

Penalty for Late Payment to Vendors

A. General

KRS 45.451 to KRS 45.458, enacted by the 1984 General Assembly, states that effective January 1, 1985, the University of Kentucky is required to pay all invoices within thirty (30) working days of the receipt of a satisfactory vendor's invoice and satisfactory delivery of goods and services. Failure to pay obligations as required will result in a penalty of one percent of the amount due for each full or part month that the payment exceeds thirty (30) days. The one percent penalty will be charged as an operating expense to the responsible organizational unit. If the department determines that the vendor has not delivered the goods/services as ordered or that the billing is not correct, the vendor should be notified in writing so that the thirty (30) day payment period will not apply.

The thirty (30) working days period begins on the day the good or services are received. For partial shipments, the thirty (30) day period would begin on the day the last shipment is received. If the goods or services have been received but the vendor's invoice has not been received, then the thirty (30) day period will begin when the vendor's invoice is received.

B. Procedures

1. Record of Receipt of Goods/Services and Vendor's Invoice

Departments must maintain a record of when goods and/or services were received. If the payment requires the use of a Vendor Invoice Transmittal and Payment Authorization form, the date the goods/services were received must be indicated on the form.

2. Notification to Vendor for Improper Performance

Departments receiving goods/services are responsible for making payments to vendors within the thirty (30) working day period or notifying the vendor in writing that there is a problem with the shipment or invoice. The vendor must be sent a letter of notification with the pertinent details so that the thirty (30) day period will not apply. Be sure to keep on file a copy of the notification to the vendor.

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Notification to the vendor of improper performance may be the result of one or more of the following:

- a. Shortage of goods received
- b. Incorrect billing
- c. Damaged goods
- d. Wrong type of goods received
- e. Contracted services incomplete
- f. Materials or equipment which do not operate properly

3. Payment Process

In order for the Accounts Payable Department to process payments, payment documents must be received in the Accounts Payable Department ten (10) working days prior to the end of the thirty (30) working day period. This is necessary to ensure that the documents include proper documentation, that sufficient funds are available for processing the payment, and that adequate time is allowed for the check to be written and mailed to the vendor.

4. Payment of Penalty

Departmental Authorization Vouchers and Vendor Invoice Transmittal and Payment Authorizations that are processed too late for the check to be issued within the thirty (30) day period must include the one percent penalty. It is the responsibility of the initiating department to include the penalty on the payment document.

On-line receiving for Purchase Orders must also be completed at least ten (10) working days prior to the end of the thirty (30) working day period to allow time for a check to be printed and mailed to the vendor. It is the responsibility of the department to authorize payment of the one percent (1%) late payment penalty when appropriate. The department must notify the Accounts Payable Department in writing when a late payment penalty should be paid. The notification must include:

- a. Vendor Name
- b. Purchase Order Number
- c. Amount of the penalty payment
- d. Account Number to be charged

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A department charged for a penalty as a result of another department delaying the payment process will have the responsibility of providing proof for transferring the penalty charges to that department. When necessary, the Treasurer shall determine which department caused the penalty and shall charge or prorate the penalties accordingly.

5. Ways to Avoid Penalties
 - a. Stamp or write the date the invoice is received on the original invoice and the payment document.
 - b. Complete all paying documents on a timely basis to ensure that they are received by Accounts Payable Department ten (10) working days prior to the end of the thirty (30) day period. All departments should have sufficient persons available to handle payment of documents in case of vacations and absences.
 - c. Immediate notification must be made to the vendor if there is a problem in making payment within the thirty (30) day period.