U.S. Department of Justice
Federal Bureau of Prisons

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Prompt Payment Act

/s/
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Director, Federal Bureau of Prisons

1. PURPOSE AND SCOPE

This Program Statement (PS) establishes policies and procedures to be followed at each payment site to ensure compliance with the Prompt Payment Act, Office of Management and Budget (OMB), Title 5, Code of Federal Regulations (CFR), Part 1315, and the United States Code (USC), Title 31, Chapter 39, Sections 3901-3907.

The Prompt Payment Act requires Federal agencies to make payments on time, to pay interest penalties when payments are late, and to take discounts only when payments are made within the discount period. Provisions within the Prompt Payment Act provide for timely payment of obligations, better relationships with contractors, improved competition for Government business, and reduced costs to the Government for property and services.

Agencies must make payments under contracts as prescribed in the Prompt Payment Act no later than the due date, or, if appropriate, the discount date. Payments must be based on receipt of a proper invoice and satisfactory performance of the purchase order or contract terms. Discounts may be taken only when payments are made on or before the discount date. If agencies take discounts after the discount date, or if they fail to make timely payments, interest must be paid. Interest is paid automatically, without vendors having to request it. The cost of the interest payment is absorbed from the Cost Center procuring the goods or services. Temporary unavailability of funds does not relieve agencies of the obligation to pay interest.

a. **Summary of Changes**

Policy Rescinded
P2011.10 Prompt Payment Act (09/15/04)

This reissuance removes the requirement for certifying officers to document the reason why an invoice was paid early and no longer requires certifying officers to sign the voucher (see Section 5.b.). This change is made as a result of the Reduction and Elimination of Duties Management Assessment Project (REDMAP) initiative.

b. **Program Objectives**. Expected results of this program are:

- Staff will process payments in a timely manner.
- Late payments will include the appropriate amount of interest due.
- Discounts will be taken when appropriate.

2. **DEFINITIONS**

For purposes of this PS, the following definitions apply:

a. **Acceptance**. Acknowledgment by the Bureau of Prisons (BOP) that goods or services received agree with the order.

b. **Applicable Interest Rate**. Rate established by the Secretary of the Treasury for interest payments, which is in effect on the day after the due date. This rate is published in the *Federal Register* on or about January 1 and July 1.

c. **Banking Information.** Information needed for Electronic Fund Transfer (EFT), including the vendor's bank account number and the vendor's financial institution's routing number.

d. **Contract**. Any enforceable agreement, including rental and lease agreements, purchase orders, service contracts, blanket purchase agreements, and other obligating documents, between a vendor and the BOP.

e. **Day**. A calendar day, including weekends and holidays, unless otherwise indicated.

f. **Designated Agency Office**. The office designated in the contract to first receive and review the invoice. This office ensures that the invoice is proper; it may be different from the office issuing the payment.

g. **Discount Date**. The date the payment must be made to take a specified reduction or discount.

h. **Due Date**. The date on which a payment should be made.

i. **Electronic Fund Transfer (EFT)**. Any transfer of funds, other than a transaction originated by cash, check, or similar paper instrument, that is initiated through an electronic terminal, telephone, computer, or magnetic tape, for ordering, instructing, or authorizing a financial institution to debit or credit an account.

j. **Invoice**. A bill, written document, or electronic transmission provided by the vendor requesting payment for goods or services rendered.

k. **Payment Date**. The date placed on the check from Treasury, or the settlement date for EFT payments.

l. **Receipt of Invoice**. For determining the start date and the date on which interest begins to accrue, an invoice is deemed to be received on the later of:

- For invoices that are mailed, the date a proper invoice is actually received by the designated agency office if the invoice is stamped or annotated with the date of receipt at the time of receipt. For electronically transmitted invoices, the date a readable transmission is received by the designated agency office, or the next business day if received after normal working hours.
- The seventh day after the date on which the property is actually delivered or the performance of services is actually completed (unless actually accepted by the agency before the seventh day or otherwise stated in the contract).
- The date placed on the invoice by the vendor, if the agency fails to annotate or stamp the invoice with the date of receipt at the time of receipt.

m. **Receiving Report**. Written or electronic evidence of acceptance of goods or services by a Government official.

n. **Settlement Date**. The date an EFT payment is credited to the vendor's financial institution.

o. **Taxpayer Identification Number (TIN)**. The nine-digit Employer Identifying Number (EIN) or the individual's Social Security Number (SSN). This number must be included on all vendor payment vouchers submitted to Treasury.

p. **Utilities.** Electricity, water, sewage, telephone services, and natural gas.

q. **Vendor**. Any person, organization, or business concern engaged in a business, including state and local governments and foreign governments (but excluding Federal entities).

3. **REVIEWING DOCUMENTS**

The three key documents that are needed, and must be reviewed, to make a payment are the invoice, receiving report, and contract.

a. **The Invoice**. When reviewing invoices, follow the procedures below. Invoices received must be date-stamped with the date the invoice was received in the designated agency office. The contract is reviewed to determine the designated agency office. Review each invoice immediately upon receipt to determine if it is a proper invoice.

(1) **Proper Invoices**. The following correct information comprises a proper invoice and is required as payment documentation:

- Name and address of the vendor or contractor and invoice date.
- Contract number or other authorization for delivery of property or service.
- Vendor invoice number, account number, or other number required by the contract.
- Description, price, and quantity of property or services actually delivered or rendered.
- Shipping and payment terms.
- Bill of Lading number and weight, if applicable.
- Other substantiating documentation or information required by the contract.
- Name, title, and telephone number of official to be notified in the event of a defective invoice.
- The TIN.
- Banking information, unless EFT is waived under 31 CFR 208.4.

(2) **Defective Invoices**. If the designated agency office determines the invoice to be improper, it is considered a defective invoice. The invoice must be returned to the vendor specifying why the invoice is not proper and requiring the vendor to resubmit the invoice with the necessary corrections. The designated agency office returns the invoice as soon as possible, but no later than:

- Three days for meat or meat food products and fresh or frozen fish and seafood.
- Five days for perishable agricultural commodities, dairy products, and food products prepared from edible fats and oils.
- Seven days for all other categories after receipt of the invoice.

The date of return is the date the defective invoice is mailed back to the vendor.

If the defective invoice is returned to the vendor within the specified time frame, the paying office has the original number of days to make payment, as established in the payment terms, from the receipt of the corrected invoice. The resubmitted invoice must be clearly annotated as corrected.

If the defective invoice is not returned to the vendor within the specified time frame, the number of days available to make a timely payment upon receipt of the corrected invoice is reduced by the number of days late in notifying the vendor of the defective invoice.

Example 1: Pandora's Boxes, Inc.

Defective Invoice Received: August 5
Invoice Returned to Vendor: August 20
Payment Terms: 30 days

When the corrected invoice is resubmitted by the vendor, the number of days available to make the payment without incurring an interest penalty is 22 days. The defective invoice was returned 15 days after receipt B eight days in excess of the allowable seven. The payment terms, 30 days, are reduced by the number of late days, eight, to arrive at the new payment terms of 22 days.

Example 2: Paul's Peppers

Defective Invoice Received: November 3
Invoice Returned to Vendor: November 12
Payment Terms: 10 days

When the corrected invoice is resubmitted by the vendor, the number of days available to make the payment without incurring an interest penalty is six days. Since the allowable time to return a defective invoice for agricultural products is five days, the invoice was returned four days late. The payment terms, 10 days, are reduced by the number of late days, four, to arrive at the new payment terms of six days.

b. **The Receiving Report**. Payment cannot be made before the Government receives and accepts the goods or services, even if an early payment discount may be lost.

(1) **Proper Receiving Report**. A proper Receiving Report contains:

- Name of vendor.
- Contract or other authorization number.
- Product or service description.
- Quantities received.
- Date goods were delivered or services were provided.
- Date goods or services were accepted.
- Signature and printed name of the receiving official.

(2) **Timely Acceptance**. To determine the start of the payment period, acceptance of goods or services must take place within seven days following their receipt, unless other terms are included in the contract. If the person completing the receiving report uses an acceptance date in excess of seven days following receipt of the goods or services and the contract does not specify a longer acceptance period, the acceptance date to use in determining payment date is the seventh day after receipt.

Example: An invoice was received and date-stamped on November 5. The receiving report states the goods were received on October 30 and accepted on November 9. It took 10 days to accept the goods; therefore, the date determining the acceptance date is November 6 (October 30 plus seven days).

c. **The Contract.** The following information from the contract is required as payment documentation:

- Payment terms.
- A notation that a partial payment is prohibited as stated in the contract, if applicable.
- For construction contracts, due dates for approved progress payments or milestone payments for completed phases, increments, or segments of a project.
- If applicable, a statement that the special payment provisions of the Packers and Stockyard Act of 1921 (7 United States Code [USC]182(3)) or the Perishable Agricultural Commodities Act of 1930 (7 USC 499a(4)) or the Fish and Seafood Promotion Act of 1986 (16 USC 4003(3)) apply.
- Name, title, telephone number, and complete mailing address of the officials of the Government's designated agency office and the vendor receiving the payments.
- Reference to requirements under the Prompt Payment Act, including the payment of interest penalties on late invoice payments, and including progress payments under construction contracts.
- Reference to the requirements under the Debt Collection Improvement Act of 1996, including the requirement that payments must be made electronically except where the EFT requirement is waived under 31 CFR 208.4.

4. DETERMINING THE PAYMENT DUE DATE

a. **Starting the Payment Period**. The period available to make a timely payment of an invoice without incurring interest is determined by the date a proper invoice is received. Guidelines for determining when an invoice is received are in Section 2.l.

b. **Due Dates**. The Prompt Payment Act provides the following criteria for determining due dates:

- Meat and meat food products, eggs, and fresh or frozen fish or seafood: Not later than seven days after date of delivery.
- Perishable agricultural commodities (fresh or frozen fruits and vegetables): Not later than 10 days after date of delivery, unless another payment date is specified in the contract.
- Dairy products and food products prepared from edible fats or oils: Not later than 10 days after receipt of a proper invoice.
- Charge Account purchases: 30 days after receipt of the statement.
- Construction Progress Payment requests: 14 days after receipt of a payment request or a longer period, specified in the contract, if required to give the Government an opportunity to inspect the work and to determine the adequacy of the contractor's performance.

- All other types of construction payment requests, such as partial payments, amounts retained, and final payments, are due on the 30th day after receipt of a proper invoice or the Government's acceptance, whichever is later.
- Payments as a result of Architectural and Engineering requests: 30 days after receipt of a proper invoice or the Government's acceptance of the work, whichever is later.
- Unauthorized procurement: The payment due date is calculated from the date the Contracting Officer signs the ratification.
- All other goods and services: On the date(s) specified in the contract. If a payment due date is not specified, 30 days after the start of the payment period.

Example 1: Bessie's Dairy Farm

Invoice Received: May 5
Goods Received: May 1
Goods Accepted: May 6
Due Date: May 15

The payment period begins on May 5 because payment terms for dairy products are 10 days after receipt of a proper invoice.

Example 2: Jim's All-Stars

Invoice Received: June 30
Goods Received: June 30
Goods Accepted: July 2
Vendor notified of a defective invoice: July 10
Corrected invoice received: July 14
Due Date: August 10

The payment period begins on July 14, after the corrected invoice is received; however, it took 10 days to notify the vendor of the defective invoice. Therefore, the payment period is reduced by the number of days in excess of the seven allowed that it took to notify the vendor. The original due date of August 13 minus three days (the number of days in excess of the seven days allowed to notify of a defective invoice) results in a due date of August 10.

5. **MAKING THE PAYMENT**

The principal objective of the Prompt Payment Act is to have Federal agencies pay their bills on time.

a. **On Time**. An on-time payment is defined as paying an invoice any time within seven days prior to the due date, up to the due date. Payments due on Saturdays, Sundays, or legal holidays when Federal Government offices are closed may be made on the next business day without incurring interest penalties.

Example: If the payment due date is October 30, the invoice is considered paid on time if it is paid between October 23 and October 30.

b. **Early Payments**. Payments made earlier than seven days before the due date are allowed in certain circumstances. On a case-by-case basis, the Certifying Officer can determine that an early payment is necessary. In these cases, sub-certification of the payment voucher in the automated accounting system documents the Certifying Officer's approval of the early payment.

c. **Date Paid**. A vendor's invoice is considered paid on either:

■ The date Treasury places on the check.
■ The settlement date for EFT.

6. DISCOUNTS

If a discount is offered by a vendor, either on the purchase order or the invoice, a determination is made whether or not taking the discount would benefit the Government.

a. **Determining the Discount Date**. In determining the discount date, three situations can occur:

■ If the vendor dates the invoice, the discount period begins the day after the date the vendor places on the invoice. The discount date is determined by taking the date the vendor places on the proper invoice and adding the discount terms to it.
■ If the vendor fails to date the invoice, the discount period begins on the date the proper invoice is received, if it is annotated or stamped with the date of receipt.
■ If the discount terms specify the actual discount due date, for example, A4% if paid by January 16, this date must be adhered to.

b. **Discount Requirements**. The following requirements must be met before a discount can be taken:

(1) Discounts may be taken only when economically beneficial to the Government, based on the effective annual interest rate of the discount terms. The Current Value of Funds Rate (CVFR) is used when deciding whether to take a discount. This rate is determined annually by Treasury and published in the *Federal Register*. Discounts are taken when the discount terms in the following conversion formula result in an effective annual interest rate equal to or greater than the CVFR.

Conversion Formula

$$\frac{\text{Discount \%}}{\text{100\% minus Discount \%}} \times \frac{360}{\text{Number of Days in Payment Period} - \text{Number of Days Left in Discount Period*}} = \text{Effective Annual Discount Rate}$$

*The discount period is reduced by the number of days between the invoice date and the date of receipt.

Example:

CVFR: 5%
Discount Terms: 2%/10 net 30
Invoice Date: March 2
Receipt Date: March 6 (4 days elapsed time)

$$\frac{.02}{1.00 - .02} \times \frac{360}{30 - (10\text{-}4)} = .306 \text{ or } 31\%$$

Based on this example, the effective annual discount rate exceeds the CVFR; payment is made according to the discount terms.

(2) Discounts may be taken only after acceptance of goods or services has occurred. Under no circumstances can an invoice be paid early to take a discount before the goods/services have been accepted.

Example:

Invoice Date: August 1
Invoice Received: August 5
Goods Accepted: August 15
Discount Terms: 2%/10 net 30

The discount period ended August 11 (August 1 + 10). Since payment cannot be made sooner than August 15, the date the goods are accepted, the discount is lost.

(3) In addition to acceptance of the goods, payment to obtain a discount cannot be made until a proper invoice has been received.

Example 1:

Invoice Date: May 15
Invoice Received: May 21
Goods Accepted: May 13

Discount Terms: 2%/10 net 30

The invoice must be paid by May 25 (May 15 plus 10 days) to realize the discount; however, payment cannot be made sooner than May 21, the date the invoice was received.

Example 2:

Invoice Date: June 3
Invoice Received: June 15
Goods Accepted: June 6
Discount Terms: 2%/10 net 30

Since the discount period ended before the invoice was received (June 3 plus 10 days is June 13), the discount is lost.

(4) If the contract does not state the discount terms, but the invoice does, the discount may be taken based on the terms listed on the invoice. If the contract states the discount terms, but the invoice does not, the discount may be taken based on the contract terms. If the contract and the invoice state different terms, take the better of the two.

(5) If a discount is taken after the discount period and is not repaid before the payment due date, an interest penalty is calculated on the amount of the discount taken. The period begins the day after the specified discount date through the date of payment of the discount erroneously taken.

7. **INTEREST**

Any payment subject to the Prompt Payment Act that is paid after the payment due date, as well as discounts taken in error, requires that interest be paid to the vendor automatically, without the vendor requesting the interest payment (except as provided in Section 7.c.).

a. **Interest Calculation**. Late payment interest is calculated at the interest rate in effect on the day after the due date. The interest rate is determined by the Secretary of the Treasury and published semi-annually in the *Federal Register*.

Interest is computed from the day after the due date through the payment date. To determine the number of days overdue, the check date, or settlement date for EFT, is considered the payment date.

The two methods of calculating interest are **simple interest** and **compound interest**.

(1) **Simple interest** is used when the payment is late by 30 days or less. The formula for calculating simple interest is:

$$\text{Invoice Amount} \times \text{Number of Days Overdue} \times \frac{\text{Interest Rate}}{360} = \text{Interest Payable}$$

Example:

Due Date: July 31
Payment Date: August 24
Number of Days Overdue: 24 (Payment Date B Due Date)
Invoice Amount: $7,250.00
Interest Rate: 5 2%

Interest Payable:

$7,250.00 x 24 x .055/360 = $26.58

(2) **Compound interest** is used when the payment is late by more than 30 days. The formula for compound interest uses the same formula as simple interest; however, the interest is calculated in 30-day increments. The amount of interest that accrues in each 30-day period is added to the invoice amount before the next 30-day period is calculated.

Example:

Due Date: July 31
Payment Date: September 24
Number of Days Overdue: 55 (Payment Date B Due Date)
Invoice Amount: $8,500.00
Interest Rate: 5 2%

Interest Payable:

$8,500.00 x 30 x .055/360 = $38.96

$8,500.00 + $38.96 = $8,538.96

$8,538.96 x 25 x .055/360 = $32.61

The total amount of compound interest paid on September 24 is $71.57 ($38.96 for the first 30-day period plus $32.61 for the second 25-day period).

b. **Interest Payment**. The following requirements must be met when paying interest penalties:

■ A notice is forwarded to the vendor for each payment that includes interest stating:

- The amount of the interest penalty included in the payment.
- The rate by which the penalty was computed.
- The number of days used to calculate the penalty (the contract number and invoice number are also included in the notice to help the vendor reconcile the payment).

- Interest must be calculated and paid whether or not the vendor requests it.
- The interest is charged to the Cost Center that procured the item.
- The amount of interest due on a late payment can only accrue for one year.

Temporary unavailability of funds to make a timely payment does not relieve an agency from paying interest penalties.

c. **Interest Not Due**. Interest is not required to be paid under the following circumstances:

- When payment is delayed because of a disagreement between a Federal agency and a vendor over the amount of the payment or other issues concerning compliance with the terms of the contract.
- When payments are made in advance or solely for financing purposes.
- For a period when amounts are withheld temporarily in accordance with the contract.
- When payment is delayed or returned due to incorrect banking information supplied by the vendor, it must be made within seven days of receipt of the correct information, otherwise interest begins to accrue. In addition, vendors are contacted for correct banking information within seven days after the agency is notified that it has incorrect banking information for the vendor.
- When the interest amount is less than $1.00.
- When an EFT payment is not credited to the vendor's account by the payment due date because of the failure of the Federal Reserve or the vendor's bank to do so.

d. **Interest Due but Not Paid**. When an interest penalty is owed to a vendor but not paid:

- Interest penalties remaining unpaid for any 30-day period are added to the principal (original interest amount due), and interest penalties thereafter accrue monthly on the total of the principal plus the previously accrued interest.
- When it is determined that a vendor was owed an interest penalty payment, but was not paid, the accrued interest is determined. The vendor does not have to request the additional interest penalty amount.

Example:

Invoice Amount: $15,000
Due Date: April 30
Date paid: June 13
Interest Rate: 7%
Overdue Days: 44

The vendor's original late payment interest penalty should have been determined as follows:

$15,000 x 30 x .07/360 = $87.50

$15,000 + $87.50 = $15,087.50

$15,087.50 x 14 x .07/360 = $41.07

The vendor was owed $15,128.57 on June 13, but was only paid $15,000; therefore, the new principal is $128.57. On August 4, the vendor is paid for the interest. The amount due is now the new principal plus 52 more days (June 14 to August 4) of interest, which has accrued as follows:

$128.57 x 30 x .07/360 = $.75

$128.57 + $.75 = $129.32

$129.32 x 22 x .07/360 = $.55

$129.32 + $.55 = $129.87

The amount paid on August 4 will be $129.87.

8. ADDITIONAL PENALTIES

The additional penalty payment has two parts, all interest due to the current date and the additional penalty.

a. **Requirements**. The vendor must request the additional penalty in writing, no later than 40 days after the date payment is made. To be a valid request:

- The request must be postmarked by the 40th day after payment was made.
- If there is no postmark, the request is valid if the designated agency office receives and annotates or stamps it with the date of receipt by the 40th day.
- If the request is not annotated or stamped with the date of receipt, it is valid if the date placed on the request by the vendor is within the 40-day period.

The request must specifically assert that late payment interest is due on a specific invoice and request payment of all overdue late payment interest and any additional penalty that may be required. A copy of the invoice on which the late payment interest was due but unpaid must be attached; as well as a statement that payment for the principal was received and the date of receipt.

b. **Vendor Entitlement**. A vendor is entitled to an additional penalty payment when the vendor:

- Is owed a late payment interest penalty of $1.00 or more.
- Receives a payment dated after the due date that does not include an interest penalty or is less than what is owed.

■ Is not paid the interest penalty by the agency within 10 days after the payment is made.

c. **Penalties.** The additional penalty is equal to 100 percent of the **original** late payment interest penalty. For example, if the original late payment interest penalty is $100, the additional penalty will be $100.

Regardless of the amount of the late payment interest penalty, the additional penalty must not be less than $25 or greater than $5,000. For example, if the additional penalty is $12, the vendor will receive an additional penalty of $25.

The additional penalty does not apply to utility bills; late payments for these are determined through the rate-setting process.

Example:

Invoice Amount: $15,000
Due Date: April 30
Date paid: June 13
Interest Rate: 7%
Overdue Days: 44
Interest Due as of June 13: $128.57
Interest Due June 13-August 4: $1.29

On July 21, a written request is received from the vendor for payment of the overdue late payment interest and an additional penalty. The vendor's written request was within 40 days of payment being made (June 13 + 40 days = July 23). The vendor is entitled to the additional penalty.

The institution now owes the vendor as follows:

Interest unpaid June 13:	$128.57
Interest due June 13 to August 4:	$ 1.30
Additional interest penalty:	$128.57
(100% of the interest due but not paid on June 13)	
Total amount due to the vendor:	$258.44

9. **UTILITIES**

Utility payments are subject to the Prompt Payment Act, except where local, state, or foreign authorities impose a generally applicable late payment rate. These rates take precedence over prompt payment terms prescribed by the Prompt Payment Act.

10. **RESPONSIBILITIES**

An upper-level accounting staff member must:

- Review, at least once each month, the open voucher file.
- Ensure that all accounting personnel understand and adhere to the requirements of the Prompt Payment Act.

11. REPORTING REQUIREMENTS

The Program Statement **Prompt Payment Quality Control Reviews** outlines reporting requirements prescribed by the Prompt Payment Act.

12. AGENCY ACA ACCREDITATION PROVISIONS

- Standards for Adult Correctional Institutions: 4-4031
- Adult Local Detention Facilities: 4-ALDF-7D-11

REFERENCES

Program Statements
P2011.09 Prompt Payment Quality Control Reviews (4/23/03)

Other Standards
Treasury Financial Manual (TFM), Volume I, Part 6, Chapter 8040.30, Timeliness of Disbursements
Title 5, CFR, Chapter 3, Part 1315, Prompt Payment
Title 31, CFR, Chapter 2, Part 208, Management of Federal Agency Disbursements
Title 31, USC, Chapter 39, Sections 3901-3907, Prompt Payment

Records Retention
Requirements and retention guidance for records and information applicable to this program are available in the Records and Information Disposition Schedule (RIDS) on Sallyport.