



Management Directive

Commonwealth of Pennsylvania

Governor's Office

Management Directive 305.07 Amended – Interest Penalties for Late Payments

Date: October 26, 2022

By Direction of: 
H. Benjamin Lukens, Jr., Acting Secretary of the Budget

Contact Agency: Office of the Budget
Office of Comptroller Operations
Bureau of Payable Services
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This directive establishes policy, responsibilities, and procedures for the payment of interest penalties on Late Payments by Commonwealth agencies, pursuant to Section 1507 of The Fiscal Code, Act of April 9, 1929, P.L. 343, No. 176, art. XV, § 1507, as amended, 72 P.S. § 1507. This amendment updates policy and responsibilities and deletes the Enclosure.

1. PURPOSE.

To establish policy, responsibilities, and procedures for the payment of interest penalties on Late Payments by agencies, pursuant to *Section 1507 of The Fiscal Code, 72 P.S. § 1507*.

2. SCOPE.

This directive applies to all departments, offices, boards, commissions, and councils under the Governor's jurisdiction and other agencies subject to *Section 1507 of The Fiscal Code, 72 P.S. § 1507* (hereinafter referred to as "agencies").

3. OBJECTIVE.

To provide direction for the payment of interest penalties on Late Payments by agencies to Qualified Small Business Concerns.

4. DEFINITIONS.

- a. **Late Payment.** For the purpose of this directive, Late Payment refers to any payment to a Qualified Small Business Concern for property or services rendered and for which the Payment Date occurs more than 15 days after the Required Payment Date.
- b. **Payment Date.** The date of a check, the deposit date of a scheduled electronic funds transfer, including, but not limited to, Automated Clearing House (ACH) payments, or the date of a wire transfer.
- c. **Qualified Small Business Concern.** Any independently owned and operated for-profit business concern employing 100 or fewer employees and not a subsidiary or affiliate of a corporation otherwise not qualified.
- d. **Required Payment Date.** The date on which payment is due under the terms of a contract; 30 days after receipt of a proper invoice if a date on which payment is due is not specified in the contract; or the net payment date stated on the invoice, if later than the aforementioned dates.

5. POLICY.

- a. Pursuant to *Section 1507 of The Fiscal Code, 72 P.S. § 1507*, and *4 Pa.Code §§ 2.31--2.40*, agencies shall pay an interest penalty, to a Qualified Small Business Concern upon notification and verification of a Late Payment.
- b. Interest shall be computed at the rate determined by the Secretary of Revenue as provided in *Sections 806 and 806.1 of The Fiscal Code, 72 P.S. §§ 806 and 806.1*.
- c. Interest shall be paid by a separate payment within 30 days of notification and verification of a Late Payment. The amount of an interest penalty that remains unpaid at the end of each successive 30-day period will become the principal amount upon which subsequent interest shall accrue.

6. RESPONSIBILITIES.

- a. **Agencies shall:**
 - (1) Direct inquiries regarding possible Late Payments from Qualified Small Business Concerns to the [Office of the Budget website](#).
 - (2) Assist Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services (BPS), as needed, in determining the amount of interest due on Late Payments.
 - (3) Receive invoices for the payment of interest penalties from BPS and post to the SAP enterprise resource planning system (hereinafter referred to as "SAP").
 - (4) Review occurrences of Late Payments and take corrective action, as needed, to prevent or reduce the risk of additional Late Payments.

- b. BPS shall:**
- (1)** Assess notifications from agencies and Qualified Small Business Concerns of possible Late Payments, including a review of each invoice and accounting transactions related to the invoice, and determine if such payments meet the definition of Late Payments.
 - (2)** Notify agencies of the outcome of any assessment of possible interest penalties.
 - (3)** Consult the agency, as needed, regarding the amount of interest due on Late Payments and provide an invoice and supporting documentation to the agency to process the payment in SAP.
 - (4)** Notify Qualified Small Business Concerns when an assessment results in a determination that a payment does not meet the definition of a Late Payment.

7. PROCEDURES.

a. Agency. Directs Qualified Small Business Concerns to complete the [QSBC Late Payment Form](#).

b. BPS.

- (1)** Receives the QSBC Late Payment Form from the Qualified Small Business Concern.
- (2)** Reviews the details of the payment for accuracy and propriety, including accounting transactions related to the invoice and the Payment Date, and determines if the payment was issued late in accordance with *4 Pa. Code §§ 2.31--2.40*.
 - (a)** If the payment was issued late, calculates the interest penalty using the rate determined by the Secretary of Revenue and provides an invoice and supporting documentation to the agency to process the interest penalty payment in SAP.
 - (b)** If the payment was not issued late, notifies the Qualified Small Business Concern of the determination.

c. Agency. Posts an invoice in accordance with the [Agency Non-PO Invoice Processing Procedure Manual](#) to pay the interest penalty to the Qualified Small Business Concern.

This directive replaces, in its entirety, *Management Directive 305.7 Amended*, dated March 10, 2014.