

**VOLUME 10, CHAPTER 7: “PROMPT PAYMENT ACT”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an [asterisk \(\\*\)](#) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [March 2015](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
070207.B	Updated the Department of the Treasury to the Bureau of the Fiscal Service.	Revision
070208.H	Updated the Department of the Treasury to the Bureau of the Fiscal Service.	Revision

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**CHAPTER 7****PROMPT PAYMENT ACT**

## 0701 GENERAL

## 070101. Purpose

This chapter prescribes the financial management policy for payments to vendors and contractors covered under the Prompt Payment Act (PPA), Title 31, United States Code (U.S.C.), [Chapter 39](#) as implemented under [Title 5, Code of Federal Regulations \(CFR\), part 1315](#). The chapter primarily focuses on timely payment, determination of appropriate due dates, penalty for late payment, required documentation, receipt [dates](#), acceptance dates, and payment discounts.

070102. [Authoritative Guidance](#)

The PPA requires the Department of Defense (DoD) to pay its bills by the specified or agreed upon due date, and pay interest penalties when payments are made late. Regulations promulgated under the PPA state that DoD should take discounts only when payments are made by the discount date and the discount is economically justified. Acquisition policy implementing the PPA provisions at 5 CFR 1315 is in the Federal Acquisition Regulation (FAR), [Subpart 32.9](#), “Prompt Payment” and the Defense Federal Acquisition Regulation Supplement (DFARS), [Subpart 232.9](#), “Prompt Payment”.

## 0702 PROMPT PAYMENT ACT POLICY

## 070201. Application

The payment terms ordinarily imposed by contract, or the PPA and its implementing regulations, may be replaced by the payment terms imposed by another governmental authority, such as utility tariffs. For the purposes of this chapter, days refer to calendar days unless stated differently. The PPA applies to the following, unless these payments meet one of the exemptions in paragraph 070202:

A. [Procurement Contracts](#). All payments for contracts for the procurement of goods or services;

B. [Vendor Payments](#). All vendor payments and payments to persons, organizations, or business concerns engaged in a profession, trade, or business and any not-for-profit entity operating as a vendor; and

C. [Utility Payments](#). All utility payments, including payments for telephone service, are subject to the PPA. Where state, local, or foreign authorities impose late payment rates for utility payments, those rates **must** take precedence, and thus, PPA interest rates will not apply.

## 070202. Exemptions

A. In accordance with [5 CFR 1315.1\(a\)\(1\)\(ii\)](#) and [\(b\)\(1\)](#), the following payments are exempt from the PPA:

1. Payments directed by military authority exercised in the field in time of war or in occupied territory as stated in [5 U.S.C. § 551\(1\)\(G\)](#); and
2. Contract financing payments, as defined in [FAR Part 32.001](#).

B. In accordance with [5 CFR 1315.1\(b\)\(2\)](#), the following payments may be exempted from the PPA:

1. Payments related to declared states of emergency directing any Federal agency to utilize its resources in support of State and local disaster assistance efforts, as defined in the [Robert T. Stafford Disaster Relief and Emergency Assistance Act](#);
2. Payments related to the release or threatened release of hazardous substances, as defined in [42 U.S.C. § 9601](#); and
3. Certain payments related to military contingency operations as defined in [10 U.S.C. § 101\(a\)\(13\)](#).

C. While payments identified in 070202.B.1, B.2 and B.3 are usually exempted per 5 CFR 1315.1, the head of the contracting activity (HCA) (when authorized), in consultation with the cognizant comptroller supporting their contracting activity, will make the determination of whether a contract and related payment will be subject to the requirements of FAR Subpart 32.9. [DFARS Subpart 232.901](#) defines conditions where emergencies or contingency operations affecting normal business processes will dictate a determination to exempt payments from FAR Subpart 32.9 requirements. This determination, and all subsequent determinations, will be clarified by the specific clause in the individual contract. Chapter 8 contains additional policy on certifying payments made in support of emergencies and contingency operations, a matrix tool to assist certifying officials in identifying the critical data elements, and the documentation necessary for proper certification.

## 070203. Required Documentation Type, Function, and Purpose

Before making an invoice and/or interest payment, and in support of future financial audits, DoD Components must ensure that appropriate payment documentation is established and matched. This documentation includes the contract, receipt/acceptance report, and a proper invoice, unless not required by the contract. Sections 070203.B and 070203.C identify unique circumstances when an invoice and/or receipt/acceptance report may not be required. Acquisition policy in [DFARS Subpart 232.70](#), "Electronic Submission and Processing of Payment Requests and Receiving Reports" prescribes DoD policies and procedures for submitting and processing payment requests and receiving reports in electronic form. It also specifies exceptions and

prescribes Wide Area Workflow as the accepted electronic form for submission of payment requests and receiving reports. It further permits the use of TRICARE Encounter Data System as the electronic format for receiving reports for rendered health care services.

A. Contract. The contract is an enforceable agreement between the agency and the contractor or vendor that provides the necessary information to support payment of invoices and interest penalties. Contracts must contain the data elements required under [5 CFR 1315.9\(a\)](#) as part of the payment documentation. If errors exist in a contractual document [that affect payment processing](#), the entitlement office **must** notify the contracting office to request corrective action. The entitlement office **must** not change contract terms. Contract terms may only be changed through a formal modification to the contract.

B. Proper Invoice. DoD payments must be based on the receipt of a proper invoice, unless an invoice is not required by the contract (e.g., monthly rental payments), and satisfactory contract performance. [FAR Subpart 32.905\(b\)](#) provides details on the information required for a proper invoice. As stated in FAR [Subpart 32.905.b.2](#), an interim payment request under a cost-reimbursement contract for services constitutes a proper invoice if it includes all of the information required by the contract. Note that payment requests under cost-reimbursement service contracts are deemed proper when they conform to the contract. The office designated by the purchase order, agreement, or contract first to receive and review invoices, hereafter referred to as the designated activity, will immediately annotate the receipt date and review invoices within 7 days after receipt. If an invoice is improper, then the designated activity will return the invoice to the vendor/contractor.

1. Notice of an Improper Invoice. When the designated activity returns an invoice as improper, they must provide details on why the invoice is being returned and why it is improper. The designated activity's request to the vendor/contractor for a corrected invoice must be clearly marked as such. Notification must be within 7 days of receipt of the invoice (5 days for perishable agricultural commodities, dairy products, edible fats or oils, and food products prepared from edible fats and oils; and 3 days for meat, meat food, fish, and seafood products). If a DoD Component fails to provide notification of an improper invoice within the prescribed timeframes, the computation of the payment due date will be affected, in that the number of days allowed for payment of the corrected proper invoice will be reduced by the number of days delayed beyond the allowable invoice return notification requirement. For example, a typical invoice payable in 30 days is returned as improper on the 11th day after receipt, minus 7 days allowed, [equaling](#) a 4-day delay [and](#) reducing the payment due date of the corrected/resubmitted invoice by 4 days. As a result of the 4-day delay, the corrected invoice is now payable in 26 days upon receipt before interest begins to accrue. In accordance with [FAR Subpart 32.906\(b\)\(4\)](#), if a designated activity erroneously rejects a proper invoice, then the original invoice receipt date will be used to compute the payment due date and any interest penalties due.

2. Delivery Ticket as an Invoice. A delivery ticket may be used as an invoice when allowed by the contract. When used as an invoice, the delivery ticket must contain the information required by FAR [Subpart 32.905\(b\)](#) unless otherwise stipulated in the contract.

C. Receipt and Acceptance Report

1. A receiving report performs two functions. It provides evidence of the date goods are received, and it provides evidence of the date goods or services are accepted. Receiving reports are written or electronic evidence of the receipt of goods or services by a government official. Receiving reports must minimally contain the information stated in FAR [Subpart 32.905\(c\)](#) unless otherwise stipulated in the contract.

2. Receipt of goods ordinarily does not provide a basis for payment. Payment must be based upon acceptance of the goods or services as authenticated by the signature of the government official. Acceptance must occur as a condition of payment except in the following instances:

a. Interim Payments on Cost-Reimbursement Contracts for Services as Stated in FAR [Subpart 32.905\(c\)](#). However, contract terms may still require receipt and acceptance documentation, or stipulate other related requirements be met before a request for payment for services can be certified and disbursed.

b. Contracts Incorporating the “Fast Payment Procedure” clause at FAR [Subpart 52.213-1](#). For contracts with this clause, payment offices may use the contractor’s submission of an invoice as certification of the delivery of supplies and as the basis for authorizing payment. Payment of these invoices **must** be made within 15 days after the receipt of the invoice. Component policies and controls must be in place to follow up after payment to ensure receipt of acceptance documentation for the payment and contract files. The acquisition requirements and rules governing the fast payment procedure are found in FAR [Subpart 13.4](#) and [DFARS Subpart 213.4](#). Refer to section 1005 of Chapter 10 for additional fast payment procedure financial management policy.

3. The agency receiving official **must** forward the receiving report, or other government documentation, to the designated payment office by the 5th working day after government acceptance or approval, unless other arrangements have been made.

4. Government acceptance is commonly deemed to occur constructively on the 7th day after the contractor delivers supplies or performs services in accordance with the terms and conditions of the contract, unless there is a disagreement over quantity, quality, or contractor compliance with a contractual requirement. A longer acceptance period can be specified in the contract, in which case the date of the actual acceptance or the date on which such acceptance period ends will substitute for the commonly applied 7th day after the delivery date (refer to [DFARS Subpart 232.904](#)). The date on which the designated acceptance period ends is referred to as the constructive acceptance date. Constructive acceptance is used to calculate PPA interest and applies to both destination acceptance and source acceptance contract terms. **Regardless**, government proof of acceptance must be forwarded to the designated payment office.

a. If actual acceptance occurs within the constructive acceptance period, the determination of any interest penalty must be based on the actual date of acceptance.

b. If actual acceptance occurs after the constructive acceptance period, the determination of any interest penalty must be based on the constructive acceptance date.

c. The constructive acceptance requirement does not compel DoD Components to accept supplies or services or make payment prior to fulfilling their designated responsibilities and internal control activities.

D. Follow up for Required Documents. If payments cannot be made due to the non-receipt of receiving reports, copies of contracts, contract modifications, or other required documentation, the entitlement office will follow up with the contracting or receiving office to ensure these documents are forwarded in a timely manner. These follow-up requests should be made in time to prevent the possible loss of economically justified discounts (if possible) and avoid the unnecessary payment of late payment interest penalties.

E. Emergency and Contingency Operations. When authorized, the HCA of an operational area, in consultation with the cognizant comptroller supporting their contracting activity, will make the determination of whether a contract and related payment will be subject to the requirements of FAR Subpart 32.9 and include the applicable payment clause in the contract.

1. For payments that have been determined to be exempt from FAR Subpart 32.9, certifying officers involved in supporting contingency operations may use Annex 1 of Chapter 8 to identify the documents and information needed to ensure the entitlement to payment is valid **prior to certification**. Certification guidelines for these payments are contained in paragraph 080806 of Chapter 8.

2. For payments that are subject to the requirements of FAR Subpart 32.9, PPA interest payments will be made only as specified in the contract clause.

F. Progress Payments on Construction Contracts. Progress payments may be made if the payment request meets the requirements specified in the contract clause ([FAR Subpart 52.232-5\(b\)\(1\)](#)) and any other applicable terms of the contract. These payments are made monthly, or at more frequent intervals, as determined by the contracting officer. According to [FAR Subpart 52.232-5\(d\)\(2\)](#), **payment of any portion, or all, of a certified request for progress payment that fails to conform to the specifications, terms, and conditions of the contract is referred to as an “unearned amount.”** [FAR 52.232-5\(d\)\(2\)](#) also requires that if the contractor, after being paid upon submitting a **certified request for progress payment**, discovers that a **portion, or all of** such payment, **involves an unearned amount**, the contractor is then obligated to notify the contracting officer of the performance deficiency and is required to pay DoD interest on any unearned amount from the 8th day after the date of receipt of the unearned amount until:

1. The date the contractor notifies the contracting officer that the performance deficiency has been corrected; or

2. The date the contractor reduces the amount of any subsequently certified request for progress payment by an amount equal to the unearned amount.

G. Payment for Partial Deliveries on Fixed-Priced Supply, Fixed-Priced Services, or Non-Regulated Communication Service Contracts. [FAR Subpart 32.906\(c\)](#) instructs contracting officers, if the nature of the work permits, to write contract statements of work and pricing arrangements that allow contractors to deliver supplies or services and receive invoice payments for discrete portions of the work as soon as completed and found acceptable by the Government. The inclusion of the payment clause at [FAR Subpart 52.232-1](#) in the contract, unless specifically prohibited elsewhere in the contract, allows the contractor to be paid for accepted partial deliveries of supplies or partial performance of services that comply with all applicable contract requirements, and for which prices can be calculated from the contract terms. The contract clause may stipulate **additional** payment requirements; however, a proper invoice and documentation of government receipt and acceptance are required before the payment can be made.

#### 070204. Determining the Invoice Receipt Date

The date the contractor's invoice or payment request is received must be recorded on the invoice immediately upon receipt by the billing office designated in the contract to receive the invoice. This annotation must be clearly identifiable to the designated activity **that** will be processing the payment. The receipt date is an integral part of determining the payment due date, the date by which an improper invoice must be returned, and the date on which interest will begin to accrue if a payment is late. If the designated activity fails to annotate the receipt date, then the invoice receipt date is the date placed on the invoice by the contractor. For invoices electronically transmitted, the invoice received date is the date a readable transmission is received by the designated activity or the next business day if received after normal working hours.

#### 070205. Determining the Payment Due Date

For payments subject to the requirements of FAR Subpart 32.9, the payment due date is the date on which payment **must** be made to avoid paying PPA interest.

A. If the payment due date is not specified in the contract, the date by which a proper invoice must be paid is the later of:

1. Thirty days after the date on which the designated activity receives the proper invoice; or

2. Thirty days after government acceptance of supplies delivered, services performed, or the applicable date of constructive acceptance, whichever is earlier.

B. An example of [applying subparagraph 070205.A](#) in determining the payment due date is as follows: Supplies are received on April 20th and accepted on April 29th, and a proper invoice is received on May 1st. The payment period will begin by using the later date of when a proper invoice is received (May 1st), or the constructive acceptance date (April 27<sup>th</sup>, which is the 7th day after receipt). In this example, the payment period begins on May 1st and ends 30 days later on May 31st. The interest penalty begins accruing on June 1st. Refer to [FAR Subpart 32.904](#) for additional policy on determining the payment due date.

C. A contract modification may be required [in order to determine](#) when a payment is to be made ([the payment due date](#)), e.g., an award fee. If a payment cannot be entitled without a contract modification, the payment clock will start with the effective date of the modification.

D. If the contract does not require an invoice, then the due date is the date designated in the contract ([FAR Subpart 32.904\(b\)\(2\)](#)).

#### 070206. Timely Payment

The PPA requires both timely and proper cash management of government resources. DoD will make payments no more than 7 days prior to the payment due date, but as close to the due date as possible, unless the Secretary of Defense or designee has determined, on a case-by-case basis for specific payments, that earlier payment is necessary ([FAR Subpart 32.906](#)). This authority must be used cautiously, weighing the benefits of making a payment early against good stewardship inherent in effective cash management practices ([5 CFR 1315.4\(j\)](#)). Further, [DFARS Subpart 232.903](#) provides for payments to be made to small business prime contractors as quickly as possible after invoices and all proper documentation, including acceptance, are received and before normal payment due dates established in the contract. The identification of small business contractors will be established by the contracting officer and identified as such in the contract. However, in accordance with [DFARS Subpart 232.906\(a\)\(ii\)](#), contractors [will](#) not be entitled to interest penalties if the DoD fails to make early payment.

A. When the conditions in [5 CFR 1315.5](#) are met, a DoD Component may use an accelerated payment method.

B. For interim payments under cost-reimbursement service contracts, DoD may make payments at the standard due date of 14 days after the receipt of a proper invoice ([DFARS Subpart 232.906\(a\)\(i\)](#)) when the contract specifies the use of [FAR Subpart 52.232-25](#), Prompt Payment, Alternate I. For purposes of computing late payment interest penalties that may apply, the due date for payment is the 30th day after the designated billing office receives a proper invoice (refer to FAR [Subpart 52.232-25](#)).

C. Payment is considered to be made on the date printed on the check, or on the Electronic Funds Transfer (EFT) settlement date. In order to avoid late payment interest fees, the EFT settlement date (the date funds are credited to the vendor's financial institution) must be no later than the calculated due date.

D. Checks will be mailed or transmitted on the same day the check is dated.

E. Payments due (including discount periods) on Saturday, Sunday, or legal holidays may be paid on Monday, or the next working day, without interest; however, this does not change the official payment due date as specified in 070205.

\*070207. Discounts

If a vendor/contractor offers a DoD Component a discount, whether stipulated in the contract or offered on an invoice, the Component should take the discount if economically justified, but only after acceptance has occurred.

A. When a discount is taken, payment will be made as close as possible to, but no later than, the discount date.

\* B. The [Bureau of the Fiscal Service's website](#) contains a discount calculator to assist in determining whether the discount is economically justified.

C. In accordance with [FAR Subpart 32.907\(b\)](#), if a DoD Component takes the discount after the deadline, an interest penalty on any amount remaining unpaid will be due.

D. Refer to Chapter 2 for additional financial management policy concerning discounts.

\*070208. Interest Penalties

When DoD Components fail to make payment by the payment due date, interest accrues from the day after the payment due date through the payment date.

A. [Automatic Interest](#). In accordance with [FAR Subpart 32.907\(a\)](#), the designated payment office will pay an interest penalty automatically, without request from the contractor, when all of the following conditions, if applicable, have been met:

1. The designated billing office received a proper invoice;

2. The Government processed a receiving report or other government documentation authorizing payment, and there was no disagreement over quantity, quality, or contractor compliance with any contractual requirement;

3. In the case of a final invoice, the payment amount is not subject to further contract settlement actions between the Government and the contractor;

4. The designated payment office paid the contractor after the due date;

and

5. In the case of interim payments on cost-reimbursement contracts for services, when payment is made more than 30 days after the designated billing office receives a proper invoice.

B. Incorrect Banking Information. If the vendor/contractor provides incorrect banking information, then interest does not begin to accrue until 7 days after the correct information is received (provided the vendor has been given notice of the incorrect banking information within 7 days after the agency is notified that the information is incorrect). Refer to 5 CFR 1315.10 for additional regulations.

C. Late Payment. Interest will be accompanied with a notice stating the amount of the interest penalty, the number of days late, and the rate used (5 CFR 1315.10(b)(2)).

D. Interest Penalty Requirements. The specific interest rate will be applied to the total penalty period (maximum 1 year interest) regardless of whether the interest period carries over into different interest rate periods. No further interest will accrue after 1 year beyond the original due date or after the contractor files a claim for such penalties under the Contracts Disputes Act of 1978 (5 CFR 1315.10(a)(5)). Interest calculations are to be based on a 360-day year.

E. Additional Penalties. Vendors/contractors may be entitled to an additional penalty payment when the vendor/contractor is owed a late payment interest penalty by DoD of \$1.00 or more, the contractor receives a contract payment dated after the due date that does not include the interest penalty also due, and the interest penalty is not paid within 10 days after the actual contract payment date (5 CFR 1315.11). The vendor/contractor entitlement to additional penalties is also dependent upon, among other things, its timely submission of a claim for the additional penalty. For further information on additional penalties, refer to 5 CFR 1315.11 and FAR Subpart 32.907(c).

F. Interest Penalties Due Under Construction Contracts. Title 5 CFR 1315.14(c) provides for interest penalties to be paid on payments under construction contracts when a progress payment request has been approved as payable by the designated agency office, and remains unpaid for a period of more than 14 days, or longer if specified in the contract, after receipt of the payment request by the designated agency office. Interest penalties may also be applicable to final payments, based on completion and acceptance of work, and payments for partial performance that has been accepted by the agency. Refer to 5 CFR 1315.14 for additional details on payments and interest penalties under construction contracts.

G. Exceptions to Interest Penalties Due. Title 5 CFR 1315.10(c) identifies exceptions to when interest penalties are due. These exceptions generally include instances such as when interest penalties due are less than \$1.00, the contractor provided incorrect EFT information, payments are solely for financing purposes, and contract payments are delayed due to disputes between the Government and contractor over the payment amount or compliance with the terms of the contract. More detailed information regarding these, and other exceptions, are contained in 5 CFR 1315.10(c).

\* H. Computation of Interest Penalties. The Government will compute interest penalties in accordance with the Office of Management and Budget prompt payment regulations at 5 CFR 1315.10 and FAR [Subpart 32.907](#). The [Bureau of the Fiscal Service](#) website contains both a simple daily interest calculator and a monthly compounding interest calculator to assist in interest calculations.

070209. Interest Payment Funding

DoD will pay any late payment interest penalties from either the funds available for the administration of the program for which the penalty was incurred, (refer to [5 CFR 1315.10\(b\)\(5\)](#)), or from funds financing the operation of the military department or defense agency with which the invoice or contract payment is associated, (refer to [Public Law 107-117, Division A, Title VIII, Section 8084](#)). All interest payments will be charged to the fiscal year(s) in which they accrue. If the interest is accrued at the end of the fiscal year, but not paid until the beginning of the next fiscal year, the prior year's funds will be cited. If interest is accrued at the end of the fiscal year, and additional interest is accrued in the new fiscal year, the total interest penalty will be funded citing each respective fiscal year's funds where the interest was accrued, thus ensuring the interest fund cite represents the bona fide need of the year in which the obligation arises. If the appropriation to which the interest would otherwise be charged is cancelled, the appropriation current on the date of payment will be charged pursuant to [31 U.S.C. § 1553 \(b\)\(1\)](#).

A. Entitlement offices are required to maintain detailed records in support of their determinations, and are to make these records available upon request of any activity determined to have caused a late payment.

B. A contractor may waive interest entitlement by returning the amount of interest paid by separate check or by returning the government check and requesting payment only in the amount invoiced. In addition to returning interest penalties already received, a contractor may waive their right to PPA interest by either express written statement or by acts and conduct which indicate intent to waive. All requests made in writing must be submitted to the applicable payment office established in the contract, be specific to each invoice/payment, and be for interest that is already earned/accrued. A contractor may not request a waiver of interest for potential interest not yet accrued, or a blanket waiver for a group of contracts/invoices. Interest waiver request documentation must be retained with payment supporting documentation.

C. Interest retained or waived is collected as a refund to the appropriation originally cited for the payment of interest. All refunds of interest or penalties from contractors will be credited to the same line of accounting classification (including fiscal year) that was charged at the time interest was paid. If the appropriation is cancelled or closed, then refunds will be applied to Miscellaneous Receipts of the Treasury.

D. The Foreign Military Sales (FMS) Trust Fund will fund late payment interest penalties pertaining to procurements financed by a FMS contract. Refer to Volume 15, Chapter 7 for additional information concerning FMS pricing.