



Highlights of [GAO-06-358](#), a report to congressional committees

Why GAO Did This Study

The National Defense Authorization Act for Fiscal Year 2004 requires GAO to report on the timeliness of Department of Defense (DOD) payments made to small businesses. GAO's report focuses on (1) whether, at DOD payment centers for which data were available, small business invoices were more likely to be paid late; (2) whether systemic weaknesses in DOD payment processes result in late payments to contractors—including small business contractors; and (3) the impact of late payments on small businesses. To calculate timeliness rates, GAO used the data DOD was able to provide for 9 of its 20 vendor payment locations as well as its one contract pay location. GAO used a case study approach for the third objective because data limitations did not permit the use of statistically reliable sampling techniques for assessing the experiences of DOD small business contractors as a whole. Case study contractors were selected because they experienced a high frequency of late payments and may not be reflective of all small businesses.

What GAO Recommends

GAO makes five recommendations to strengthen the implementation of a Web-based tool known as Wide Area Work Flow (WAWF), which could speed the processing of payment documents and improve the timeliness of DOD payments, including payments to small businesses. DOD concurred with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-358.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

DOD PAYMENTS TO SMALL BUSINESSES

Implementation and Effective Utilization of Electronic Invoicing Could Further Reduce Late Payments

What GAO Found

DOD paid small business invoices late more often than all invoices paid at the nine locations for which data were available. Ten percent of all invoices at these locations were paid late—compared with 14.5 percent of small business invoices. According to DOD officials, the disparity may have occurred because DOD's cash management and prioritization practices tend to favor paying larger vendors first. Although DOD has reported significant improvements in its metrics related to late payments, these improvements have come through dedicating additional resources to the problem and not through addressing the underlying weaknesses that cause late payments. Resolving the payment timing disparity will involve improving the overall timeliness of DOD payments to contractors regardless of size.

Systemic weaknesses in DOD's payment processes result in late payments to contractors, including small business contractors. DOD continues to process mostly paper payment documents, which can often result in redundant data entry; misplaced documents; higher than necessary transaction processing fees; and ultimately, payment delays. To its credit, DOD has invested in a Web-based tool, WAWF, that could facilitate the electronic exchange of payment data and documents, but the initiative lacks the requisite management focus and strategic direction needed to be successful. For example, the WAWF program lacks performance metrics and does not have a clear strategy for ensuring that WAWF will be effectively utilized. Finally, in many cases, the military services and defense agencies are not required to acknowledge receipt and acceptance electronically. Instead, they submit paper documents that must be matched with contractor invoices to complete the payment transaction, which can lead to payment delays.

Disruptions of cash flow caused by late payments—depending on the extent and duration—can significantly affect the day-to-day operations of small businesses. To illustrate, GAO interviewed 17 small business owners that were paid late multiple times during fiscal year 2004. They provided the following perspectives:

- Fourteen of the 17 said that because DOD paid late, they had to obtain a line of credit or use personal resources to finance day-to-day operations.
- Eleven of the 14 that relied on a line of credit said that they paid 2 to 4 percent more for the credit than the rate used by DOD to calculate late payment interest.
- In 3 cases, contractors said that their cash flow problems were so significant that they were concerned about their ability to stay in operation.

Although the Prompt Payment Act requires interest payments when certain bills are paid late, 10 contractors stated that they often did not receive interest on late payments. GAO could not substantiate these statements because DOD was unable to provide the information needed to do so. According to one contractor, after GAO asked DOD to research his claim, DOD determined that the contractor was entitled to interest of about \$1,000.