

STATE OF RHODE ISLAND
DEPARTMENT OF ADMINISTRATION

OFFICE OF ACCOUNTS AND CONTROL

SECTION ACCOUNTING	POLICY/PROCEDURE NO. A-38	/	FORMERLY /
SUBSECTION	EFFECTIVE DATE January 1, 1988	/	PAGE NUMBER 1 of 7
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Chapter 11.1 of Title 42 of the General Laws provides for a detailed procedure outlining the payment of interest on certain state contracts which are paid late, effective January 1, 1988.

1. All bills shall be paid within thirty (30) working days of receipt of a proper invoice or other contractual dates for periodic payments.
 - 1.1 Each state agency shall have five (5) working days, after receipt of any invoice by the state agency at its designated payment office to notify the contractor of defects in the delivered goods, property, or services or to forward a voucher to the Office of State Controller for payment. Where a contract with a vendor provides that the vendor will be paid at predetermined intervals without having to submit an invoice for each scheduled payment, the state agency must submit a voucher to the State Controller at least twenty working days **prior** to the date of the scheduled payment. Interest will become due **commencing on the day following the scheduled payment date.**
 - 1.2 The Budget Office shall have five (5) working days after receipt of the voucher and invoice voucher to submit a payment from the agency to the Controller's Office for processing.
 - 1.3 The State Controller's Office shall have seventeen (17) working days from the date it receives the voucher from another state agency to process a payment.
 - 1.4 The Treasury Department shall have three (3) working days to transmit payment following receipt of paperwork from the State Controller's Office.

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2. The commencement of the thirty working day period will be delayed for any of the following reasons:
- 2.1 A vendor's invoice contains defects or the vendor is suspected of improprieties. When a state agency fails to notify a vendor of such defects or improprieties within five working days of receiving the invoice, the number of days allowed for payment of a corrected invoice shall be reduced by the number of days between the fifth and the day notification was transmitted to the vendor. (If a state agency fails to provide reasonable grounds for its contention that a defect or impropriety exists, the required payment date shall be calculated from the date of receipt of an invoice.)
 - 2.2 The State Controller, in the course of his audit, determines that there is reasonable cause to believe that payment may not be properly due in whole or in part.
 - 2.3 The payment must be preceded by an inspection period or by an audit to determine the resources applied or used by a contractor in fulfilling the terms of the contract in accordance with specific statutory or contractual provisions. (The State Controller will make payment upon receipt of appropriate authorization from agency: partial payment for an inspection or audit report authorizing partial payment; final or full payment for a final inspection or audit report authorizing such.)
 - 2.4 The necessary state government appropriation required to authorize payment has yet to be enacted. This does not mean that a delay will occur because the agency has not caused funds to be programmed into one of its accounts.

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- 2.5 The cash balance of the fund or subfund from which the payment is to be made is insufficient to finance the payment. If this occurs, the agency should make every effort to replenish the cash balance as quickly as possible.
- 2.6 The vendor's invoice (billing) must be examined by the federal government prior to payment. (The State Controller will make payment upon receipt of appropriate authorization from agency: partial payment for federal approval of partial payment, final or full payment for federal approval authorizing such.)
- 2.7 The goods or property have not been delivered or the services have not been rendered by the vendor in compliance with the terms or conditions of the contract or purchase order. If this situation occurs, the agency should notify the vendor as quickly as possible. The agency should document its notification of the vendor and the date the vendor corrected the defects/deficiencies. The State Controller's Office needs the notification documentation to accompany the invoice voucher so that late payment interest is not improperly paid. A suggested form to be used for this purpose is on the last page of Procedure A-38.

Any time taken to satisfy or rectify any of the above types of conditions shall extend the required payment date by an equal period of time.

3. Interest will be due to vendors after thirty working days from the receipt of a "proper invoice" (defined in Item #8.4) or the delivery of goods or services, whichever is later. Where the contract for goods or services provides for payment to the contractor at predetermined intervals, without the vendor having to submit an invoice for each scheduled payment, interest will be due on the day following the scheduled payment date.

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- 3.1 The interest payment will accompany payment of the net amount due for goods and services. Agencies shall not require vendors to petition, bill, invoice, or wait any additional days to receive interest.
- 3.2 The interest rate paid will be equal to the prime interest rate as reported on the money market page of the WALL STREET JOURNAL on the first regular business day of each month.
- 3.3 Any unpaid interest shall compound every month overdue.
- 3.4 Interest shall be paid from funds appropriated to the particular state agency with which a contract exists. (This policy is discussed further below.) If more than one state agency has caused a late payment, with respect to a particular invoice, each state agency shall bear a proportionate share of the interest payment.
- 3.5 The Office of the State Controller will compute, apportion, and assess interest to each invoice paid late.
- 3.6 The budget object code for interest due to late vendor payments is 892.
- 3.7 Interest computed at ten dollars (\$10) or less will not be paid to any vendor
4. Interest charges for late payments will be paid for all types of purchase transactions, except those which follow:

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- 4.1 Vendors who provide good or services prior to issuance of purchase order or prior to obtaining necessary approvals (Budget, Purchasing, etc.) until a purchase order is issued or proper approvals are obtained. No employee of any state agency shall authorize or cause any vendor to furnish goods or services unless the vendor has received and has in his possession proper authorizing purchase documentation. It is mandatory that state departments and agencies adhere to the purchasing procedures stated in the Department of Administration's Procedural Handbook.
- 4.2 Contractors/vendors of third party agreements.
- 4.3 Contract retainage amounts.
- 4.4 Payments to employees of state agencies when acting in or performing services incidental to their employment capacity.
- 4.5 Any type of public or subsistence aid.
- 4.6 Amounts paid (to any organization or fund) for income tax return check-off purposes.
- 4.7 Union dues withheld and paid on behalf of state employees.
- 4.8 Lump sum death benefits paid for active employees or retirees.
- 4.9 Refunds of employees (state and municipal) retirement contributions
- 4.10 Payments to any duly constituted unit of local government, or any of their related instrumentalities.

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- 4.11 Internal service fund charges for goods and services.
- 4.12 Direct deposit (to a bank account) of state employees' net paychecks.
- 4.13 Legal expenses insurance premiums withheld and paid on behalf of state employees.
- 4.14 Tax shelter annuity or deferred compensation contract amounts withheld and paid on behalf of state employees.
- 4.15 Weekly workers' compensation payment to state employees.
- 4.16 Entities which receive state funds through any intermediary organization other than a state agency.
- 4.17 Payments to any public authority or public benefit corporation.
- 4.18 Refunds or rebates of any state tax, fee, levy, or assessment.
- 4.19 Situations where the State Controller exercises a legally authorized set-off against all or part of the payment due the vendor.
- 5. Interest charges for late payments will be charged to the accounts and funds of all departments and agencies, except those which follow:
 - 5.1 All interest related to purchases from a federally funded grant or program will be paid from a state appropriation account.
 - 5.1.1 General Fund Federal Grants/Programs (full or partial federal funding) – Interest will be charged (1) to General Fund State Appropriation Account providing matching program funds or (2) to Division's General

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Fund State Appropriation Account.

- 5.1.2 Special Funds Federal Grants/Programs (full or partial federal funding) – Interest will be charged (1) to Special Fund State Account providing matching program funds or (2) to Division’s (responsible for program function) General Fund State Appropriation Account. NOTE: For interest charged to Division’s General Fund State Appropriation, initially late payment interest will be charged to Special Fund Federal Program Account and then subsequently adjusted, quarterly, to the Division’s General Fund State Appropriation Account. This will be accomplished by inserting the Division’s General Fund State Appropriation Account as a cost center code on each late invoice voucher (Form A-12).
- 5.2 All interest related to purchases from a statistical account will be charged to the Division (General Fund State Appropriation Account) within the department or agency that is providing services according to a cooperative agreement. (No late payment interest will be borne by a parent account.)
- 5.3 All interest related to purchases from Internal Service Funds will be charged to the Division (General Fund State Appropriation Account) within the department or agency responsible for administering the Internal Service Fund. NOTE: Late payment interest will be charged to the Internal Service Fund and then subsequently adjusted, quarterly, to the Division’s General Fund State Appropriation Account. This will be accomplished by inserting the Division’s General Fund State Appropriation Account as a cost center code on each late invoice voucher (Form A-12).
- 5.4 No late payment interest will be charged to or paid from any of the following trust and agency funds: Unclaimed Property, Touro Jewish Synagogue, Violent Crimes

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Indemnity, Real Estate Recovery, Permanent School Fund, Employees Retirement, Municipal Employees Retirement.

- 5.5 All Interest related to purchases from custodial accounts will be charged to the Division (General Fund State Appropriation Account) within the department or agency responsible for administering the custodial account.
- 5.5.1 ACI Inmates' Accounts and Benefits: Interest will be charged to the Department of Corrections, Director's General Fund State Appropriation Account.
- 5.5.2 R.I. Veteran's Home Residents' Accounts and Benefits: Interest will be charged to the Department of Human Services, Director's General Fund State Appropriation Account.
- 5.5.3 O'Rourke Children's Center Wards' Benefits and R.I. Training School Trainees' Accounts and Benefits: Interest will be charged to the Department for Children and Their Families, Director's General Fund State Appropriation Account.
- 5.5.4 Patients' Accounts and Benefits, Department of Mental Health, Retardation and Hospitals: Interest will be charged to the respective division responsible for patients, i.e.:

General Hospital
Zambarano
Dr. Joseph H. Ladd Center
Institute of Mental Health

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6. If the amount of funds available from any appropriation to a state agency is sufficient to pay interest, the budget officer has authority to transfer funds from the unspent balance of any appropriation that is available to the same state agency. The budget officer shall transfer amounts that are not needed to accomplish the purpose for which the appropriation was made. However, the budget officer may, to the extent he deems practicable, transfer amounts from appropriations that otherwise would be available for the administration and operation of the state agency.
7. The Department of Administration shall file quarterly reports with the governor and general treasurer. Included in the report shall be (a) the date and dollar amount of late payments by state and agency, (b) the amounts of interest paid.
8. Definitions:
 - 8.1 "Contract" means an enforceable agreement entered into by a contractor and a state agency.
 - 8.2 "Contractor" means any person, partnership, firm, corporation, or association:
 - 8.2.1 Selling materials, equipment, or supplies or leasing property or equipment to a state agency.
 - 8.2.2 constructing, reconstructing, rehabilitating or repairing buildings or highways for, or on behalf of, a state agency: or
 - 8.2.3 Rendering or providing services pursuant to a contract with a state agency.
 - 8.3 "Designated payment office" means the office is designated by the state agency to which a proper invoice is to be submitted by a contractor.

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- 8.4 “Proper invoice” means a written request for a contract payment that is submitted by a contractor setting forth the description, price, and quantity of goods. Property or services delivered or rendered, in such form and supported by such other substantiating documentation as the state controller or individual state agency may reasonable require.
- 8.5 “Receipt of an invoice” means the date on which a proper invoice is actually received in the designated payment office or the date on which the state agency receives the purchased goods, property, or services covered by the proper invoice, whichever is later.
- 8.6 “Required payment date,” means the date by which a contract payment must be made in order for the state government not to become liable for interest payments, pursuant to Subsection (b) and (f) of Section 42-11.1-5 of the Prompt Payment Act. Absent a written contract, it means the date by which the vendor must receive payment according to the terms and conditions of a purchase order or invoice.
- 8.7 “Set-off” means the reduction by the state of a payment due to a contractor by an amount equal to the amount of an unpaid legally enforceable debt owed by the contractor to the state or any amount which the state is entitled to withhold under the terms of the contract, or any amount owed by the contractor to the state by way of a statutory obligation or enforceable lien (with respect thereto), of which the contractor had previous knowledge or notice.

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- 8.8 “State agency” means any department, board, bureau, commission, division, office, council, institution, authority or committee in the executive, legislative, or judicial branches of state government; including the University of Rhode Island and all other quasi-public bodies created by state law whose purpose and function are directly related to the health, safety, and welfare of the general populace of the state including the Rhode Island Lottery.
- 8.9 “State funds” means funds held by the General Treasurer in the General Fund of the state.