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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

July 15, 1981

Lt. General Joseph K. Bratton
Chief of Engineers
Army Corps of Engineers

Dear General Bratton:

During our recent [review of Corps of Engineers water contracting and repayment practices], we identified a problem which warrants your attention. We found that:

- Repayment contracts allow up to 30 days after the due date to pay cost-sharing installments without any penalty.
- The percentage rate used to assess late charges is not based on the current value of funds to the Treasury.

We believe that these conditions may preclude timely recovery of the installments and encourage late payments at the expense of the Federal Government.

Of 23 Corps contracts we reviewed in five districts (St. Louis, Mo.; Kansas City, Mo.; Forth Worth, Tex.; Tulsa, Okla.; Washington D.C.), 11 contained clauses which exempt the water users from paying any penalty for up to 30 days after the due dates of their installments, 5 were silent with respect to penalty charges, and 7 specified interest charges from the due date. The contracts with exemption clauses specify that if payment is made 31 to 60 days after the due date, 1 month's interest will be charged. This in effect, allowed the users a 30-day penalty-free grace period on their delinquent payments. A recent (November 7, 1980) revision in the Corps water supply contract regulations has reduced this penalty-free period from 30 to 15 days for new contracts.

We believe that the 15-day grace period allowed by the Corps is inconsistent with the Department of the Treasury's Fiscal Requirements Manual (TFRM) for guidance of department and agencies on effective management of the Government's cash. The TFRM states that contracts under which goods or services are sold will include payment terms and provisions which at a minimum:

- Requires that payment be received no later than the due date (no grace period is provided for in Treasury's TFRM).
- Provide for late charges for payments received after the due date.

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Treasury's TFRM on "Cash Management" addresses the penalty charges for late payments. Section 8020.20 of the TFRM states, if payment is overdue, a late charge will be applied and collected at a percentage rate based on the current value of funds to the Treasury. The percentage rate will be calculated by Treasury as an average of the current value of funds to the Treasury for a recent three month period.

When Corps contracts specify a delinquency penalty after the grace period, the penalty rates are lower than the current short-term value of funds to the Treasury. The Corps uses the interest rate determined by the Secretary of the Treasury as set forth in the Water Supply Act of 1958, as amended, for assessing late payment charges. The Water Supply Act rate for fiscal year 1981 is 8.605 percent. However, Treasury has advised agencies that the percentage rate to be used in applying late charges is 17.74 percent for the calendar quarter April 1 through June 30, 1981. Thus, delinquency penalty charges are much less than the current short-term value of funds to the Treasury.

We believe that penalty-free grace periods provide incentives for delinquent payments. Another incentive is the use of interest rates lower than Treasury's current short-term value of funds.

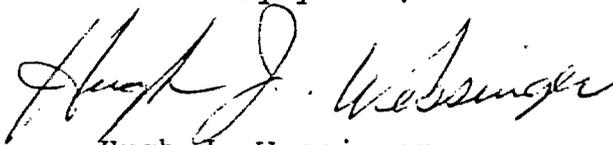
Therefore, to discourage late payments, and obtain timely cost recovery, we recommend that you initiate action to

- eliminate the 15-day grace period in all new, amendatory, or supplemental contracts and
- provide for penalty charges, based on Treasury's current short-term value of funds, when contractors pay their installments after the due date.

We would also like to point out that the Bureau of Reclamation has incorporated these contracting procedures in a recent policy change.

We would appreciate notification of any actions taken by you or your staff to correct these deficiencies. If you have any questions, please contact me or Harold Pichney at 275-6076.

Sincerely yours,



Hugh J. Wessinger
Associate Director,
Senior Level