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OPERATIONAL SERVICES DIVISION
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Prompt Payment Discounts Policy

Effective: November 9, 2005
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Executive Summary

This policy is issued jointly by the Office of the Comptroller (CTR) and the Operational Services Division (OSD) regarding the use of Prompt Payment Discounts (PPD) in the statewide enterprise accounting and financial reporting system ("the system"; "Mosaic") to maximize the savings to Commonwealth Departments from prompt payment discounts (PPD) offered in Commonwealth contracts. This policy applies to all procurements and payments made by the Commonwealth and applies to all relevant Mosaic policies.

One of the benefits of Mosaic is the ability to automatically calculate discounts for prompt payments to vendors. These discounts are hard dollar savings retained by Departments that can be unencumbered for a contract if not needed and used for another purpose.

Policy

The Comptroller has broad authority to prescribe accounting rules and instructions for all state Departments and the appropriate use of the state accounting system. Pursuant to M.G.L. c. 7A § 7, M.G.L. c. 7A § 8, M.G.L. c. 7A § 9 and M.G.L. c. 29 § 31, the Comptroller is required to implement a state accounting system (including a centralized payroll system) and issue instructions for the accounting practices to be used by all Departments for supplies, materials, assets, liabilities, equity, debt, encumbrances, expenditures, revenues, expenses and obligations of all Commonwealth funds and accounts, including payroll, unless specifically exempted by general or special law. The Comptroller has full authority to prescribe, regulate and make changes in the method of keeping and rendering accounts and is authorized to direct state Departments to implement changes in their systems to meet these statewide standards.

Compliance with the CTR Bill Payment Policy should be considered successful only if payments are issued in the standard payment cycle of 45 days via Electronic Funds Transfer (EFT). For Contractors seeking accelerated payments, payments must be scheduled to disburse on the last possible day in Mosaic to take advantage of the best available prompt payment discount. Because the Commonwealth earns interest on funds, if payments are released earlier with no reciprocal benefit of a PPD, the Commonwealth loses valuable investment income and available cash flow.

The Commonwealth's goal is to pay its bills through EFT while maximizing the use of prompt payment discounts. EFT payments are required for all contracts and any Contractor seeking accelerated payments must provide a PPD.

Electronic Funds Transfer (EFT) Authorization Forms and Prompt Payment Discount (PPD) terms should be initiated whenever a Contract is procured, and for current Contracts, whenever an amendment or renewal is negotiated. During procurements Bidders submit Responses identifying PPDs with the

assumption that Departments will pay their bills more quickly in order to receive the PPD from the total price of an invoice. Having prompt payment discount options in contracts is advantageous to both Contractors and purchasing Departments.

Contractors benefit from PPD by increased, usable cash flow as a result of fast and efficient payments for commodities delivered or services rendered. Contractors must accept payments through Electronic Funds Transfer (EFT) which further maximizes this benefit by ensuring that funds are paid directly to the Contractor's designated accounts, eliminating the impact of check clearance policies and traditional mail lead time or delays.

The Commonwealth benefits because the Department's cost for products and services are reduced by taking advantage of the Prompt Payment Discount (PPD) and EFT and the Commonwealth saves the expense of processing, printing and mailing checks.

PPD are automatically taken from the total invoice amount and are ***in addition*** to any other volume or other discounts negotiated between the Department and a Contractor as part of a contract or purchase. Volume or other discounts must be calculated and included on the invoice. Prompt Payment Discounts are an additional discount if the Department is able to review and approve an invoice quickly and schedule payment within 9, 14, 19 or 29 days from the date the invoice was received or performance rendered (whichever is later).

Most Statewide Contracts issued by the Operational Services Division (OSD) contain Prompt Payment Discount terms. If a Department is purchasing from a Statewide Contract that includes Prompt Payment Discount terms, the Department must process invoices timely in order to take advantage of discount(s).

Departments must check the Master Agreement (MA) document to identify the prompt payment discount options available from that contract and make sure that payment requests are submitted to take advantage of the greatest amount of savings.

All Contracts require PPD to be identified

Departments are required to have Contractors complete the PPD section of the Standard Contract Form or identify a legitimate hardship.

> Departments may NOT negotiate accelerated payments in less than the standard payment cycle of 45 days and Payees are NOT entitled to accelerated payments UNLESS a prompt payment discount (PPD) is provided to support the Commonwealth's loss of investment earnings for this earlier payment, or unless a payment is legally mandated to be made in less than 45 days (e.g., construction contracts, Ready Payments under M.G.L. c. 29 § 23A).

- Requiring a PPD to be identified as part of a procurement or contract does not mean that an automatic discount will be taken or that the Contractor is required to make a price reduction. The discount on the total payment will apply ONLY if the Contractor requests "accelerated" payments in LESS than the standard payment cycle (currently 45 days).
- Contractors that do not want to offer a PPD agree that all payments will be made in the normal course of business using the standard payment cycle and may not later request an accelerated payment unless a PPD is offered.

Exceptions for PPD

All Commonwealth contract payments will be processed in the standard payment cycle of 45 days from the date of an invoice receipt unless there is another legally mandated payment cycle such as:

- M.G.L. c. 30 § 39G: Payments on horizontal construction and maintenance projects (roads, bridges, etc.), within 30 days.
- M.G.L. c. 30 § 39K: Payments on vertical construction and maintenance projects (buildings), within 30 days for periodic payments.
- M.G.L. c. 79 § 37: Payments under certain conditions on Eminent Domain within 30 days.
- Certain credit card payments that require payment within 21-25 calendar days.
- Ready Payments for human and social services under M.G.L. c. 29 § 23A.
- Other statutory or regulatory payment cycles of less than 45 days.

Federal and state grant awards are not exempted from the PPD policy will be paid under the standard payment cycle. Delay in getting contracts executed, financial hardship, or demands for prompt payments are not sufficient legal reasons for automatically accelerating **ALL** payments under a Contract. The first grant or contract installment or payment may be accelerated for the ***first*** invoice or initial grant installment, but subsequent periodic installments or invoice payments must be scheduled to support the Payee cash flow needs and the standard 45 day EFT payment cycle in accordance with the CTR Bill Payments Policy unless a PPD is provided or an earlier payment date is legally mandated.

NOTE: For any contract with an annual single payment, the standard payment cycle must be used unless a PPD is provided and this payment may NOT be scheduled to be accelerated in less than the standard payment cycle.

Any accelerated payment that does not provide for a PPD must have a legal justification in Contract file for audit purposes justifying the requirement for an accelerated payment and why the standard payment cycle could not be followed for all payments.

> Even if a Department has not included the Prompt Payment Discount (PPD) as part of the RFR process, or for contracts when a procurement is not required, the Department should require a Contractor to complete Prompt Payment Discounts during the contract execution, renewal or amendment process to ensure that Prompt Payment Discounts are available to both the Contractor and the Department to the maximum extent possible.

Mosaic Functionality

Mosaic automates the taking of vendor offered discounts when payment requests are processed. Discounts are defined by establishing a discount schedule, which consists of a number of "Days" and a corresponding Discount Percentage on the Commodity –Discount subsection. Multiple discount percentages can be defined based on different numbers of Days.

The Number of Days indicates how long can elapse between:

1. the Invoice receipt Date (the date the invoice is received which should be the date the invoice is date-stamped by the Commonwealth) or the Service or performance receipt or completion/acceptance date (whichever is later) and

2. the payment disbursement date (the date the payment is issued by the Treasury)

Departments should evaluate their invoicing and payment processing to ensure that payment requests are routinely and efficiently processed to take advantage of the maximum prompt payment discount. **Departments must stress the importance of date stamping, tracking, and properly entering the invoice receipt date which is critical to ensuring discounts are taken in accordance with contract terms.**

When entering new MA documents with negotiated prompt payment discounts in MMARS, OSD and Departments will need to deduct one day when entering the "Number of Days" under the **Commodity – Discount** sub-section

- Discount within 10 days
  All invoices should be reviewed and, if approved, processed within 9 calendar days if there is a 5% discount offered for payments issued within 10 days. The discount must be set up in the Discount subsection to be "5.000" under in the "Discount #1 field" and "9"should be entered for the number of "days". An invoice must be reviewed and scheduled within 9 calendar days to allow Mosaic to take the maximum discount available.
    - Note: For statewide contracts, the prompt payment discount percentage has already been entered into Mosaic by OSD. Departments may not change any PPD terms on statewide MAs.

- Discount within 20 days
  If the negotiated discount is 1%, 20 days, departments should enter " 1.00" to represent 1% in the discount #1 field and 19 for the number of "days" While the contract terms will remain at 1%, 20 days, making this adjustment in Mosaic will ensure that the payment process is completed in sufficient time to issue the payment in accordance with the CTR Bill Paying Policy and the contract terms. Mosaic will schedule and deliver the payment to Treasury on day 19 and Treasury will issue payment to the vendor on Day 20.
- If other PPD terms (15, 20 and/or 30 days) are offered, the additional discounts must be set up on the Discount subsection and approved payments must be scheduled within the 14, 19 or 29 days to take advantage of the greatest discount available.
- If Departments fail to enter the correct Vendor Invoice Date (the date the invoice was date stamped by the Commonwealth) Mosaic will populate the invoice receipt date with the data entry date and the payment will default to the payment date logic, which will be outside the discount terms and a discount will be inappropriately taken and will have to be refunded.
- If the scheduled payment date is left blank on the vendor line, the system will use the payment date logic to calculate the scheduled payment date. If the scheduled payment date is entered, then the scheduled payment date must be equal to or greater than the current day. It is recommended to leave the **Scheduled Payment Date** Field blank, allowing the system to generate the date.

Options for Entering Discounts

Mosaic gives Departments the ability to enter discount-pricing percentages that will automatically calculate discounted payment amounts at three levels:

- **vendor level**, entered on the VCUST table, which will result in an "across the board" discount for all payments from any Department to that vendor;
- **encumbrance level**, (entered in the Commodity Section, commodity discount subsection). Statewide Contract discount terms will be managed by OSD. Departments will be able to enter terms negotiated for a specific contract.
- **payment level** - if noted on a vendor's invoice, it should be entered on the individual payment request transaction.

Discount precedence applies when discount information is entered in more than one level. A discount at the vendor level applies if no other discount is indicated. A discount at the encumbrance level supersedes a vendor level discount, and a discount at the payment request (PRC or GAX) level supersedes any other discount information.

Management Reports

Departments should review existing policies and procedures related to vendor discounts and look for ways to leverage the technology of the Mosaic discount functionality, along with the monitoring and reporting of that activity. Paying bills on time is sound financial management and the key to being a good business partner. Timely entry of payment documents will maximize your cost saving opportunities. The MMARS discount functionality will enable you to reach 100% participation in opportunities to obtain prompt payment discounts.

Summary reports of Department discounts taken and not taken are issued monthly to Chief Fiscal Officers. The NAP630W – Discount Not Taken report tracks payments that were eligible for a discount but were not taken. Timely entry of payment documents will maximize a Department's cost savings opportunities.

Internal Controls

Departments should evaluate the risks related to payments based upon the specific types of payments made and develop internal controls to mitigate these risks. See Internal Controls.

Records Management

In accordance with 815 CMR 10.00, the department is the keeper of the official record copy of invoices and all back up supporting documentation. Mosaic is the official record of the encumbrance and payment documents entered into the system and will supersede any paper copies of the same information. The contract/procurement/payment file must contain or refer to the location of all documentation related to the particular payment involved. A department is responsible for retaining and archiving contract records (including invoices, back up supporting documentation and invoice verification) in accordance with the Statewide Disposal Schedules issued by the Secretary of State Records Conservation Board. Please see the CTR Fiscal Records Management Policy.

Information Sources

Related Policies

- CTR State Finance Law Compliance Roles Policy
- CTR Department Head Signature Authorization and Electronic Signature for Mosaic Transactions Policy
- CTR Contract Policies
- CTR Payments Policies
- CTR Fiscal Records Management Policy
- OSD COMMBUYS

Legal Authority

- Expenditure Classification Handbook
- M.G.L. c. 7A: Office of the Comptroller
- M.G.L. c. 29: State Finance Law
- M.G.L. c. 133: Uniform Electronic Transactions Act
- M.G.L. c. 30 § 65: Legal Services
- M.G.L. c. 29 § 29D: Debt Collection
- M.G.L. c. 29 § 29E: Revenue Maximization
- M.G.L. c. 30 § 27: Revenue Receipt
- M.G.L. c. 10 § 17B: Revenue Receipt
- Massachusetts Constitution Article LXIII Section 1: Revenue Receipt
- M.G.L c. 7 § 22: OSD – Goods and Services
- M.G.L. c. 30 § 51: OSD – Goods and Services
- M.G.L. c. 30 § 52: OSD – Goods and Services
- M.G.L. c. 29 § 29A: Consultants (Level III – Executive only)
- M.G..L. c. 29 § 29B: Human/Social Services (Level III - Executive only)
- M.G.L. c. 29 § 27B: IT equipment
- M.G.L. c. 15A: Public Education
- M.G.L. c. 73: State and Community Colleges
- M.G.L. c. 75: University of Massachusetts
- Massachusetts Executive Orders (Level III – Executive Only)
- Administrative Bulletins (Level III – Executive Only)
- 815 CMR 2.00 - 10.00: Office of the Comptroller Regulations
- M.G.L. c.29 § 66: State Finance Law Violations
- M.G.L. c. 30 § 39G: Late penalty interest on horizontal construction and maintenance projects (roads, bridges, etc.)
- M.G.L. c. 30 § 39K: Late penalty interest on vertical construction and maintenance projects (buildings)
- M.G.L. c. 79 § 37: Interest payments under certain conditions on Eminent Domain Taking
- M.G.L. c. 164 § 94D: Penalty interest for utilities, which are not paid within 55 days from the date of the bill
- COMMBUYS
- 801 CMR 21.00
- 808 CMR 1.00

Attachments

- Quick Reference – Commodities and Services, Grants, Subsidies, ISAs and Chargebacks
- Office of the Comptroller Forms
- OSD Forms

Contacts

- CTR Solution Desk
- MAComptroller.org