

Volume No. 1—Policies & Procedures	TOPIC NO.	20315
Function No. 20000 — General Accounting	TOPIC	PROMPT PAYMENT
Section No. 20300 — Cash Disbursements Accounting	DATE	December 2009

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Overview

Introduction The purpose of this topic is to provide guidance to agencies and institutions concerning the requirements of the *Code of Virginia*, Sections 2.2-4347 through 2.2-4356 and 2.2-5004 herein after referred to as the Prompt Payment Statutes. The Prompt Payment Statutes promote sound cash management and improved vendor relationships by ensuring timely payments for goods and services.

Section 2.2-4347 requires State agencies that acquire goods and services, or conduct business through contractual agreements with nongovernmental and privately-owned businesses, to pay by the "required" payment due date for delivered goods and services.

A State agency is any authority, board, department, institution, or any other unit of State government.

The required payment due date is established by the terms of the contract; or if a contract is not in existence, thirty calendar days after the receipt of a proper invoice, or thirty days after the receipt of goods or services, whichever is later.

Policy

Written Procedures Agencies should establish written procedures to ensure that the disbursements of State funds are processed timely and in accordance with the requirements of the Prompt Payment Statutes.

These procedures should include a periodic review of the Commonwealth Accounting & Reporting System (CARS) ACTR1305, *Payments Written After Due Date Report*, which is distributed on a weekly and monthly basis, and the monthly CARS ACTR1306, *Due Date Monitoring Report*.

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General Requirements The following table offers prompt payment general requirements.

Requirement	Description
Payment Due Date	State agencies and institutions are required to pay for all completely delivered goods and services by the required payment due date.
Vendor's Cash Discount	Payments may be processed earlier than the required payment due date, if the vendors' cash discount terms are advantageous.
Receiving Reports	To avoid delays in vendor payment processing, receiving reports must be completed as soon as possible, but in no case more than 3 working days following delivery.
Invoices	Each vendor invoice is considered a separate payment and should be due dated and processed independently of other invoices.
Partial Deliveries	If a contract provides for partial deliveries, separate payment dates may be specified.
Defects & Incorrect Billings	Defects and incorrect billings must be documented in writing by the agency. The supplier or provider of the goods or services must be notified by the agency of the impropriety within 15 days calendar days after the receipt of the vendor's invoice.
Non-Decentralized Agencies	To achieve a timely payment, non-decentralized agencies should allow <u>7 working days</u> for central agency processing functions such as pre-audit compliance reviews, CDS, checkwrite, and vendor payment distribution via the mail or Financial EDI.
Decentralized Agencies	Decentralized agencies should allow <u>4 working days</u> for CDS, checkwrite, and vendor payment distribution via the mail or Financial EDI.
Vendor Payments— By Check	For vendor payments made by check, the postmark date shall be deemed the payment date.
Vendor Payments— By Financial EDI	For vendor payments made using Financial EDI, the bank settlement date is deemed the payment date. That is the date the funds are deposited in the vendor's bank account and are available for use. EDI payments that have weekend or holiday due dates are paid on the last business day prior to that weekend or holiday.

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Payment Due Date

All payments to non-governmental and privately owned businesses for the purchase of goods and services must be due dated. Agencies should assign a payment due date of 30 calendar days after the receipt of the goods, services, or invoice whichever is later, or the due date specified in the vendor's contract.

Generally, in cases involving disputed invoices, agencies assign a due date of 30 calendar days following the date the payment dispute is resolved with the vendor. However, in circumstances where an invoice has already been delayed more than 30 calendar days, and a contractual agreement exists with the vendor, or vendor relations are in jeopardy, an earlier due date may be assigned to expedite the payment.

In the event an original invoice has not been received, the agency should contact the vendor and request a copy of the original invoice. The agency should stamp the invoice copy as "Certified Copy." The "required" payment date should be calculated from the date the invoice copy is received from the vendor.

When Due Dates Don't Apply

Due dates are not required for certain advance payments which are made in accordance with standard industry practice (Refer to CAPP Topic No. 20310, *Expenditures*).

Some examples of these payments are

- Conference and seminar fees,
- Postage expenses, and
- Initial purchase of a subscription.

Check Federal Requirements

Agencies with major federal assistance programs covered by the Commonwealth's Cash Management Improvement Act (CMIA) Treasury/State Agreement should review Topic No. 20605, *Federal Grants Management*, to avoid a possible conflict with the federal, three-day drawdown rule.

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Taxpayer Identification Number (TIN)

Agencies should obtain the vendor's taxpayer identification number (TIN) for payment processing. This information is essential to the:

- Comptroller's Debt Setoff program,
- 1099 Adjustment and Reporting System, and
- Financial Electronic Data Interchange program

Agencies should use the IRS Form W-9, Request for Taxpayer Identification Number, or an acceptable Substitute Form W-9 to obtain the vendor's correct taxpayer identification number, name, and address, and to certify that the vendor is not subject to backup withholding taxes.

Vendor TIN Requirement

Vendors who fail to provide their TIN must be contacted by the agency within 15 working days following the receipt of the invoice to obtain the required payment information.

At that time, the agency should inform the vendor that payment will be delayed pending the receipt of the vendor's TIN. The agency should further explain State and Federal statutes that require vendors to provide their Social Security Number (SSN) or Employer Identification Number (EIN) to entities with whom they conduct business.

These requirements are as follows:

State

The *Code of Virginia*, Section 2.2-4354 requires contracts awarded by State agencies to include a special payment clause which directs individual contractors to provide their SSN, and sole proprietors, partnerships, and corporations to provide their EIN. Invoices for vendors who refuse to provide such information are considered in dispute under the provisions of the Prompt Payment Statutes.

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Federal

The IRS Code, Section 3406(a) requires a vendor to provide their Taxpayer Identification Number (TIN) and to certify on Form W-9 that they are not subject to backup withholding taxes. If a taxpayer does not provide an agency with the required certification, payments to that vendor are considered in dispute and potentially subject to 31% backup withholding taxes.

If an agency is paying a vendor that positively does not have a TIN, this information should be documented and attached to the payment voucher. However, agencies should be advised that most payment recipients have TIN's in order to maintain a banking relationship.

Cash Discounts

Agencies should negotiate reasonable cash discount terms. Agencies with Statewide purchase authority (such as the Department of General Services and the Virginia Information Technologies Agency) will negotiate the cash discount terms for Statewide contracts.

Agencies are required to perform an analysis of the vendor's cash discount terms to determine if the terms are advantageous. Cash discounts should be taken **except** under the following situations:

- The agency's administrative cost of expedited invoice processing exceeds the amount of the cash discount.
- The time required to process the invoice exceeds the discount period.
- The annualized rate of return is less than the current investment rate earned on interest bearing accounts. Information on the current investment rate may be obtained from the *Wall Street Journal* or a financial institution.

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Cash Discount Formula

The following formula should be used in analyzing cash discount terms:

R = Annual Rate of Return

I = Discount Percentage

D = 360 calendar days divided by the number of days between the net period and the discount period

$$R = I \times D$$

EXAMPLE:

AGENCY XYZ PURCHASES \$5,000

CREDIT TERMS ARE 2 % / 10 DAYS, NET 30 DAYS

$$I = 2 \%$$

$$D = 360 / (30 \text{ days} - 10 \text{ Days})$$

Calculation:

$$\underline{36\%} = 2\% \times \frac{360}{20}$$

Cash Discount Payment Terms

The following cash discount payment terms are considered favorable:

Cash Discount Terms	Annual Rate of Return (%)
1%, 10 days, net 30 days	18.0
2%, 10 days, net 30 days	36.0
2%, 10 days, net 60 days	14.4
2%, 30 days, net 60 days	24.0
2.5%, 10 days, net 30 days	45.0
3%, 10 days, net 30 days	54.0
4%, 10 days, net 30 days	72.0
5%, 10 days, net 30 days	90.0
5%, 10 days, net 45 days	72.0
5%, 20 days, net 60 days	45.0
5%, 10 days, net 60 days	36.0

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Processing Utility Payments

Introduction Since public utility companies are owned and operated by both *governmental* and *privately-owned* entities, different procedures may be required when due dating and processing these invoices.

Types of Utility Services Utility service expenditures may include:

- Electricity,
 - water,
 - gas,
 - coal,
 - oil,
 - steam,
 - wood fuels,
 - telephone,
 - sewer, and
 - trash removal.
-

Utility Contract Generally a contract or agreement containing the rates and payment terms must be signed whenever service is initiated with a utility company. This contract continues in effect until service is terminated. Thereafter, changes in utility service rates, late payment fees, and billing practices are communicated through enclosures in the vendor's monthly billing statement.

Due Dating Practices Agencies should apply the following due dating practices when processing utility payments:

Governmentally-owned and operated utility companies are NOT subject to the Prompt Payment Statutes; therefore, payment is generally required by the due date specified on the utility's invoice.

A due date of approximately 5 working days earlier than that specified on the invoice should be assigned to ensure adequate time for central processing and to prevent the payment from appearing on the agency's late payment reports.

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Processing Utility Payments, Continued

If such a practice is not feasible, implement an alternative procedure that identifies the utility payment upon receipt and expedites invoice processing. Such payment alternatives may include:

- Enrolling governmentally-owned and locally-operated utilities in the Commonwealth's Financial EDI program to eliminate any mail delays, or
- Establishing a budget plan with the utility which allows the agency to pay by a pre-determined due date, a fixed amount, for a twelve-month period. At the end of the twelve-month period, an analysis of the agency's utility expenses would be performed to determine if a payment adjustment is required.

State agencies that have contracted with public utility companies to provide utility services should process payments by the due date specified in the contract.

Often the specified payment due date is 10 to 20 calendar days following the vendor's billing date. As a result of mail delays and the internal routing of utility invoices for approval and payment, agencies have little time for payment processing. Therefore, internal procedures should be established for identifying and expediting utility payments to avoid late payment penalties.

Utility companies that are not included in the first two categories are subject to the due dating requirements of the Prompt Payment Statutes. Agencies should calculate the payment date to be 30 calendar days from the date the agency receives the invoice.

Late Charges

Public utility companies have the authority to assess late charges and fees for payments received after their specified due date.

Code of Virginia, Section 2.2-4348 states the following:

The provisions of this article shall not apply to the late payment provisions contained in any public utility tariffs prescribed by the State Corporation Commission.

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Processing Interest Payments

Purpose

The *Code of Virginia* Section 2.2-4355 provides that interest shall accrue on all amounts owed by a State agency to non-governmental or privately-owned business which remain unpaid for seven days following the required payment due date.

The vendor must invoice the agency for the assessed interest charge. Agencies should verify the vendor's invoice to ensure the amount of interest assessed is calculated at the appropriate rate and from the first day following the required payment due date (31st day).

Interest Exception

Interest cannot be assessed for payments delayed due to disputed invoices, or for payments that are legitimately offset by the Comptroller's Debt Setoff program (CDS). Payments that have been offset by CDS are identified in CARS with a payment status of 7. However, vendors may ask for interest for those payments that are erroneously offset.

If interest is requested for an offset payment, the agency should contact

CDS Coordinator
Voice: (804) 371-8383
E-mail: Gacct@doa.virginia.gov

Verifying Interest Charges

To verify the vendor's invoice for interest charges, agencies should use the

- prime interest rate,
- rate assessed by a public utility company, or
- rate specified in a vendor's contract.

Agencies can use the following methods to obtain the appropriate interest rate:

The **prime interest rate** can be obtained from your local bank contact or the *Wall Street Journal*. When a split rate is published in the *Journal*, use the lower of the two rates.

Since public utility companies are *not* subject to the Prompt Payment Statutes, agencies must abide by the utility's late payment provisions. Therefore, if interest is assessed by a public utility company on a late payment, the agency is obligated to pay the invoiced amount.

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Processing Interest Payments, Continued

If a contract with the vendor contains late payment provisions, the interest rate specified in the late payment provisions of that agreement should be used.

The interest paid cannot exceed the rate established in *Code of Virginia* Section 58.1-1812.

Interest Charge Formula Agencies should use the following formula to verify and compute interest charges:

$$\frac{\text{Payment Amount} \times \text{Interest Rate} \times \text{\# of Days Late}}{365}$$

Interest Reporting

The dollar amount of interest charges incurred during the fiscal year for late payments is reported to the Governor and his Cabinet Secretaries quarterly in the Comptroller's *Report on Statewide Financial Management and Compliance (Quarterly Report)*.

DOA routinely contacts agencies that incur more than \$500.00 in interest charges per quarter. Therefore, it is important that agencies and institutions code interest payments to the appropriate subobject code.

Only covered institutions are required to provide net expenditures by agency for selected object codes 1297, 1397, 1597, 2197, 2297, and 2397 by fund at fiscal year end. If any amounts reported were more than \$500.00 per fiscal month, please ensure the interest payments are legitimate payments for interest and were not miscoded. If any miscoding exists, please correct these entries prior to fiscal year end and account for these miscodings in the amounts provided.

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Processing Interest Payments, Continued

CARS Codes for Interest Charges

The following subobject codes should be used when processing interest charges for **vendor** payments.

Subobject Code	Type of Expense
1297	Contractual Services
1397	Supplies/Materials
1597	Continuous Charges
2197	Property and Improvements
2297	Equipment
2397	Plant and Improvements

Statewide Compliance Standard

Introduction

The *Code of Virginia*, Section 2.2-4350, requires State agencies and institutions to pay **100%** of their invoices subject to the Prompt Payment Statutes by the "required" payment due date.

The monthly prompt payment compliance rate is calculated based on the number of payments paid late as a percentage of the number of payments paid with due dates. The number of **payments without due dates and interagency transfers are not considered in the prompt payment compliance calculation except as noted herein for Small Purchase Charge Card transactions.**

Higher Education Institutions subject to State management standards are considered to be in compliance with the prompt payment standard if they have achieved at least a 95% prompt payment rate.

Agencies and institutions that do not achieve at least 95% compliance may be targeted for assistance and/or preparation of a workplan to improve compliance.

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Statewide Compliance Standard, Continued

Non-Compliant Workplan Requirements When agencies experience continuing difficulties in achieving at least a 95% prompt payment compliance rate, DOA may request a workplan. An agency workplan should include the following:

- An analysis of current accounts payable processing procedures,
 - Identification of the problem areas associated with these procedures,
 - Development or revision of procedures to improve compliance,
 - Designation of staff responsible for implementation of procedures and,
 - Establishment of a reasonable timeframe for implementation.
-

Non-Compliant Reporting Agencies not in compliance are reported in the *Report on Statewide Financial Management and Compliance* prepared quarterly for Cabinet Secretaries and the Governor.

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Compliance Reporting

Prompt Payment Report

The *Statewide Report on Financial Management and Compliance*, containing summary level prompt payment data and statistics for non-compliant agencies, is published quarterly. The June 30 report also contains complete fiscal year data.

Individual Spreadsheets

In addition, DOA publishes quarterly into Reportline individual *Agency Prompt Payment Reports*, which provide monthly summaries of the following information for each agency and institution, as provided to DOA by decentralized higher education institutions or found on the CARS reports described below:

- # late payments, adjusted (increased) for Small Purchase Charge Card transactions when the associated payment is made after the required due date,
- # total payments with due dates, adjusted (increased) for Small Purchase Charge Card transactions,
- \$ amount of late payments, and
- \$ amount of total payments with due dates.

Adjustments are made to CARS data only in exceptional circumstances such as the loss of central computer services.

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Compliance Reporting, Continued

CARS ACTR 1305 Report

The **weekly cycle** of the

• CARS ACTR1305, *Payments Written After the Due Date Report*, provides the agency with the following:

- batch I.D.
- fiscal month
- payee
- control document number
- invoice number
- check date
- payment due date
- check number
- transaction amount for each late payment

The **monthly cycle** of the ACTR 1305

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Compliance Reporting, Continued

CARS ACTR1305 - "Payments Written After Due Date"

ACTR 1305 MONTHLY (PM)-CYCLE S RUN DATE 01/08/2009 01:14 A.M.
 COMMONWEALTH ACCOUNTING AND REPORTING SYSTEM / CARS
 DIV OF LEGISLATIVE AUTOMATED SYSTEMS
 PAYMENTS WRITTEN AFTER DUE DATE
 AS OF 12/31/2008
 AGENCY NO : 109
 AGENCY PAGE: 1
 REPORT PAGE: 1
 REQUEST NO. ACTR1305 D 00

DATE	TYP	NO	AGY	FM	PAYEE	CONTROL DOC NO	INVOICE #	CHECK DATE	PAYMENT DUE DATE	CHECK NO	AMOUNT	BANK NO	ENCUMB ORDER NO	AGY LIST
20081201	3	070	109	06	DELL MARKETING LP	046	XCXSNLMT3	12 23 08	12 10 08	T1539413	44.26	302		
20081201	3	070	109	06	DELL MARKETING LP	046	XCX7RWJ56	12 23 08	12 10 08	T1539413	8,068.00	302		
*** TOTAL LATE PAYMENTS WRITTEN											2	TOTAL	8,112.26	

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Compliance Reporting, Continued

CARS ACTR 1306 Report

The CARS ACTR1306, "Due Date Monitoring Report," is an aging analysis of monthly payment performance by agency. This report separates each agency's payments by

- Payments **with** due dates - This line contains only batch types "3" and "X" that are processed with a due date. NOTE: If a due date is required for a specific transaction code and the due date is not provided, the transaction will be sent to the error file until the agency assigns the voucher a due date.
- Payments **without** due dates - This line contains any batch types that are processed without a due date.

NOTE: If a due date is not allowed for a specific transaction code and a due date is provided, the transaction will be sent to the error file. The agency is required to contact DOA's Error Corrections Unit to delete the due date from the transaction. Once the due date is deleted, the voucher will be processed.

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Compliance Reporting, Continued

CARS ACTR1306 - "Due Date Monitoring Report"

ACTR 1306
MONTHLY
(EM)-CYCLE S
RUN DATE 01/08/2009 01:14 A.M.

COMMONWEALTH ACCOUNTING AND REPORTING SYSTEM / CARS
D O A - OPERATIONS CONTROL
DUE DATE MONITORING REPORT
AS OF 12/31/2008

AGENCY NO : 146
AGENCY PAGE: 1
REPORT PAGE: 1
REQUEST NO. ACTR1306 D 00

SEC AREA 03 EDUCATION
AGENCY 146 THE SCIENCE MUSEUM OF VIRGINIA

VENDOR PAYMENTS	NO. OF PAYMENTS	PERCENT	AMOUNT
PAID 5 OR MORE DAYS BEFORE DUE	3	2.43	13,166.80
PAID ON OR LESS THAN 5 DAYS BEFORE DUE	116	94.30	399,116.79
PAID 1 - 5 DAYS PAST DUE	0	0.00	.00
PAID 6 - 10 DAYS PAST DUE	0	0.00	.00
PAID 11 - 20 DAYS PAST DUE	0	0.00	.00
PAID 21 - 30 DAYS PAST DUE	0	0.00	.00
PAID 31 - 60 DAYS PAST DUE	0	0.00	.00
OVER 60 DAYS PAST DUE	4	3.25	5,211.73
TOTAL PAYMENTS WITH DUE DATES	123	100.00	417,495.32
OTHER PAYMENTS (NO DUE DATE)	2		78,318.80
TOTAL PAYMENTS THIS MONTH	125		495,814.12
AVERAGE VARIANCE FROM DUE DATE (DAYS)	10.2-		
TOTAL DOLLARS PAID PAST DUE			5,211.73
TOTAL PAYMENTS PAID PAST DUE	4		
PERCENT OF PAYMENTS IN COMPLIANCE THIS MONTH	96.7%		
PERCENT OF DOLLARS IN COMPLIANCE THIS MONTH	98.7%		

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Internal Control

Internal Control

Agencies should develop and document internal control procedures to ensure that all payments to vendors are made by the "required" payment due dates. The agency procedures should include:

- Ensuring the receiving report and purchase order are obtained and matched with the corresponding vendor invoice prior to approval and payment processing;
- Calculating and assigning the "required" payment due date, taking special care to ensure that the correct calendar year is assigned during the early months of a new year;
- Documenting unacceptable materials and incomplete services on the receiving report and taking the appropriate corrective action with the vendor;
- Maintaining the original payment processing documents in an agency file for audit purposes, and;
- Reviewing the CARS ACTR1305, *Payments Made After the Due Date Report*, and the ACTR1306, *Due Date Monitoring Report*, for compliance with the Prompt Payment Act. These reports are distributed to agencies on a weekly and monthly basis.

Records Retention

Time Period Not Applicable.

Contacts

DOA Contacts **Contact:**
 Director, General Accounting
 (804) 225-2244
 Gacct@doa.virginia.gov

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Subject Cross Reference

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 CAPP Topic No. 20310, *Expenditures*
 CAPP Topic No. 20320, *Information Returns Reporting*
 CAPP Topic No. 20505, *Accounts Receivable*
 CAPP Topic No. 20605, *Federal Grants Management*
