UNIVERSITY of **HOUSTON**
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Procurement   **Number: 04.01.10**
AREA: Procurement - General

SUBJECT: **Prompt Payment and Payment Scheduling**

I.   PURPOSE AND SCOPE

This document applies to all payments processed through the University of Houston Accounts Payable Department.

II.   POLICY STATEMENT

In accordance with Texas Government Code, Chapters 2155 and 2251 (prompt payment law), interest will be automatically calculated and paid to vendors of qualifying goods and services who receive late payments from the University of Houston on or after September 1, 1999. In addition, payments for state fund vouchers over $5,000.00 will be scheduled on or just prior to the Net Due Date.

Effective September 1, 2001, interest calculated at $5.00 or less on local fund payments will not be paid to the vendor (HB1545, 77th Texas Legislature Texas Government Code 2251.026j). Any interest paid will be charged to the same departmental cost center as the late payment. However, interest will not be paid on vouchers containing fund 5 cost centers (sponsored contracts and grants), since these funds do not permit late interest charges. Interest charged to any other cost center center, including sponsored projects, where the funding source that does not permit late payment interest charges must be this expense will be reallocated by the department to another source of funds that may support the interest expense.

III.   DEFINITIONS

     A.   Bona fide dispute: Difference of opinion held in good faith between a vendor and the university.

     B.   Payment cycle: The days on which ACH payments, checks, or warrants are printed. The System Treasurer's Office currently generates local, non-payroll ACH payments and checks for all campuses and System on a daily basis Monday through Friday. The Comptroller of Public Accounts generates state, non-payroll ACH payments and warrants on each business day The Comptroller of Public Accounts currently prints state, non-payroll warrants each business morning.

     C.   Disputed payment: Includes, but is not limited to, an invoice presented for payment (1) which is not in compliance with the invoicing standards in this document, (2) which is for non-conforming goods and services under the related purchase order or contract, or (3) which is not presented in the time frame authorized by the related purchase order or contract.

     D.   Distribution date: The date that a payment is mailed (postmarked) or sent via ACH or electronic funds transfer to a vendor.

E.   PeopleSoft: The financial system, which all component universities at the System use to create ~~state and local fund~~ vouchers and PO vouchers. All payments on ~~local fund~~s ~~payments~~ are processed through PeopleSoft.

F.   Late Payment Charge: Field in the Payments page of the Voucher that indicates whether the payee may be paid late payment interest. Late Charge Option "Compute Charges" will compute and generate late charges, and "Not Applicable" will not compute or generate late charges.

H.   Invoice: A document presented by a vendor for payment, which includes information necessary for payment processing, as described by this document.

I.   Late payment: A payment that is distributed to a vendor after the Net Due Date.

J.   Notice of Incorrect/Incomplete Invoice Received: Form used to notify a vendor that an invoice is incorrect or incomplete and needs to be revised and re-submitted to the university. This defines the invoicing standards.

~~K.   Notice of Invoicing Standards (NIS): List of invoicing standards available on the university web site.~~

L.   Notice of Non-compliant Delivery of Goods/Services: Form used to notify a vendor that the delivery of goods or services received is not in compliance with the terms of the purchase order or contract.

M.   Net Due Date: The calculated due date based on the payment terms for the vendor/payee and certain dates entered in the voucher. For vendors with terms of Net 30, 30 calendar days after the later of (1) the date an invoice is received (Invoice Receipt Date), (2) the date goods are received (Goods Receipt Date), and (3) the date services are completed (Goods Receipt Date). An invoice must meet the standards defined by this document and the purchase order or contract to be considered "received." Goods and/or services must meet the standards defined by the purchase order or contract to be considered "received" or "rendered."

N.   Prompt payment law: Texas Government Code, Chapter 2251, which requires all state of Texas agencies, including institutions of higher education, to pay vendors interest at the rate specified by the Comptroller's Office ~~on late payments made on or after September 1, 1999~~. ~~Effective September 1, 2001, HB1545 (77ᵗʰ Legislature)~~ Texas Government Code 2251.026j) ~~modified the prompt payment law to~~ prohibit~~s~~ interest payments of $5.00 or less when local, institutional funds are used.

O.   Payment Reason Code: A code that indicates the reason for refusing or forcing an interest payment. A payment reason code must be selected any time the late payment charge is refused or forced. Payments reasons must be approved by Accounts Payable for each voucher.

P.   Scheduled Due Date: The date a voucher is scheduled for payment.

Q.   Uniform Statewide Accounting System (USAS): The state's official accounting system used by all state agencies to record and report financial transactions to the State Comptroller's Office. All state fund vouchers processed by the university are created in PeopleSoft and transferred to USAS for final processing.

IV.   INVOICING STANDARDS

A. The University of Houston has adopted the following invoicing standards, with which vendors must comply when submitting an invoice to the university:

1. Invoices must be mailed, faxed or e-mailed by the vendor to the address indicated on the university's purchase order, contract or other university document provided to the vendor.

2. Invoices must include the following information:

    a. Vendor's mailing (remit to) address for payment.

    b. Vendor's mailing address for correspondence.

    c. Vendor's phone number, fax number and/or e-mail address ~~of a representative who can answer~~for questions regarding the invoice.

    d. University's purchase order, contract or other document number.

    e. Name and mailing (ship to) address of the university department that received the goods or services, as indicated on the purchase order or contract.

    f. Vendor's ~~Federal Employer Identification (FEI) number issued by the Internal Revenue Service,~~ Taxpayer Identification Number (TIN) issued by the Comptroller of Public Accounts, or 10-digit vendor ID number issued by the University of Houston System.

    g. Description of the goods delivered or services rendered in sufficient detail to identify them as the same goods/services in the purchase order or contract.

    h. Information identifying and supporting a successor organization to the original vendor, if necessary, with sufficient information to make payment to the successor organization.

3. Invoices should not include the following:

    a. Payment terms that are different than those specified in the purchase order or contract.

    b. Goods that have not been delivered to the university or services that have not been completed, unless the purchase order or contract contains a provision for advanced payment.

    c. Unit prices or quantities or total price or quantity that exceed those indicated in the purchase order or contract.

    d. Charges for goods, services or shipping that ~~were not included on the purchase order or contract.~~are not valid items ordered or agreed to by the University.

    e. Taxes or fees from which the university is exempt as a state of Texas institution of higher education.

f.   Charges for late payment interest, . ~~Vendors must request in writing payment for interest believed to be owed them but not yet paid by the university at the time of a suspected late payment~~ late payment interest calculations will be made in accordance with the Texas Government Code.

B.   ~~Vendor Notification~~

~~The University of Houston will notify vendors of its invoicing standards as follows:~~

~~1.   Purchasing will submit the NIS to the vendor at the same time as the purchase order or include a statement on the PO that notifies the vendor of the standards on the university web site.~~

~~2.   Departments should submit the NIS to contractors and other vendors or notify them of the standards on the university website at the time a contract is written or an order is placed, if appropriate. The NIS is not intended for out-of-pocket purchases.~~

V.   INVOICE HANDLING

Invoices received by the university will be handled as follows:

A.   The date an invoice is received by the university will be stamped or otherwise noted on the invoice. This date is considered the Invoice Receipt Date. If more than one stamped or written date appears on the invoice, the earliest date will be considered the Invoice Receipt Date. If a received date is not stamped or written on the invoice, the invoice date will be considered the Invoice Receipt Date.

B.   Invoices received by a department, including Accounts Payable, that should be re-routed to another department will be re-routed within one business day of receipt, provided sufficient information exists on the invoice to identify the correct recipient.

C.   Invoices will be reviewed to determine if they meet the standards in Section IV above.

1.   Invoices that meet the university's standards will be processed for payment before the Net Due Date and within the time frame indicated in Section IX below.

2.   For invoices that do not meet the university's standards, the department that reviews the invoice will take one of the following actions:

a.   If the items missing from the invoice are not required to make the payment (e.g., vendor's phone number), use the invoice to process a payment before the Net Due Date.

b.   Return the invoice to the vendor, along with Notification of Incorrect or Incomplete Invoice Received for correction and re-submission by email, mail or fax immediately and no later than 21 calendar days after the Invoice Receipt Date. Copies of the Notification and email should be forwarded to Accounts Payable.

c.   Partially pay the invoice to the extent it is correct, and notify the vendor of the error by email, mail or fax immediately and no later than 21 calendar days after the Invoice Receipt Date. The Notification of Incorrect or Incomplete Invoice Received should also be forwarded to the

Vendor, and copies of the Notification and email should be forwarded to
Accounts Payable.

~~c.~~

~~d.~~   ~~Pay the invoice in full and seek a credit from the vendor by mail or fax
immediately and no later than 21 calendar days after the Invoice Receipt
Date. This option may only be used by those departments that have an
on-going business relationship with a vendor.~~

~~3.~~   ~~The Notice of Incorrect or Incomplete Invoice Received may be used to
document invoices that do not comply with the university's invoicing standards.
In addition, the Notice of Non-compliant Delivery of Goods or Services may be
used when a revised invoice is required due to a problem delivery.~~

D.   Failure to notify a vendor of an incorrect invoice within 21 calendar days of receipt
obligates the university to use the original invoice to process the payment. While the
incorrect amount should not be paid, the university forfeits its right to request a revised
invoice and must use the original Invoice Receipt Date.

E.   When no invoice is received by the university, the delivery date may be used as the
Invoice Receipt Date. Alternatively, if a purchase order or contract is involved, the date
the purchase order or contract was approved by the university may be used as the
Invoice Receipt Date when no invoice is provided. However, as explained in Section VIII
below, not receiving an invoice qualifies as an exception to paying late payment interest.

VI.   DELIVERY OF GOODS AND SERVICES

A.   Goods Receipt Date

The date goods are received or services are completed, known as the Goods Receipt
Date, must be documented by the department that receives the goods or services. For
instance, the packing slip can be date stamped, the Goods Receipt Date can be entered
in a delivery log, or some other form of documentation may be used. It is not required to
attach documentation of the Goods Receipt Date to the voucher, though departments
may do so if the documentation is readily available.

B.   Inspection of Delivered Items

If the purchase order or contract allows additional time for inspection, the Goods Receipt
Date will be the date that the inspection period ends or the date that the department
determines the order is correct and complete, whichever comes first. Otherwise, the
Goods Receipt Date will be the date goods are actually received or services are actually
completed.

C.   Returns to Vendor

All items received that do not meet the requirements of the order or contract must be
immediately returned to the vendor, along with a Notice of Non-compliant Delivery of
Goods or Services Form, letter or other documentation of the return. All related
conversations with the vendor must be documented, as well, and maintained with the
department's copy of the voucher.

VII.   PAYMENT SCHEDULING

A.   Calculation of Net Due Date

Unless otherwise indicated in the purchase order or contract, payment is due 30 days after the later of:

1. The date a correct invoice is received, in accordance with the university's invoicing standards, provided an incorrect invoice is returned to the vendor within 21 calendar days of receipt.

2. The date goods are received, in accordance with the purchase order or contract.

3. The date services are completed, in accordance with the purchase order or contract.

B. Exceptions to Payment Scheduling

Payments are scheduled on or just prior to the Net Due Date, except in the following circumstances, which allow payment before the Net Due Date on the Scheduled Due Date:

1. A price discount for early payment is offered by the vendor. A copy of the invoice or other documentation of discount offered must be attached to the voucher.

2. Early payment is required by the terms or nature of the purchase order, contract or other agreement with the vendor. Examples of transactions that require early payment by their nature include registration, membership, subscription, and lease payments, which must be paid before the event or period of service ends. An invoice alone requesting early payment does not obligate or authorize the university to make a payment before the Net Due Date. A copy of the contract or other agreement that indicates early payment is required must be attached to the purchase voucher.

3. A payment to a UH student (terms equal "due immediately" in PeopleSoft).

4. A payment to a UH employee (terms equal "due immediately" in PeopleSoft).

5. A transaction or transfer between UH departments, auxiliaries, service centers or components (terms equal "due immediately" in PeopleSoft).

6. An early payment that is necessary to avoid interruption of the normal operations of the university (e.g., utilities, telephone, etc.).

7. A payment to a local, state or federal agency that must be paid early by law or to avoid penalty for paying beyond the agency's due date (e.g., Internal Revenue Service, State Comptroller's Office, State Attorney General's Office, etc.).

8. A payment that does not involve goods or services as defined by Texas Government Code and is not subject to payment scheduling (e.g., Optometry Clinic refunds to customers, stipends, etc.).

9. Early payment to avoid vendor hardship (e.g., vendor cannot pay its employees if UH does not pay immediately) or to maintain a favorable business relationship with the vendor.

10. Payments on local funds.

11.   Payments on state funds where the voucher total is $5,000.00 or less.

C.   Scheduled Due Date

If a vendor/payee should be paid before the Net Due Date, the Scheduled Due Date may be changed to an earlier date. No explanation is required on the voucher. However, the department that creates the voucher should be prepared to provide an explanation for the early payment if asked.

VIII.   LATE PAYMENT INTEREST

A.   Calculation of Interest

Payments made past the Net Due Date generate automatic interest charges at the rate specified by the Comptroller's Office. Interest stops accruing on the date the payment is mailed or sent via electronic funds transfer to the vendor, which is the Distribution Date. The following formula is used to calculate the interest due based on an annual interest rate of 5% (5% is just an example; the Comptroller's Office might set a different interest rate):

([Distribution Date – Net Due Date] / 365) x (.05) x ($ principal payment amount net of credit memos or reversals) = $ interest due

If the interest calculated is $5.00 or less and local funds are used, interest will not be paid. It is not necessary to select a payment reason code or change the late payment charge for these transactions because the refusal to pay interest of $5.00 or less on local funds is automated in PeopleSoft.

Also, interest will not be paid on vouchers containing one or more fund 5 cost centers, since these cost centers do not permit late payment interest. It is not necessary to select a payment reason code or change the late payment charge for these transactions because the refusal of interest is automated in PeopleSoft.

B.   Documentation and Account

A separate voucher, which begins with an "I," will be automatically created by USAS when a late payment is made with state funds. A separate voucher will not be created when interest is paid on local funds, but the charge will be recorded with the journal entry to record the voucher. However, the amount of the local interest payment can be seen on the Payments page of the voucher. Interest will be charged to the same departmental cost center as the late payment under account 54705. The interest voucher indicates the original voucher number in the Invoice field.

C.   Reallocation of Interest

Interest paid on cost centers that do not allow late payment interest this expense must will be re-allocated by the department to another departmental cost center by the department that incurred the expense. Late payment interest may not be transferred out of account 54705.

D.   Interest Refunded by a Vendor

Interest refunded to the university by a vendor will be deposited into the same cost center/account that incurred the expense as a reduction of expense. If the interest

expense had been re-allocated to another cost center, the refunded amount will be deposited into the cost center that received the re-allocated expense.

The University must pay the interest, regardless of vendor preference.

E.   Transactions Subject to Late Payment Interest

All payments for goods or services made past the Net Due Date are subject to late payment interest unless indicated as exempt in Section F below.

F.   Transactions Exempt from Late Payment Interest

1.   Payments to UH employees (controlled through the PeopleSoft vendor file).

2.   Payments to UH students (controlled through the PeopleSoft vendor file).

3.   Transfers or transactions between UH departments, auxiliaries, service centers or components (controlled through the PeopleSoft vendor file).

4.   Payments to other State of Texas agencies (except Texas Correctional Industries) and institutions of higher education (controlled through the PeopleSoft vendor file).

5.   Transactions involving a bona fide dispute between UH and a vendor, contractor, subcontractor or supplier about the invoice or the goods delivered or services performed that causes the payment to be late. Also, a bona fide dispute between a vendor and a subcontractor or its supplier about the goods delivered or services performed that causes the payment to be late. The vendor must have been notified of the dispute within 21 days of invoice receipt or delivery.

6.   When the terms of a federal contract, grant, regulation or statute prevent the university from making a timely payment with federal funds.

7.   The invoice is not mailed to the correct address in strict accordance with instructions on the purchase order, contract or other document provided by the university.

8.   When an invoice is not provided by the vendor to the university.

9.   Late payments due to an incorrect or incomplete invoice that is properly returned to the vendor for correction but never corrected and re-submitted to the university.

10.   The Texas Comptroller's Office has granted an exception to late payment interest for a specific transaction or vendor.

11.   Payment to vendors who are "on hold" with the State Comptroller's Office at the time a warrant is printed (automated in USAS). This is not automated in PeopleSoft. Therefore, the voucher creator should refuse interest on the voucher by selecting a Payment Reason Code of "N-AD" and Late Payment Charge of "N."

12.   Payments for consulting services, professional services and public utility service. These transactions are specifically excluded from the definition of "services" (subject to prompt payment) in Texas Government Code, Section 2155.001.

13. State payments that generate less than $0.005 in interest (automated in USAS) and local payments that generate $5.00 or less in interest (automated in PeopleSoft).

14. ~~Payment on agency funds. This is not automated in PeopleSoft. Therefore, the voucher creator should refuse interest on the voucher by selecting a Payment Reason Code of "N-AD" and Late Payment Charge of "N."~~

15. ~~Payments from vouchers with one or more fund 5 cost centers, since fund 5 cost centers do not permit late payment interest (automated in PeopleSoft).~~

G. Late Payment Charge and Payment Reason Code

The default setting for vendors/payees in PeopleSoft is to pay late interest charges when a late payment is made. However, the setting is changed in the vendor file for certain vendors/payees to not pay late charges. Therefore, when one of these vendors is paid, the Late Payment Charge on the voucher should automatically be set to "Not Applicable". For all other vendors, the default Late Payment Charge will be "Compute Charges".

1. If the Late Payment Charge is changed from "Not Applicable" to "Compute Charges" (to force interest payment, if late), one of the following Payment Reason Codes must be selected on the Payments page:

C-AI: Used when PeopleSoft or USAS would incorrectly consider a transaction to be exempt from late charges due to a system limitation.

C-DT: Direct payment of travel expenses to outside vendors which would be subject to late payment interest. Travel object codes in USAS (accounts) are pre-set as not subject to late payment interest because they are primarily used to reimburse employees for out-of-pocket travel expenses.

2. If the Late Payment Charge is changed from "Compute Charges" to "Not Applicable" (to refuse interest payment, if late), one of the following Payment Reason Codes must be selected on the Payments page:

N-NI: No invoice received. Though no invoice was received, the basis for the payment must be provided with the voucher.

N-FC: Federal contract or terms prohibit a timely payment and federal funds are used. ~~This Payment Reason Code is automatically selected on all vouchers with one or more fund 5 cost centers.~~

N-MI: Mailing instructions for the invoice on the purchase order, contract or other instructions provided by the university were not followed.

N-DP: Disputed payment, including disputes over invoices and/or goods or services received. The vendor must have been notified of the dispute within 21 days of invoice receipt or delivery, the department must have documentation of the notification, and the department must have been successful in its dispute..

N-GE: Texas Comptroller's Office exception granted for a specific transaction.

N-AI: Automation issue. Used when PeopleSoft or USAS misclassifies a transaction as subject to or not subject to late payment interest due to system constraints. ~~For instance, USAS object codes for consultants and professional services are pre-set to pay interest on late payments, though they are exempt from the prompt payment law by the definition of "services" in Texas Government Code, Section 2155.001.~~

~~N-AD: Agency discretion exercised. May be used to refuse interest on payments to students, other Texas agencies or universities, and payments between university departments, auxiliaries, service centers and other component universities, if the default Late Payment Charge is not already set at "N." (Notify Accounts Payable to change the default in the vendor file.)   Also used to refuse interest on payments involving agency funds (9XXX) or local fund payments to vendors on hold.~~

N-AP: Advance payment on a transaction, which is paid before delivery of goods or completion of services.

N-ER: Employee reimbursement. May be used to refuse interest on reimbursements to employees if the default Late Payment Charge is not already set to "N." (Notify Accounts Payable to change the default in the vendor file.)

N-AA   State Agency Payment. May be used to refuse interest on payments to other Texas State Agencies.

N-DR   Returned Direct Deposit. May be used to refuse interest on payments made timely, but that were returned due to incorrect banking information provided by the Vendor.

IX.   PAYMENT PROCESSING

A.   Documentation of Payment Processing

The following information related to prompt payment is required on all vouchers and purchaser order (PO) vouchers entered in PeopleSoft:

1.   Goods Receipt Date for the transaction. The Goods Receipt Date is always the date goods are received or services are completed. It is not required to attach documentation of the Goods Receipt Date to the voucher, though departments may do so if the documentation is readily available. The Acceptance Date must be entered to match the Goods Receipt Date.

2.   Invoice Receipt Date. The Invoice Receipt Date must be stamped or otherwise indicated on the face of the invoice. If the Invoice Receipt Date is not documented on the invoice, the Invoice Date will be used as the Invoice Receipt Date.

B.   Deadline for Submission of Vouchers to Accounts Payable

1.   Vouchers payable to external vendors must be submitted to Accounts Payable through electronic workflow no later than 10 business days before the Net Due Date.

2.   Vouchers payable to university employees, prospective employees, and students must be submitted to Accounts Payable through electronic workflow no later than 15 calendar days after all required documentation for payment has been submitted to the department that creates the voucher.

X.   REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice President for Finance

Review: Every three years on or before December 1

XI.   APPROVAL

_____Jim McShan_____
Interim Vice President for Administration and Finance

_____Renu Khator_____
President

Date of President's Approval: _____December 4, 2015_____

XII.   REFERENCES

Texas Government Code, Chapters 2155 and 2251

REVISION LOG

Revision Number	Approved Date	Description of Changes
1	01/07/2000	Initial version
2	02/18/2002	Added definitions of PeopleSoft, Late Payment Change, Net Due Date, Scheduled Due Date and Payment Reason Code to Section III; removed definitions for Interest Control Flag, Reason Code Form, Payment Due Date, Requested Payment Date, and Requested Payment Date Form from Section III. All sections have been updated to comply with recent legislation and to provide updated procedures as a result of PeopleSoft implementation. Made minor redlines to Addendums A, B, and C to reflect current operating standards
3	07/28/2005	Applied revised MAPP template. Added information to Sections II, VII, and VII to reflect current operating requirements
4	09/07/2011	Applied revised MAPP template and added new Revision Log. The Social security number was removed from the list of acceptable vendor identification numbers in MAPP 04.01.10. A requirement to maintain documentation of the Goods Receipt Date during the time that the department retains a copy of the voucher was removed. Guidelines pertaining to receivers were

		also removed throughout the document. The requirement to submit vouchers not needing Accounts Payable's approval within one business day of college/division approval was removed. Section IX.B was modified to indicate that vouchers payable to external vendors are due to AP no later than 10 business days before the Net Due Date and that vouchers payable to employees, prospective employees, and students are due to AP no later than 15 calendar days after the department receives all of the required documentation to create the voucher, which is consistent with guidelines for voucher submission in MAPPs 04.01.03, 04.02.01A, and 04.02.01B. Addendums A, B, and C were removed from the policy and inserted as web links where appropriate. Changed review period from every three years on or before July 15th to every three years on or before December 1st. Removed Index terms

Revision Number	Approved Date	Description of Changes
5	12/04/2015	Removed "that become overdue" in Section II. Revised Section III.B to Payment Cycle, included ACH payments, and updated cycle to Monday through Friday. Added ACH to Section III.D. Updated Section III.F to include information on late charge and not applicable options. Revised Section III.O to remove late payment charge information. Updated Section IX.G for "Not Applicable" and "Compute Charges." Changed Section XI to Interim Vice President for Administration and Finance