



US Department
of Transportation
Maritime
Administration

MANUAL OF ORDERS

MARITIME ADMINISTRATIVE ORDER

REVOKES

NO.

400-10

AMENDMENT 1

EFFECTIVE DATE

August 16, 1989

SUBJECT

CASH MANAGEMENT

This amendment provides prompt payment procedures for Headquarters, Region Offices and the U.S. Merchant Marine Academy. Public Law 100-496, Prompt Payment Act Amendments of 1988, imposed upon all agencies a stricter payment standard and a tighter time schedule to pay bills on time, to pay interest penalties when payments are made late, and to take discount only when payments are made by the discount date. Accordingly, the basic order is revised by adding the following:

New Section 10. MARAD-wide Prompt Payment Standards;

New Section 11. Region Prompt Payment Procedures;

New Section 12. Maintenance of Appendices;

New Appendix 1. List of Renegotiation Board Interest Rates for 1987, 1988, & 1989; and

New Appendix 2. List of Economically Justifiable Discount Offered by Vendors for Calendar Year 1989.

Section 10. MARAD-wide Prompt Payment Standards:

This section 10 is applicable to headquarters, regions, and the U.S. Merchant Marine Academy. Subsection 10.01 prescribes general guidelines for implementing the Prompt Payment Act. Subsections 10.02 through 10.07 prescribe specific rules and procedures as to Prompt Payment Act Amendments of 1988.

10.01 General Prompt Payment Standards.

The Congress passed the Public Law 100-496 Prompt Payment Act Amendments of 1988 and the President signed this into law on October 14, 1988. Public Law 100-496 is effective for payments under contracts awarded, contracts renewed, and contract options exercised on or after April 1, 1989.

- 1 Contract. Under the OMB Circular A-125, Prompt Payment, contract is defined as any enforceable agreement, including rental and lease agreements, purchase orders, delivery orders, requirements-type (open ended) service contracts, and blanket purchase agreements between an agency and a contractor for the acquisition of property or services.

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- 2 Criteria for Payments. Payments cannot be processed without an established contract authority (obligation). A specific payment must be made based on the receipt of proper invoices and satisfactory acceptance of goods or services under the terms of the contract. (Also see 10.02, 10.03 and 10.04.)
- 3 Dates for Making Payments. Payments must be made on dates prescribed in the contract, the discount date (if economically justifiable), or no later than the prompt payment due date. (Also see 10.03 and 10.04.)
- 4 Interest Penalty. If payments are made after the prompt payment due date, interest penalty must be paid without the need for contractors requesting it. This penalty is charged to the related program funds for goods or services acquired.
- 5 Additional Interest Penalty. Additional interest penalty must be paid, if a contractor is not paid interest penalty within ten (10) days after payment due date and the contractor makes a written demand within forty (40) days after payment date. This additional penalty is charged to the related program funds in the same way as the initial interest penalty (See 4 above) and shall be equal to:
 - (1) **Fifty (50) percent** of the original late interest penalty paid for the period from **April 1, 1989 to September 30, 1989, and**
 - (2) **One hundred (100) percent** of the original late interest penalty paid beginning **October 1, 1989.**
- 6 Interest Rates for Interest Penalty. Interest rates for interest penalty are issued by the Department of the Treasury (Treasury) semi-annually. Calculation of interest penalty is based on the interest rate in effect at the time the payment became late. (Also see subsection 10.05 and appendix 1.)
- 7 Payment Due on Weekend or Holiday. Payment due on Saturday or Sunday may be paid on **Monday**, or the **next working day** without penalty. Payment due on a legal holiday which falls on a weekday may be paid on the **next working day** without penalty.

- 8 Early Payment. Payments may be made up to seven (7) days before the required payment due date or earlier, as determined to be necessary on a case-by-case basis by the Director, the Office of Accounting. Payments made more than seven (7) days before the payment due date will be considered early payments.
- 9 Grace Period. Payments must be made on or before the due date. There is no grace period for delaying payments. The Prompt Payment Act Amendments of 1988 eliminated the 15-day grace period.
- 10 Defective Invoice. Agencies must review all invoices and return defective invoices to the contractor within **seven (7) days** after the receipt of the invoices identifying the defects that prevent payment. (Also see subsection 10.02.)
- 11 Cash Discount. The period for taking the discount is calculated from the contractor's invoice date on the proper invoice to the discount payment date. (Also see appendix 2.)
- 12 Day. Day means calendar day(s) including weekends and holidays, unless otherwise indicated.

10.02 Proper Invoice.

A bill or written request for payment is prepared by a contractor for property or services rendered. In order to constitute a proper invoice, this bill or written request must include the following:

- 1 Name and address of contractor.
- 2 Invoice date.
- 3 Contract number or other authorization for supplies delivered or services performed (including order number and contract line item number).
- 4 Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.
- 5 Shipping and payment terms (e.g., shipment number and date of shipment, prompt payment discount)

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terms). Bills of lading number and weight of shipment will be shown for shipments on Government bills of lading.

- 6 Name and address of contractor official to whom payment is to be sent. (It must be the same as that in the contract or on proper notice of assignment.)
- 7 Name (where practicable), title, phone number, and complete mailing address of person to be notified in the event of defective invoice.
- 8 Any other information or documentation required by the contract (such as evidence of shipping).

10.03 Determining the Start of the Prompt Payment Period.

Unless there is disagreement over the quantity, quality or contractor compliance with a contract requirement, the prompt payment period starts on the later of: (1) Acceptance of goods or services, or (2) Receipt of a proper invoice by the designated billing office.

- 1 Acceptance of Goods or Services. For the purpose of determining the payment due date, acceptance is considered to have been made on:
 - (1) **The seventh (7) day after delivery of goods or performance of services; or**
 - (2) **The date of actual acceptance, if acceptance occurred before the seventh (7) day after delivery of goods or performance of services.**
 - (3) **A longer period of acceptance must be considered, if specified in the contract.**
- 2 Receipt of a Proper Invoice. For the purpose of determining the payment due date, the date of receipt of a proper invoice is the date on which **the invoice is first received by the place or person (designated billing office) indicated in the contract.** If the designated billing office fails to stamp or note on the invoice the date of actual receipt of the invoice, **the date placed on the invoice by the contractor will be considered the date of receipt for the purpose of determining the payment due date.**

10.04 Payment Date and Prompt Payment Due Date.

- 1 The payment date is the day on which the Treasury check for payment is dated or the date an electronic fund transfer payment is made.
- 2 The prompt payment due date is either:
 - (1) The date specified in the contract; or
 - (2) In most cases, 30 days after the starting of the prompt payment period (See 10.03 for determining the start of the prompt payment period).

10.05 Applicable Prompt Payment Interest Rate and Late Payment Penalty.

The rate of interest for late payment will be the Renegotiation Board Interest Rate in effect on the date the payment became late. The Renegotiation Board Interest Rate is determined by the Treasury and published semiannually in the Federal Register on January 1 and July 1. (Appendix 1 provides a listing of Renegotiation Board Interest Rates for 1987, 1988 and 1989.) The calculation of interest penalties on late payment will begin to accrue the day after the due date and will continue to accrue until a payment is issued or for 365 calendar days, whichever is less. Interest penalties remaining unpaid for any 30-day period will be added to the principal. Interest penalties, thereafter, will accrue monthly based on the total of principal and previously accrued interest.

10.06 Payments for Utilities, Meat Food & Agriculture Product.

- 1 Payments for utilities such as payments for electricity, telephone, oil, gas, etc., must be paid as soon as possible after the approved invoice is received by the Office of Accounting.
- 2 Payments for meat or meat food products must be paid as close as possible, but not later than the seventh (7) day after the date of delivery, unless another date is specified in the contract.
- 3 Payments for perishable agricultural commodities must be made as close as possible to, but not later than, the tenth (10) day after the date of

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delivery, unless another date is specified in the contract.

10.07 Exemption from the Prompt Payment Act.

The Prompt Payment Act does not apply to the following:

- 1 Payments to other Federal agencies.
- 2 Payments to recipients of Federal assistance.
- 3 Title XI payments, such as guarantee fee refund, escrow fund disbursements, loan default payoffs, except vessel expenses.
- 4 Operating-Differential Subsidy (ODS) payments.
- 5 Payments for employee payrolls.
- 6 Payments for travel advances and reimbursements.

Section 11. Region Prompt Payment Procedures:

This section applies to regions, field offices and the reserve fleets.

11.01 Time/Date Stamp.

- 1 All invoices received must be **time/date stamped** immediately upon receipt by the region, field offices, or reserve fleets.
- 2 Before stamping, ensure that the time/date stamp is properly set on the **correct time/date**, and the stamp print is clear and readable.
- 3 The time/date stamp should bear the **title of the receiving organization**, such as: NORTH ATLANTIC REGION - FINANCE OFFICE.
- 4 All time/date stamps should be placed on the **top portion** on the reverse side of an invoice. The uniform date stamping on invoices will assist the Office of Accounting to efficiently and clearly identify the date received by the Maritime Administration.

11.02 Approval for Payment of Invoices.

It is the Region Finance Office's responsibility to review all invoices to determine whether the vendor provided a **proper invoice**. If the vendor does not provide the required information, the invoice will be considered defective. The region must return the defective invoice to the vendor **within seven (7) days** after receipt of the invoice. (See 10.01.11 and 10.02 for more information on defective invoices.) Original unapproved invoices, after date stamped, must be forwarded to the authorized approving official for **signature** indicating **approval** or **disapproval** for payment, and a copy of unapproved invoices should be retained by the Region Finance Office. After the approving official signs, the signed invoice should be returned to the Region Finance Office for forwarding to the Office of Accounting, and a copy of this signed invoice should be retained by the Region Finance Office. The Region Finance Office may establish region's time tables and procedures for processing region's invoices to ensure a smooth and timely transfer and control of invoices between fleet, field and the Region Finance Office.

11.03 Inspection and Receiving Report.

Goods or services related to an invoice must be inspected, received, accepted and signed by the authorized region staff member on an inspection and receiving report. This inspection and receiving report must indicate **the date the goods or services were received and accepted.**

11.04 Time Schedule for Region to Forward Invoices READY for Payment to the Office of Accounting.

Regions are expected to forward approved documents ready for payment to the Office of Accounting in the following manner: (See 11.05 regarding procedures for forwarding proper invoices pending approval to the Office of Accounting.)

- 1 The approved invoice (i.e., a time/date stamped invoice cited "approved for payment" with signature and date) and the related inspection and receiving reports must be received by the Office of Accounting through the region's daily express mail **no later than 15 days** after the later of the date which the region receives an invoice or the date which the region receives, inspects, and accepts the related goods or services.
- 2 If the Region Finance Office or the authorized

approving official disapproves for payment because of a **defective invoice**, the region must return this invoice to the vendor within **seven (7) days** after it is received by the region, stating the reason(s) why it is being returned. A photocopy of the defective invoice, citing the reason(s) for its return, must be retained by the Region Finance Office for one (1) year after the date of the return.

- 3 If the region receives an invoice with discount terms determined to be attainable and economically justifiable (See appendix 2 for listing of justifiable discount rates for calendar year 1989), the approved invoice should be received by the Office of Accounting as soon as possible but no later than three days before the discount due date. These invoices should be marked in red with "**DISCOUNT CAN BE TAKEN AND DISCOUNT DUE DATE IS _____ .**"

11.05 Procedures for Region to Forward Proper Invoices Pending Approval to the Office of Accounting.

The procedure prescribed in this paragraph is **not** the normal operating procedure. Regions are to exercise caution and to minimize the forwarding of proper invoices pending approval. Forwarding proper invoices pending approval to the Office of Accounting will create administrative burdens for the Office of Accounting and the region as well. The following procedures are to accommodate **rare uncontrollable and extraordinary circumstances** in the processing of proper invoices pending approvals.

- 1 Forwarding Proper Invoices Pending Approval. If the Region Finance Office does not receive back the approved invoice from the authorized approving official according to the time frame established by the region, and this period **exceeds 15 days** from the date of receipt of the invoice; forward a copy of the unapproved invoice marked in red "**PENDING APPROVAL**" to the Office of Accounting. This will enable the Office of Accounting to completely track MARAD's outstanding invoices and accounts payable.
- 2 Follow-up Actions. The region must follow up and send completed "pending invoices" to the Office of Accounting. These invoices must be received by the Office of Accounting **before the payment due date** with proper annotations (See 11.06 for suggested

annotations), so that the Office of Accounting can complete the prompt payment cycle for these invoices or make reversal entries from accounts payable.

11.06 Annotations, Notes, Comments, or Payment Instructions on Payment Documents.

The region should provide sufficient annotations, notes, comments, or payment instructions on the related payment documents to assist accounts payable staff in the Office of Accounting to process payment. For example:

- 1 Invoice and receiving report are included.
- 2 Invoice but not receiving report is included.
- 3 Receiving report but not invoice is included.
- 4 Defective invoice was returned to the vendor.
- 5 Discount can be taken and discount date is MM/DD/YY.
- 6 Pending invoice was forwarded to the Office Of Accounting on MM/DD/YY.
- 7 Contract requires FAST PAYMENT procedure for this invoice.

Section 12. Maintenance of Appendices:

The Office of Accounting is authorized to issue revisions of appendix 1 and appendix 2 as necessary to maintain accuracy of the information depicted. Such issuances shall be routed through the Office of Management Services for concurrence prior to issuance as amendments to this order.

Wm. A. Creelman

William A. Creelman
Deputy Maritime Administrator

List of Renegotiation Board Interest Rates for 1987, 1988, & 1989

The rate of interest for late payment will be the Renegotiation Board Interest Rate in effect on the date the payment became late. The Renegotiation Board Interest Rate is determined by the Treasury and is published semiannually in the Federal Register. The Renegotiation Board Interest Rates for 1987, 1988, and 1989 are:

- o From January 1, 1987 to June 30, 1987 7.625%
- o From July 1, 1987 to December 31, 1987 ... 8.875%
- o From January 1, 1988 to June 30, 1988 9.375%
- o From July 1, 1988 to December 31, 1988 ... 9.25%
- o From January 1, 1989 to June 30, 1989 9.75%
- o From July 1, 1989 to December 31, 1989 ... 9.125%

List of Economically Justifiable Discounts Offered by Vendors for
Calendar Year 1989.

The following selected cash discount terms offered by vendors for calendar year 1989 are economically justifiable for MARAD to take the cash discount. Therefore, if a vendor's cash discount term on the invoice is one of the following terms in 1989 and the discount is determined attainable within the discount period, MARAD staff should make all possible efforts to take the cash discounts.

- o 29 days, net 30, and Discount Rate \geq .02 %
- o 28 days, net 30, and Discount Rate \geq .04 %
- o 27 days, net 30, and Discount Rate \geq .06 %
- o 26 days, net 30, and Discount Rate \geq .08 %
- o 25 days, net 30, and Discount Rate \geq .10 % (1/10 %)
- o 24 days, net 30, and Discount Rate \geq .12 %
- o 23 days, net 30, and Discount Rate \geq .14 %
- o 22 days, net 30, and Discount Rate \geq .16 %
- o 21 days, net 30, and Discount Rate \geq .17 %
- o 20 days, net 30, and Discount Rate \geq .19 %
- o 19 days, net 30, and Discount Rate \geq .21 %
- o 18 days, net 30, and Discount Rate \geq .23 %
- o 17 days, net 30, and Discount Rate \geq .25 % (1/4 %)
- o 16 days, net 30, and Discount Rate \geq .27 %
- o 15 days, net 30, and Discount Rate \geq .29 %
- o 14 days, net 30, and Discount Rate \geq .31 %
- o 13 days, net 30, and Discount Rate \geq .33 % (1/3 %)
- o 12 days, net 30, and Discount Rate \geq .35 %
- o 11 days, net 30, and Discount Rate \geq .37 %
- o 10 days, net 30, and Discount Rate \geq .39 % 1/See Example
- o 9 days, net 30, and Discount Rate \geq .41 %
- o 8 days, net 30, and Discount Rate \geq .43 %
- o 7 days, net 30, and Discount Rate \geq .45 %
- o 6 days, net 30, and Discount Rate \geq .46 %
- o 5 days, net 30, and Discount Rate \geq .48 %
- o 4 days, net 30, and Discount Rate \geq .50 % (1/2 %)
- o 3 days, net 30, and Discount Rate \geq .52 %
- o 2 days, net 30, and Discount Rate \geq .54 %
- o 1 days, net 30, and Discount Rate \geq .56 %

1/ Example: The most common cash discount term offered by vendors is 2 %, 10 days, net 30 (discount rate 2 %). Since this vendor's discount (i.e. 2 %) is greater than .39 %, it is economically justifiable to take cash discount.