract negotiations and when customers are able to take advantage of further discounting opportunities such as price reductions at the task order level and prompt payment discounts (PPD).

The Results in Brief section states, "Based on our review, we believe that there is an extensive practice among MAS vendors to routinely submit invoices to MAS contract users that contain incorrect payment terms." While the U.S. General Services Administration (GSA) acknowledges that compliance with all of the contractual requirements is an ongoing education process for the more than 15,000 MAS contractors, we do not have any evidence that there is a systemic or widespread problem for any particular compliance requirement. This includes submitting invoices to customers with incorrect PPD terms. The audit report notes this fact in the Report Qualification,

This report is qualified to the extent that our analyses were not based on statistical sampling techniques and were limited to invoice and payment information relative to GSA operations. Therefore, an analysis of invoice and payment information relative to the universe of MAS contract users may yield different results.

Finding 1 – MAS Vendors Citing Incorrect Payment Terms on Invoices

The auditors did not conduct a survey of why the contractors did not include the PPD on their invoices. GSA would have benefited greatly from an enumeration of the reasons. Furthermore, the auditors may have been able to estimate a more accurate savings at risk. The report states that, "The failure of the 28 vendors to cite applicable PPD terms on invoice[s] placed over \$9.1 million in potential PPD savings at risk of being lost based on \$900 million in reported contract sales in FY 2007." At the same time, in footnote five in the Results in Brief section, the report makes only passing acknowledgement to key mitigations to the calculation of savings at risk, "The risk may be slightly mitigated because of purchases made by credit card and the Government's inability to obtain and gather required documentation in the time allowed before processing payments." Often the customers pay with a purchase card. Per GSAR 552.232-77(e) Payment by Government Commercial Purchase Card, payments made using the government purchase card are not eligible for prompt payment discounts. In other instances, the Contracting Officer negotiating the task orders may have chosen to ask for other discounts or concessions in lieu of the PPD if s/he determined it was the Best Value for the procurement. Finally, the MAS contractor may not have been in compliance with its contract requirements.

Recommendation No. 1

*Remind all MAS vendors of their contractual responsibility to include applicable PPD terms on invoices.*

FAS agrees. FAS should remind all MAS contractors of their rights and responsibilities in conjunction with including applicable PPD terms on invoices per FAR Subpart 52.212-4.

52.212-4(g),

(1) The Contractor shall submit an original invoice and three copies (or electronic invoice, if authorized) to the address designated in the contract to receive invoices. An invoice must include—  
g) Invoice.

(1) The Contractor shall submit an original invoice and three copies (or electronic invoice, if authorized) to the address designated in the contract to receive invoices. An invoice must include—

(i) Name and address of the Contractor;

(ii) Invoice date and number;

(iii) Contract number, contract line item number and, if applicable, the order number;

(iv) Description, quantity, unit of measure, unit price and extended price of the items delivered;

(v) Shipping number and date of shipment, including the bill of lading number and weight of shipment if shipped on Government bill of lading;

(vi) Terms of any discount for prompt payment offered;

(vii) Name and address of official to whom payment is to be sent;

(viii) Name, title, and phone number of person to notify in event of defective invoice; and

(ix) Taxpayer Identification Number (TIN). The Contractor shall include its TIN on the invoice only if required elsewhere in this contract.

(x) Electronic funds transfer (EFT) banking information.

FAR Subpart 52.212-4(i),

(i) Payment.—

(1) *Items accepted.* Payment shall be made for items accepted by the Government that have been delivered to the delivery destinations set forth in this contract.

(2) *Prompt payment.* The Government will make payment in accordance with the Prompt Payment Act (31 U.S.C. 3903) and prompt payment regulations at 5 CFR Part 1315.

(3) *Electronic Funds Transfer (EFT).* If the Government makes payment by EFT, see 52.212-5(b) for the appropriate EFT clause.

(4) *Discount.* In connection with any discount offered for early payment, time shall be computed from the date of the invoice. For the purpose of computing the discount earned, payment shall be considered to have been made on the date which appears on the payment check or the specified payment date if an electronic funds transfer payment is made.

Recommendation No. 2

*Seek recoveries, when economical, advisable, and feasible from MAS vendors who fail to cite contractual PPD terms on invoices.*

FAS agrees that when economical, advisable, and feasible recoveries should be sought from contractors who fail to site the applicable PPD terms on invoices.

Finding 2 – GSA Controls Need Strengthening

The audit reports that all of the 45 reviewed GSA Forms 300 generated by the Integrated Technology Solutions Shop (ITSS) showed Net 30 Days PPD terms, in lieu of the PPD terms of the contract. ITSS is unable to accommodate other than default standard PPD terms of Net 30 days. Enhancements to the system scheduled for a June 2010 release, will allow for contracting to specify the PPD terms.

The audit also references manually prepared GSA Forms 300 that contained default standard PPD terms of Net 30 days, in lieu of the PPD terms of the contract. Additionally, some Industrial Operations Analysts (IOAs) did not detect invoicing errors during the Contractor Assistance Visits (CAV). As in Finding 1, the auditors did not conduct a survey; neither as to why the PPD terms were Net 30 on the manual invoices, nor as to why the IOAs marked "...are the prompt payment terms shown on the invoices?" with N/A. GSA would have benefited greatly from an enumeration of the reasons.

Recommendation No. 3

*Take corrective actions to ensure that the ITSS software application is corrected to allow entry of accurate contractual PPD terms for all applicable MAS vendors.*

FAS agrees. Enhancements to the Integrated Technology Solutions Shop scheduled for a June 2010 release, will allow for contracting to specify the PPD terms.

Recommendation No. 4

*Take appropriate actions to ensure that GSA Forms 300, prepared manually and through the ITSS application, include applicable PPD terms in accordance with the GSA acquisition manual.*

FAS agrees. The Office of Acquisition Management will review the guidance in the GSA Acquisition Manual and determine how to best ensure appropriate and accurate guidance is disseminated.

Recommendation No. 5

*Take appropriate actions to ensure that IOAs are aware of PPDs when conducting CAVs.*

FAS agrees. FAS believes that it is in the best interest of both the government and the contractors that all Schedule holders comply with the terms of their contracts. FAS will look for training opportunities to ensure that the Industrial Operation Analysts are checking the PPDs during Contractor Assistance Visits.

Recommendation No. 6

*Ensure that appropriate corrective actions are taken when IOAs identify MAS vendor invoicing discrepancies during their CAVs.*

FAS agrees. IOAs who determine that there may be invoicing discrepancies during the CAVs will note this on the CAV report card and let the Procurement Contracting Officer know so that s/he can take appropriate action.

Finding 3 – GSA Contract Language

The audit correctly notes that at this time there is neither policy language allowing nor prohibiting MAS customers to negotiate away the PPD in lieu of other concessions or discounts.

The informal position recognizes that many customers are unable to take advantage of the PPD terms negotiated on the base contract. For most procurements, the authorization to pay an invoice may need to go through several levels of authority including a Program Manager, Contracting Officer Representative and then, the finance office. For many of the more simple buys, the customer often uses a purchase card to consummate the purchase. Therefore, it is sensible and in the best interest of the government that the ordering activity negotiates for better discounts and concessions in lieu of the PPD terms.

Recommendation No. 7

*Take a formal position as to whether ordering activities can or cannot negotiate away PPDs, and if FAS takes exception to ordering activities negotiations away PPDs, they should take actions(s) to ensure that such a practice does not continue.*

FAS partially agrees. FAS will revisit whether the negotiation of PPD terms at the base contract, even when the offeror has PPDs commercially, is in the best interest of the government customer; or whether the procurement contracting officer should seek additional discounts in the base award. In addition, FAS will revisit the relevant FAR and GSAR clauses to determine if it is necessary to develop a formal policy addressing MAS customers negotiating away PPDs at the task order level.



## APPENDIX C

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### OIG Response to FAS Management Comments

FAS Management's (Management) response included general comments to the Draft report, comments for each of the seven recommendations; and comments for each of the three report findings. We took no exceptions to Management's comments for Recommendations Three through Six. However, we did take exception to Management's comments to Recommendations One, Two, and Seven. Our responses to Management's comments to Recommendations One and Two, as well as Management's General Comments to the report and comments for each finding are addressed in this appendix. Our response to Management's comments to Recommendation Seven is addressed in the body of the report.

#### Management's Comments to Recommendations One and Two

For Recommendation One, Management commented that "FAS **should** remind all MAS contractors of their rights and responsibilities in conjunction with including applicable PPD terms on invoices per FAR Subpart 52.212-4." (Emphasis Added). For Recommendation Two, Management commented that "FAS agrees that when economical, advisable, and feasible recoveries **should** be sought from contractors who fail to site the applicable PPD terms on invoices." (Emphasis Added).

#### OIG Response

Although Management agreed with both recommendations, we believe that the wording in Management's comments implies that they may or may not carry out the recommendations to: (1) Remind MAS vendors of their contractual responsibility to include applicable PPD terms on invoices; and (2) Seek recoveries, when economical, advisable, and feasible, from MAS vendors who fail to cite contractual PPD terms on invoices. Specifically, we believe the word "should", as used in the context of Management's comments, suggests tentativeness and noncommittal toward the recommendations. We believe that it would be in the best interest of the government if Management ensures that: (1) all applicable MAS vendors are reminded of their contractual responsibility to cite PPD terms on invoices; and (2) recoveries are sought, when economical, advisable, and feasible; from MAS vendors who fail to cite contractual PPD terms on invoices.

#### Management's General Comments to the Draft Report

"Customers who purchase goods and services though (sic) the Multiple Award Schedules (MAS) program are able to attain discounts compared to commercial pricing. These discounts are achieved through the base contract negotiations and when customers are able to take advantage of further discounting opportunities such as price reductions at the task order level and prompt payment discounts (PPD).

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The Results in Brief section states, 'Based on our review, we believe that there is an extensive practice among MAS vendors to routinely submit invoices to MAS contract users that contain incorrect payment terms.' While the U.S. General Services Administration (GSA) acknowledges that compliance with all of the contractual requirements is an ongoing process for the more than 15,000 MAS contractors, we do not have any evidence that there is a systemic or widespread problem for any particular compliance requirement. This includes submitting invoices to customers with incorrect PPD terms. The audit notes this fact in the Report Qualification,

This report is qualified to the extent that our analyses were not based on statistical sampling techniques and were limited to invoice and payment information relative to GSA operations. Therefore, an analysis of invoice and payment information relative to the universe of MAS contract users may yield different results."

### OIG Response:

We take exception to Management's comments that they:

"...do not have any evidence that there is a systemic or widespread problem for any particular compliance requirement. This includes submitting invoices to customers with incorrect payment terms."

As reported, we found that over 65 percent (28 of 43) of selected MAS vendors in our sample consistently failed to cite applicable PPD terms on 75 percent (342 of 453) of selected invoices submitted to GSA for payment. If such a high percentage of MAS vendors did not comply with invoicing requirements when doing business with GSA, the originator and overseer of the MAS program, it is very likely that the same practice exists for MAS vendors doing business with other agencies that purchase through the MAS program.

### Management Comments to Finding 1 – MAS Vendors Citing Incorrect Payment Terms on Invoices:

"The auditors did not conduct a survey of why the contractors did not include the PPD on their invoices. GSA would have benefited greatly from an enumeration of the reasons."

### OIG Response:

We believe that there are only two possible reasons why MAS vendors with contracts containing PPD terms would not cite PPDs on invoices. These reasons are: (1) the MAS vendors failed to comply with the MAS contract requirement; or (2) MAS contract customers negotiated away the PPD terms in exchange for other discount considerations under individual task/purchase orders or Blanket Purchase Agreements. Based on prior OIG Contract reviews we believe that the general reason why PPDs

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were not cited on invoices was due to MAS vendors' noncompliance with the contract requirement.

### Management Comments to Finding 1 – MAS Vendors Citing Incorrect Payment Terms on Invoices:

“Furthermore, the auditors may have been able to estimate a more accurate savings at risk. The report states that, ‘The failure of the 28 vendors to cite applicable PPD terms on invoice[s] placed over \$9.1 million in potential PPD savings at risk of being lost based on \$900 million in reported contract sales in FY 2007.’ At the same time, in footnote five in the Results in Brief section, the report makes only passing acknowledgement to key mitigations to the calculation of savings at risk, ‘The risk may be slightly mitigated because of purchases made by credit card and the Government’s inability to obtain and gather required documentation in the time allowed before processing payments.’ Often the customers pay with a purchase card. Per GSAR 552.232-77(e) Payment by Government Commercial Purchase Card, payments made using the government purchase card are not eligible for prompt payment discounts. In other instances, the Contracting Officer negotiating the task orders may have chosen to ask for other discounts or concessions in lieu of the PPD if s/he determined it was the Best Value for the procurement. Finally, the MAS contractor may not have been in compliance with its contract requirements.

### OIG Response:

The savings at risk (\$9.1 million) shown in Appendix A is only an estimation and not an exact amount. We understand that our estimation would represent a more accurate amount if we excluded credit card payments as well as purchases made by MAS customers who negotiated away the PPD, from our calculation. However, the information needed to make such exclusions was not available to us at the time of the review. We plan to perform postaward audits of select vendors identified in this review. The audits will determine the recoveries that are due the Government and, will take into account the mitigating factors mentioned in FAS Management’s comment.

### Management Comments to Finding 2 – GSA Controls Need Strengthening

“The audit reports that all of the 45 reviewed GSA Forms 300 generated by the Integrated Technology Solutions Shop (ITSS) showed Net 30 Days PPD terms, in lieu of the PPD terms of the contract. ITSS is unable to accommodate other than default standard PPD terms of Net 30 days. Enhancements to the system scheduled for a June 2010 release, will allow for contracting to specify the PPD terms.”

### OIG Response:

We agree that enhancements scheduled to be made to the ITSS system will greatly benefit GSA contracting personnel in that they will be able to input correct payment terms on task orders issued to MAS vendors. However, we believe that Management

## Report Number A090026/Q/7/P10001

should take immediate actions to ensure that GSA Forms 300 include applicable PPD terms until the enhancements to the ITSS system are made.

### Management Comments to Finding 2 – GSA Controls Need Strengthening

“The audit also references manually prepared GSA Forms 300 that contained default standard PPD terms of Net 30 days, in lieu of the PPD terms of the contract. Additionally, some Industrial Operations Analysts (IOAs) did not detect invoicing errors during the Contractor Assistance Visits (CAV). As in Finding 1, the auditors did not conduct a survey; neither as to why the PPD terms were Net 30 on the manual invoices, nor as to why the IOAs marked ‘...are the prompt payment terms shown on the invoices?’ with N/A. GSA would have greatly benefited from an enumeration of the reasons.”

### OIG Response:

We understand that GSA would greatly benefit from knowing the reasons why contracting personnel cited Net 30 on manual purchase orders (Forms 300) instead of contractual PPD terms, as well as why IOAs did not test MAS vendors’ compliance with the PPD invoicing requirement when PPDs were applicable. Although we did not question the applicable contracting personnel, we believe that there are only two possible reasons why they did not cite PPD terms on purchase orders. The reasons are: (1) contracting personnel were unaware that PPDs were applicable for the contracts under which they purchased; or (2) contracting personnel negotiated away the PPD terms in exchange for other discount considerations. Regarding IOAs, we believe that the reason they did not test MAS vendors’ compliance with the PPD invoicing requirement was because they were unaware that PPDs were in effect for the applicable contract.

### Management Comments to Finding 3 – GSA Contract Language

“The audit correctly notes that at this time there is neither policy language allowing nor prohibiting MAS customers to negotiate away the PPD in lieu of other concessions or discounts.

The informal position recognizes that many customers are unable to take advantage of the PPD terms negotiated on the base contract. For most procurements, the authorization to pay an invoice may need to go through several levels of authority including a Program Manager, Contracting Officer Representative and then, the finance office. For many of the more simple buys, the customer often uses a purchase card to consummate the purchase. Therefore, it is sensible and in the best interest of the government that the ordering activity negotiates for better discounts and concessions in lieu of the PPD terms.”

OIG Response:

We do not know how Management reached the conclusion that “many” customers are unable to take advantage of PPD terms. As stated in the Background section of this report, GSA’s Greater Southwest and Heartland Regional Finance Divisions earned 84 and 98 percent, respectively, of the PPDs that they were offered. Although we understand that there are various factors that could impair Government paying offices’ ability to process payments in a timely manner, we do not know the earned PPD percentages of other government paying offices. However, we believe that Management’s assumption that “many” paying offices are unable to take advantage of PPDs negotiated by GSA is unsubstantiated.

Moreover, while it may be in the best interest of the ordering activities to negotiate better discounts and concessions in lieu of the PPD terms, we do not believe that this practice is widespread among MAS contract customers. Further, we do not believe that MAS contract customers have the authority to change PPD terms negotiated under MAS contracts. Therefore, if Management believes it to be in the best interest of the government for ordering activities to exchange PPD terms for better discounts, it is imperative that Management take and publicize a formal position authorizing MAS customers to do so. However, we still believe it is in the best interest of the government that Management ensures that MAS vendors comply with the invoicing requirement of their MAS contracts to cite PPD terms on invoices.

## APPENDIX D

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