# CHAPTER 7

## PROMPT PAYMENT ACT

### 0701 GENERAL

#### 070101 Introduction

A. The Prompt Payment Act (PPA) of May 21, 1982 (Public Law 97-177), amended on October 17, 1988 (Public Law 100-496), 31 U.S.C 3900, requires Federal agencies to make payments in a timely manner. If a payment to a contractor is late, an interest payment also is due to the contractor and should be made without a contractor having to request the interest payment. The PPA applies to the acquisition of property or services, including contracts for the rental of real or personal property, from a business concern. A business concern means any person or organization engaged in a profession, trade, or business, and nonprofit entities (including state and local governments but excluding Federal entities) operating as contractors. Payment terms should be specified in the contractual document. Disbursing offices should disburse funds in accordance with the payment terms in the contract. However, if the payment terms contained in the contract conflict with the corresponding payment provisions of the PPA, request a clarification from the responsible contracting officer. If no payment terms exist within the contract, make payment in accordance with the relative payment terms prescribed in this Regulation. All DFAS disbursing offices shall make payments covering contracts and purchase orders entered into by contracting officers under regulations governing the functions of purchasing and contracting officers as published in the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS). Prior to disbursing funds on a contract, the disbursing office must be furnished with supporting documents, or in some instances, vouchers supported by such documents, which serve as evidence that a legal disbursement of public funds may be made. These supporting documents ordinarily consist of:

1. Contracts or purchase orders.

2. Invoices from contractors.

3. Receiving reports accomplished and furnished by offices receiving the property or services.

B. The PPA requires that payments be made in a timely manner - not early, not late, and requires the cash management of invoices. Payments should be scheduled as close as possible to, but not later than, the discount or payment due date. The PPA also applies to foreign contractors and OCONUS contracts, regardless of location where contracts were awarded or where delivery takes place.

1. Contracts issued on or before March 31, 1989. If the contract terms require payments to be made in 30 days, a payment may be made on the 28th, 29th, or 30th day and meet the requirement and intent of the PPA. In compliance with the PPA Amendments of 1988 and sound cash management, contracts issued on or after April 1, 1989, may be paid no earlier than the 23rd day without being an early payment and no later than the 30th day without being a late payment on which interest should be paid.

C. Waiver of Cash Management. In certain situations it may be necessary to make a payment(s) earlier than the due date. Early payments should be the exception rather than the norm. Only a DFAS Center Director or head of a disbursing office or either one’s designee has the authority to waive the cash management of invoices. If a waiver is approved, the early payment(s) has to be reported on the quarterly PPA Report, ACCT RPT (Q) 1619 (see paragraph 070601).

#### 070102 Exceptions

A. The PPA does not apply to contracts with foreign governments (bilateral agreements and memoranda of understanding).

B. The PPA does not apply to contracts executed prior to October 1, 1982 (unless modified or renewed after that effective date).

C. Any interest which may be payable under claims settled under the Contract Disputes Act (CDA) of 1978, except claims related to the PPA, will be awarded and paid under this CDA. Any interest found due under a claim related to the PPA will be paid under the PPA.

D. Contracts based on foreign laws or customs issued under Status of Forces Agreements (10 U.S.C. 2396) will normally be exempt from the provisions of the PPA.

E. Contracts where payment terms and late payment penalties have been established by other governmental authority (e.g., tariffs) are not applicable to the PPA requirements.

F. Contract financing payments, other than the final payment, are not subject to the payment provisions of the PPA as noted in paragraph 070205-B.10.

G. U.S. Property and Fiscal Offices (USPFOs) in each state share costs with their state on building or maintaining property. If the state contracting officer, acting in his or her capacity as a state employee, issues contracts for this work using the state fund cites, payments the USPFO makes to the state or to the contractor are exempt from the PPA. However, if the USPFO contracting officer, acting in his or her capacity as a Federal employee, issues the contracts using Ferderal funds cites, either to the state or to a private business concern, the payments are subject to the PPA.

H. Advance payments are not subject to the PPA. For more detail, see Chapter 4 of this volume.

I. When the payment due date falls after the appropriation cancellation date, payments are exempt from early payment rules and may be paid prior to the cancellation of the appropriation.

070103 Date Stamping Documents

All offices identified to receive supporting documents will date stamp such documents on the actual day of receipt. The office which first receives the document should ensure that all designated offices comply with this requirement. If an invoice is not date stamped upon receipt in the proper billing office, the invoice date becomes the date used to determine the due date, rather than the date received. Problems in this area must be brought to the attention of the responsible official for resolution.

## 0702 INVOICES

070201 Proper Invoice, FAR 52.232-25(a)(4) and DFARS 252.211

To be considered a proper invoice, FAR 52 and DFARS 252 mandate that it must contain specific information. If there is a discrepancy between the FAR (FAR and DFARS) and this Regulation, the FAR takes precedence. A proper invoice must contain the following:

A. Name and address of the contractor.

B. Invoice date.

C. Contract number or other authorization for supplies delivered or services performed (including order number and contract line item number).

D. Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.

E. Shipping and payment terms, (e.g., shipment number and date of shipment, prompt payment discount terms). Bill of lading number and weight of shipment will be shown for shipments on government bills of lading.

F. Name and address of contractor official to whom payment is to be sent (must be the same as that in the contract or on a proper notice of assignment).

G. Name (where practicable), title,

phone number, and mailing address of person to be notified in event of a defective invoice.

H. Any other information or documentation required by the contract, such as evidence of shipment.

I. It is not necessary for an invoice to be totally free of defects in order to be proper and to create a valid demand upon the government. Although individual circumstances vary, in general, the activity approving or making the payment must be able to determine that:

1. The goods or services being billed were in fact properly ordered under a specific contractual document, and received from the business concern designated in the order.

2. Payment is being requested by the same business concern.

J. Errors in contractual documents must be corrected by a formal modification. In the past, there have been problems between the disbursing offices and contracting offices concerning the timely issuance and receipt of corrective administrative modifications when payment had been made. Disbursing office personnel will notify the contracting office personnel of items in the contract that need to be corrected. Contracting personnel will make the changes through a formal modification. Disbursing office personnel will not make any changes to contracts. If there is doubt as to whether payment to the invoicing business concern would be proper, the invoice should be considered materially defective and must be returned to the contractor within 7 calendar days (3 calendar days for suppliers of meat and meat food products and fish and frozen fish and 5 calendar days for suppliers of perishable agricultural commodities, dairy products, edible fats or oils) after the date of receipt of the defective invoice. The notice to the contractor must be in writing and is considered effective as of the date mailed. Maintain a record of the mailing date since timely notification prevents the payment clock from starting. If the notification is not made within the number of days stated in this paragraph, the payment clock will continue to run until the contractor is formally notified. In these instances, the payment due date will be reduced by the number of days between the return of the defective invoice and the expiration of the applicable time period. In cases where the returned invoice offers a cost effective discount, request the contractor change the date on the existing corrected invoice, if resubmitted, or issue a new corrected invoice with the current date on it.

070202 Acceptance

A. Actual Acceptance. Actual acceptance is defined as a formal certification that the goods or services have been received and that they conform to the terms of the contract. This function occurs after the completion of any necessary testing and inspection allowed by the contract. This date generally conforms to the date shown in Block 21 of DD Form 250, Material Inspection and Receiving Report, the date shown in Block 26 of DD Form 1155, Order for Supplies or Services, or the date stamped on the invoice by the receiving activity.

B. Constructive Acceptance. Unless otherwise specified in the contract, constructive acceptance is considered to take place not later than 7 calendar days after delivery of goods or performance of services, unless there is a disagreement over quantity, quality, or contractor compliance with a contract requirement. A longer acceptance period must be specified in the solicitation and included in the contract to afford the activity more than 7 calendar days to inspect, test, and accept the property or evaluate the services. In the event that actual acceptance occurs within the constructive acceptance period, the determination of a due date shall be based on the actual date of acceptance.

070203 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 disbursing office will follow-up with the contracting or receiving office to ensure that these documents are forwarded in a timely manner. These follow-up requests should be made in time to prevent the possible loss of cost-effective discounts (if possible) and to avoid the unnecessary payment of late payment interest penalties.

070204 Action on Late Documents

If requested supporting documents are not received within a reasonable time, or if follow-up action is habitually required to receive such documentation, report the matter in writing through channels to the commander of the activity responsible for the delays. Include a brief statement of the facts, a list of the missing documents, the amount of cash discounts involved, if any, or possible interest penalties for late payment and the actions previously taken to obtain the supporting documents in a timely manner.

070205 Computation of Payment Due Date

A. General. Payment of a properly approved invoice will be made as close as possible to, but not later than, the due date specified in the contract. In general, contracts with no specific payment due dates will be paid as close as possible to, but not later than, 30 calendar days following the later of the following three events:

1. Execution of a valid, signed, contractual document.

2. Receipt of the invoice by the activity designated in the contract or order as the activity to which the invoice is to be sent. (If no invoice is required, e.g., certain periodic lease agreements, payment should be made in accordance with the specific terms of the contract.) If the receipt date of the invoice is not annotated on the document, the date of the contractor's invoice will be used.

3. Acceptance of goods or services by the activity designated to perform this function. For bill paying purposes, this date will be the earlier of actual acceptance or constructive acceptance (see paragraph 070202).

B. Specific Due Dates.

1. Cost-Effective Discounts. Pay within the discount period if cost-effective discounts are offered in the contract or on the contractor's invoice. If the discount terms of the contract are not in agreement with the discount terms offered on the invoice, the discount most advantageous to the government will be taken (See paragraph 020102-D.) Make payment as close as possible to the discount due date. Do not take the discount unless the invoice is paid within the discount period. An interest penalty will be assessed if a discount is taken erroneously and the deducted amount is not returned to the contractor within the original payment terms of the contract.

2. Fast Payment. When orders are issued under Fast Payment procedures (see paragraph 100301), payment is made based on the contractor's submission of an invoice which consitutes a representation that delivery has been made and that there has been compliance with all provisions of the orders. Payment will be made no later than 15 days after receipt of a proper fast pay invoice at the office designated in the contract to receive such invoice. Interest penalties will accrue if payment is not made within the 15-day time frame.

3. Contracts with Suppliers of Meat, Meat Food Products, Fresh and Frozen Fish Products, Poultry, and Egg Products. Payment will be made as close as possible to, but not later than, 7 calendar days from the date of delivery of the product. The basic definition of meat and meat food products is contained in the Packers and Stockyards Act of 1921 (7 U.S.C. 181). It includes any perishable edible product (fresh, chilled, or frozen) derived from the slaughter of cattle, sheep, swine, horses, mules, and goats. It encompasses processed refrigerated meats such as luncheon slices, frankfurters, bacon and ham. It excludes nonperishable meats, all perishable or nonperishable mixed products (meat and other food ingredients combined ), seafood, game, and dairy products other than eggs. The basic definition of "Fish" was established by the Fish and Seafood Promotion Act of 1986. "Fish" means finfish, mollusks, crustaceans, and all other forms of aquatic animal life used for human consumption. "Fish" does not include marine mammals and seabirds. The definition of "poultry meat" and "poultry meat food products" includes perishable edible (fresh, chilled, or frozen) poultry meat including processed poultry such as poultry luncheon

slices and frankfurters. It excludes nonperishable poultry, all perishable or nonperishable mixed products (poultry and other food ingredients combined), seafood, and game. In regard to eggs and egg products, the following definition should be used: "Eggs" means the fresh whole shell eggs of the domesticated chicken, turkey, duck, goose or guinea. "Egg products" means only frozen whole eggs, egg whites, and/or egg yolks.

4. Contracts with Suppliers of Perishable Agricultural Commodities. Payment will be made as close as possible to, but not later than, 10 calendar days from the date of delivery of the product. The basic definition of perishable agricultural commodities is contained in the Perishable Agricultual Commodities Act of 1930 (7 U.S.C. 499a(4)). It includes all fresh fruits and fresh vegetables of every kind and character, whether or not frozen or packed in ice. It excludes all fruits and vegetables which have been manufactured into articles of food of a different kind or character.

5. Contracts with Suppliers of Dairy Products. Payment will be made as close as possible to, but not later than, 10 calendar days from the date on which a proper invoice has been received at the activity designated in the contract. Dairy products (refrigerated or non-refrigerated) as defined in the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4502(e)), include, at a minimum, liquid milk, cheese, certain processed cheese products, butter, yogurt, sour cream, ice cream, edible fats or oils, and food products prepared from edible fats or oils (including, at a minimum, mayonnaise, salad dressings, and other similar products). Items such as peanut butter where oil is a by-product of the process, and dry salad dressing mixes are excluded.

6. Mixed Invoices. The disbursing office may split the payment of a mixed invoice (subject to differing payment time frames) and make payment by the due date applicable to each category. This policy also would apply to the assessment of the late payment interest penalty, when applicable.

7. Contracts for Utilities. Utility (gas, water, electricity, telephone, etc.) contracts that include provisions for due dates and late payment charges established by tariff or state regulatory commissions will be paid according to those terms. When there is no formal contract or the contract is silent about payment terms, the applicable tariff prevails. The above contracts are not subject to the provisions of the PPA. All other contracted utility services are subject to the PPA.

8. Civilian Medical Services. Claims for medical and dental care will be paid promptly within 30 days from the receipt of a properly adjudicated claim.

9. Contracts with Nonappropriated Fund Instrumentalities (NAFIs). Payments made to NAFIs should be treated the same as payments to other Federal Agencies (see paragraph 100101) and are not subject to PPA interest penalties.

10. Contract Financing. Contract financing payments are authorized to be made prior to acceptance of supplies or services. Contract financing payments include advance payments, progress payments based on cost, progress payments (other than under construction contracts or architect-engineer contracts) based on a percentage or stage of completion, and interim payments on cost-type contracts. Contract financing payments should be made per the specific payment terms in the contract. Departmental policy is to make contract financing payments as expeditiously as possible. The standard due date is 7 days for progress payments and 14 days for interim payments on cost-type contracts. Where justified, the contracting officer may specify a due date greater than, but not less than, the standard. No interest penalty will be paid to a contractor as a result of a delayed contract financing payment. Final invoices on cost-type contracts are subject to the interest penalty provisions of the PPA. As stated in the FAR, subpart 32.905(a)(1)(i), final invoices, where the payment amount is subject to contract settlement actions, shall be deemed accepted on the effective date of the contract settlement.

NOTE: Contract financing payments do not include invoice payments or payments for partial deliveries.

a. Construction Contracts. Payments on construction type contracts are due 14 days after the receipt of a proper payment request at the office designated in the contract to receive such request. In certain cases where this time frame does not afford the government a reasonable time to adequately inspect and accept the work or services performed, the contracting officer may specify a longer payment period in the contract. Late payments on construction type progress payments are subject to late payment interest penalties.

b. Architecture and Engineering Contracts. Progress payments under these types of contracts should be made 30 days after the receipt of a proper request at the office designated in the contract to receive such request. Late payments on architecture and engineering type progress payments are subject to late payment interest penalties.

070206 Effect of Contract Modification on Payment Due Date

When a contract modification requires or authorizes a payment to be make, the modification must be issued by an authorized contracting officer. Modifications to contracts can be divided into two types. Those that affect contractor performance (scope of the contract) and those that are administrative in nature (e.g., a change in the disbursing office or the appropriation data). On a contract that requires a modification affecting the contract scope, the payment clock will start with the effective date of the modification. On a contract requiring an administrative change, the payment clock will not start on the effective date of the modification, but rather on the date established by the criteria contained in paragraph 070205-A.

070207 Date of Payment

Payment is considered to be made on the date printed on the check itself, or on the Electronic Fund Transfer settlement date. Checks will be mailed or transmitted on the same day for which the check is dated. Payments due (including discount periods) on Saturday or Sunday may be paid on Monday or the next working day without interest. Payments due on legal holidays may be paid on the next working day without interest.

## 0703 INTEREST

070301 Interest Penalty Requirements

Whenever an interest penalty is due, the disbursing office will pay the interest due automatically without requiring that the business concern request such interest. The amount of interest paid and the calculation of that amount will be furnished to the business concern along with the respective payment. Interest payments of less than $1.00 should not be made. The disbursing office should decline any requests for such payments, whether or not the total interest applicable to multiple bills exceeds $1.00. For contracts issued on or before March 31, 1989, the rate of interest will be the rate at the time of payment. For contracts issued on April 1, 1989, or later, the rate of interest will be the rate in effect on the day after the due date (not necessarily the payment date). 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.

070302 Additional Interest Penalty

As authorized by the Office of Management and Budget (OMB) Circular A-125, revised on December 12, 1989, contractors are entitled to an additional interest penalty payment if all of the following conditions are met:

A. The contractor is owed an interest payment.

B. The interest was not paid with the invoice payment to the contractor on the date on which the interest became due.

C. The contractor was not paid the interest within 10 days after the date on which the invoice was paid.

D. The contractor makes a written request, not later than 40 days after the date on which the payment was made, for the additional penalty.

E. The contractor must specifically assert that late payment interest is due under a specific invoice and request payment of any overdue late payment interest penalty and such additional penalty as may be required. To be valid, the contractor's request must be postmarked by the 40th day after payment was made. If there is no postmark, the request will be valid if it is received and annotated with the date of receipt by the 40th day. (If not properly annotated, the date of the contractor's request letter will be used as the date of receipt). If the contractor does not meet the 40 day requirement, the disbursing office must inform the contractor that the requirements for the additional payment were not met and therefore, the request for the additional payment is denied. The contractor may, however, still be entitled to the original interest penalty. The additional interest penalty will be computed at the same rate as that in effect on the original interest payment due date, but the penalty is not subject to the 1-year time restriction and will continue to accrue until the date the interest penalty payment is made. The additional interest penalty shall be equal to one hundred percent (100%) of the original late payment interest penalty. However, the additional penalty will be no less than $25 and no more than $5,000.

070303 Waiver of Interest Penalty

Interest may be waived by a contractor (62 Comp Gen 673 (1983)), by returning the amount of interest paid by separate check or by returning the government check and requesting payment only in the amount invoiced. A contractor may not waive the right to interest in advance of earning the interest (that is, a blanket authority letter stating that any interest penalty payment is not wanted is unacceptable). Interest retained or waived is collected as a refund to the appropriation originally cited for the payment of interest.

070304 Disputes and Questionable Payments

Interest penalties are not required when payment is delayed because of a disagreement between an activity and a business concern over the amount of the payment or other issues concerning compliance with a contract. Interest also will not be paid when the disbursing office determines that the nature of the payment is of such doubtful validity that an advance decision from the Comptroller General or advice from higher authority is required. In all such instances, the official questioning the payment must advise the business concern, in writing, of the reason for the delay. In the event that payment is determined to be proper, all time elapsed between the starting time identified in paragraph 070201-J and the written notification will be applicable in determining whether interest is due. PPA interest is not paid on contracts that fall under the Contract Disputes Act.

070305 Partial Payments

All provisions of the PPA apply to the partial delivery of supplies or partial performance of services, unless partial deliveries are specifically prohibited by the contract. A late payment interest penalty will occur if payment is not made within the above terms. Interest payments are not applicable under cost reimbursement contracts unless the payment is for delivered property or performance of services.

070306 Interest Rate

The rate of interest will be established by the Secretary of the Treasury under Section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611). This rate is published semiannually in the Federal Register and will be provided to individual disbursing offices by their servicing DFAS Center. It is effective with each 6-month period beginning January 1 and July 1 of each year.

070307 Computation and Accrual of Interest Penalties

A. Interest penalties remaining unpaid for a 30-day period must be added to the principal amount owed to the business concern, and additional interest penalties will be computed on the total debt including accrued interest. The disbursing office will continue to accrue and add interest to the principal amount each 30-day period until the debt and interest are paid, until the contractor files a claim under the Contract Disputes Act, or until 1 year has elapsed.

B. For interest penalties unpaid for a 30-day period added to the principal amount owed to a business concern (see paragraph 070307-A), the disbursing office shall apply the rate in effect on the first day interest began to accrue. If an invoice payment due on January 30, 1990, is not made by that date, the interest rate to be applied for the entire period of interest accrual is the rate in effect on January 31, 1990.

C. Interest will be computed from the day following the payment due date through the date of payment. No further interest shall accrue after 1 year beyond the original due date. Interest calculations are to be based on a 360-day year. To calculate the interest penalty utilizing the daily rate of interest, the disbursing office shall multiply the daily rate of interest times the principal (P) amount payable times the number of days paid late to the contractor prior to adding on interest.

Example:

| | |
|---|---|
| Principal (P) | $500.00 |
| Interest Rate | 8.50 |
| Days paid late | 46 |
| Daily rate of interest (dri) | .0002361 |

Formula for first 30-day period:

P x # days paid late x dri = interest payable
$500.00 x 30 x .0002361 = $3.54

Formula for the next 16-day period:

$500.00 + $3.54 = $503.54
$503.54 x 16 x .0002361 = $1.90

The total interest penalty for 46 days is $5.44 ($3.54 + $1.90 =$5.44). The calculation should continue for the number of days that the payment is made past its due date but not to exceed 360 days. The interest for each 30-day period should be added back to the principal until 360 days of interest has been calculated. Interest will be charged to the year in which it accrued. For example, if interest began to accrue on September 13, 1994, and the interest penalty was not paid until October 12, 1994, 18 days of interest would be charged to FY 94 funds and 12 days of interest would be charged to FY 95 funds. The first 18 days would be paid from FY 94 funds, while interest on the remaining 12 days would be paid from FY 95 funds.

### 070308 Grace Period Payments

The original PPA established 3, 5, and 15 day grace periods (depending on the type of product, i.e., meat product, perishable agriculture commodities, and the other items) after the due date during which invoices could be paid without interest. The Prompt Payment Act Amendments (PPAA) (P.L. 100-496) eliminated this grace period for contracts executed, awarded, renewed, or modified or upon which contract options have been exercised, on or after April 1, 1989. The PPAA also applies to all Blanket Purchase Agreements against which calls have been made since April 1, 1989. The grace period will remain in effect for contracts executed between October 1, 1982 and March 31, 1989.

## 0704 INTEREST PAYMENTS FUNDING

### 070401 General

The Comptroller General has opined that PPA interest must be paid from the funds available for the administration of the program for which interest was incurred. All interest payments will be charged to the fiscal year(s) in which they accrue. In all cases, the disbursing office will identify and assign the reason for the late payment as provided in paragraph 070501. Interest payments pertaining to procurements financed by Foreign Military Sales also will be charged but will be reimbursed from the Foreign Military Sales contract administration services account unless the administration services surcharge has been waived by international agreement. When surcharges are waived on Foreign Military Sales cases, interest payments will be charged to the funds available for the administration of the Military Service or the DoD Component which manages the case. For additional information, see Volume 15, paragraph 0704011, of this Regulation. Disbursing 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. All refunds 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, refunds will be applied to Miscellaneous Receipts of the Treasury.

## 0705 REASONS FOR INTEREST PAYMENTS

### 070501 Reporting Reasons for Payments

In compliance with the Office of Management and Budget Circular A-125 (Revised) on December 12, 1989, reasons for late payments shall be identified and corrective action taken so that the DoD goal of zero interest penalties may be achieved. The six reasons are:

A. Delay in the disbursing office's receipt of:

1. Receiving report.

2. Proper invoice.

3. Purchase order or contract.

B. Delay or error by the disbursing office in:

1. Taking discount.

2. Notifying contractor of defective invoice.

3. Computer or other system processing.

As specified in the PPAA, all interest payments must be reported in one of these six categories. Paragraph 070601 addresses reporting requirements of interest payments.

## 0706 PROMPT PAYMENT REPORTING

### 070601 Reports

A. The Office of Management and Budget requires that the Department submit an annual PPA Accounting Report (A) 1607 that includes the number, dollar value, frequency, and cause of all late payments, and other data pertaining to its contractor payments. The Department, however, requires this same information from its reporting Components on a quarterly basis. This information will be reported in a prescribed format (PPA Report, ACCT RPT (Q) 1619). Appendix B of this volume provides an illustration of this report. The DoD Component submitting the quarterly report may, at its discretion, require a monthly submission from its bill paying activities. This monthly report will be prepared and submitted in the format also found in Appendix B. As some of these data may already be provided through a centralized automated reporting system, not all PPA information requested on this monthly report may be necessary.

B. Annual Prompt Pay Act Report 1607. All DoD Components shall submit their annual report directly to DFAS-HQ/FCC to arrive by November 15 of each year.

C. Quarterly Prompt Payment Act Report 1619. All DoD Components shall submit each quarterly report directly to DFAS-HQ/FCC to arrive by the end of the month following the close of each fiscal quarter.

### 070602 Quality Control Program

Each disbursing office shall establish a quality control (QC) program to assess performance of payment, reporting and relevant management information systems and provide a reliable way to estimate payment performance. The QC program is separate from internal control. Agency QC programs must fulfill the following requirements:

A. Quality Control must be a systematic performance measurement system in place throughout the agency which provides managers information about problems and assists in targeting corrective action. QC data must be accurate to within established tolerances and should be used to fulfill the annual reporting requirements in paragraph 070601, Accounting Report (A) 1607. In the annual reporting of (A) 1607, Section X, Updated Description of Agency Quality Control Systems, requires each major reporting entity to describe its QC efforts, particularly information gathering methods and frequency, and how this information supports Prompt Payment improvements.

B. Data should be gathered as frequently as needed by managers to identify and correct errors. Rapidly changing situations may require frequent data collection.

C. Data must be collected through a process at least as thorough as the original payment decision (entitlement) process. QC reviewers must use original documents and repeat the original calculations.

D. Because the number of payment actions is too numerous to permit a total review, data should be gathered on the basis of a statistically valid sample sufficient to assure the reliability of QC reviews conducted without unduly burdening agency resources. If needed, an initial sampling will be conducted to establish a valid cross section of payments subject to the PPA and to represent different products and services with unique due dates. Sampling must reflect due dates that are established by different payment methods, i.e., by check or by electronic funds transfer. Other analytical tools, such as frequency distribution, will be used to support the QC program.

E. Data must be collected by individuals who are independent from the original payment decision. Thus, supervisory reviews, while an excellent way to improve processing, are not QC reviews.

F. Analysis of QC data will result in reports to management and remedial action(s) targeted to correct objectively determined error causes.

## 0707 DELIVERY TICKET AS AN INVOICE

### 070701 Policy and Guidance for Using Delivery Documents as Invoices

A. There are circumstances when a delivery ticket or other receiving document and the contract taken together contain sufficient information to determine a contractor's entitlement to payment, without the contractor having to submit a separate invoice, either electronically or by hard copy.

B. Elimination of separate invoices will not be a universal practice within the Department. Activities must formally request the use of this payment procedure from DFAS-HQ/FCC. While this payment option is available to contractors, its use is not mandatory for doing business with the Department.

C. Some contracts do not require the submission of an invoice. For example, periodic lease payments which are specifically referenced in FAR 32.905, Invoice Payments, do not require an invoice. Before a DoD Component can issue contracts eliminating the contractor's requirement to submit a separate invoice, that Component must formally request and receive approval from the DFAS Headquarters of that activity's accounting system, related processes, and internal controls.

D. Invoice elimination is for fixed price contracts issued by an approved activity where the contractor has consented that delivery documentation or equivalent meets the requirements of a proper invoice, paragraph 070201. Failure by the supplier to comply with those requirements will result in rejection of the supplier's invoice and may delay payment.

E. Invoices are required for contracts using Fast Pay provisions and second destination deliveries.

F. For the purpose of computing interest, the invoice shall be deemed to be received at the same time as the goods.

### 070702 Criteria for Approval of Using Delivery Documents as Invoices

A. Activities that desire the option of not submitting a separate invoice must follow specific criteria. This practice is suitable for depots and other DoD Components with the following characteristics:

1. Receiving merchandise is a primary function of the activity and all receipts

are controlled at a central point.

2. Activities that have strong manual procedures or automated capture of receipt data, such as the use of bar coding.

3. Activities that have electronic connectivity to servicing DFAS activities.

4. Direct delivery to the ordering DoD activity.

B. Activities and transactions types that are not suited to the elimination of separate invoices follow:

1. Activities that manually transmit receipt data to their servicing DFAS activity.

2. Activities where receiving goods is not a primary function or occurs on a sporadic basis.

3. Activities primarily receiving services, including training.

4. Activities that use cost reimbursable contracts, progress payments, advance payments or Government Owned Contractor Operated facilities.

5. Construction and architect or engineering services.

6. Second destination delivery.

7. Fast Pay contracts.

8. Activities where delivery is not ordinarily accompanied by appropriate documentation.

C. The elimination of separate invoicing will be approved on a selective basis for each activity proposing to institute this business practice. Each activity desiring to have this option must formally request approval from the DFAS Headquarters. The DFAS Headquarters will review the following for an activity before granting approval:

1. Internal control over receipt of goods, starting with the receiving point.

2. Documentation of data flow.

3. Evaluation of the requesting activity's ability to capture sufficient data to establish a valid entitlement to payment. If systems modifications are needed, those requirements and implementation time must be approved before DFAS approval is granted.

4. Communication links between the receiving activity and the servicing DFAS activity.

5. Records retention procedures for receipt documents.

6. Personnel training with emphasis on timely transactions processing.