



# WISCONSIN ACCOUNTING MANUAL

Department of Administration – State Controller’s Office

<b>Section</b>	<b>05</b>	<b>ACCOUNTS PAYABLE, INTER AND INTRA UNIT PAYMENTS AND TRANSFERS</b>	<b>Effective Date</b>	<b>7/1/2015</b>
<b>Sub-section</b>	<b>02</b>	<b>Prompt Payment Interest</b>	<b>Revision Date</b>	<b>12/04/2020</b>
<b>SAM Ref</b>	<b>5-7</b>			

## BACKGROUND

Pursuant to ss. 16.528 and 16.53, Wis. Stats., the state's prompt payment law provides for payment of interest on orders or contracts that are not made in a timely manner. Payments are considered timely if they are mailed within thirty days after the later of the receipt of a properly completed invoice, or receipt of the goods or services.

Chapter 16 of Wisconsin Statutes also provides exceptions for interest penalties in defined circumstances. These exceptions include payments between state agencies, good faith disputes, orders or contracts where consequences of untimely or non-payment are already provided for, and portions of an order or contract where payment is made from federal funds. However, by Wisconsin Statute, payments from an agency to Prison Industries are not exempt from payment of interest under the prompt payment law.

A good faith dispute occurs if, before the prompt pay interest date, a notice of dispute is delivered to the vendor by first-class mail, personally delivered, or notice is given in accordance with the terms of the contract. A good faith dispute means that the agency contends that the goods or services were of a lesser quality or quantity than ordered, were faulty or installed improperly, or any other reason giving cause for the withholding of payment until the dispute is settled.

Pursuant to s. 16.528(5), Wis. Stats., agencies must submit an annual report on the interest paid under the prompt payment law. This report is statutorily due before October 1 and must include the following:

1. The total number of times interest was paid,
2. The total dollar amount of interest paid for the year,
3. The major reasons why interest payments needed to be made, and
4. The agency's plan for reducing both the number of times interest is paid and the total amount of interest paid.

More specific guidance will be provided annually to agency financial managers in a memorandum from DOA in August.



# WISCONSIN ACCOUNTING MANUAL

Department of Administration – State Controller’s Office

<b>Section</b>	<b>05</b>	<b>ACCOUNTS PAYABLE, INTER AND INTRA UNIT PAYMENTS AND TRANSFERS</b>	<b>Effective Date</b>	<b>7/1/2015</b>
<b>Sub-section</b>	<b>02</b>	<b>Prompt Payment Interest</b>	<b>Revision Date</b>	<b>12/04/2020</b>
<b>SAM Ref</b>	<b>5-7</b>			

## POLICIES

1. Within Voucher Entry in STAR, the following defaults are established:
  - a. Pay Terms: NET30 (Net 30)
  - b. Basis Date Type: Inv Date (From the Invoice Date)
2. Agencies should establish time frames and processing standards necessary to meet the applicable invoice due dates and time frames established by the prompt payment laws to avoid paying prompt payment interest.
3. Cash discounts offered by vendors should be taken, if whenever possible.
4. Where a vendor-vendee relationship does not exist, payments are not subjectable to prompt pay interest. Examples include aid payments to individuals and organizations, local assistance payments, and employee travel reimbursements.
5. For several commodities, such as electric and gas service, penalties exist in the administrative code and the prompt payments statutes, ss. 16.528 and 16.53, Wis. Stats., are not applicable.
6. Deliberately withheld retainage on construction projects is often provided for by contractual agreement(s).
7. Efforts should be made to identify exceptions during the payment process in coordination with the agency purchasing office.
8. Where federal funds are used to pay an invoice either by an immediate charge to a federal appropriation or eventually through a clearing account, or other mechanism, the federal interest penalty exclusion is to be based on the federal match ratio in the grant or contract document. Where the ratios vary by year or in commingled programs, a weighted average percentage of federal participation should be used for determination of the federal exclusion. This weighted average percentage should be adjusted periodically to reflect changes in federal participation.
9. Due to excessive administrative costs agencies may disregard interest penalties under \$5.00 *unless* the vendor requests the payment. The vendor can make the request either specifically or generally and either before the potential occurrence or after its accrual.

## INTEREST CALCULATION

Pursuant to s. 16.528(2)(a), Wis. Stats., interest shall be calculated using the rate specified in s. 71.82(1)(a), compounded monthly.

1. The interest rate established in s. 71.82 (1)(a), Wis. Stats., is 12%.
2. Interest is compounded monthly.
3. A month is defined as 30 days for interest calculation.
4. A year is defined as 360 days for interest calculation.

Agencies should utilize the *Prompt Payment Interest Calculation Workbook* within this section of the *Wisconsin Accounting Manual* to determine the amount of interest due a vendor.