

Paying Prompt Attention: Complying with Prompt Payment Act in SAP, Part I

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Does living and working in Washington D.C. make FI/CO expert Anurag Barua more aware of compliance issues? Perhaps, but his attention to this issue is a definite boon for SAPtips readers. In this first part of a two-part series, Anurag lays out the overall landscape of the Prompt Payment Act, its features, and how SAP's functionality supports its compliance. He shows us how the PPA is tightly integrated with the purchase-to-pay cycle, and presents three relevant scenarios in the purchase-to-pay cycle. Anurag wraps up the discussion with an overview of the key PPA concepts used in SAP. In Part II, he will take you through the configuration aspects.

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Paying Prompt Attention: Complying with the Prompt Payment Act in Your SAP System, Part I

By Anurag Barua, The Washington Post

Editor's Note: Does living and working in Washington D.C. make FI/CO expert Anurag Barua more aware of compliance issues? Perhaps, but his attention to this issue is a definite boon for SAPtips readers. In this first part of a two-part series, Anurag lays out the overall landscape of the Prompt Payment Act, its features, and how SAP®'s functionality supports its compliance. He shows us how the PPA is tightly integrated with the purchase-to-pay cycle, and presents three relevant scenarios in the purchase-to-pay cycle. Anurag wraps up the discussion with an overview of the key PPA concepts used in SAP. But stay tuned for Part II of his white paper (in the February/March issue of SAPtips), where he will take you through the configuration aspects.

Introduction

If you are a vendor or service provider and your customers pay you on time (as defined in your negotiated terms of payment), you are happy. You are happy because you have a smaller AR balance, you do not have to send dunning letters to your customers, and you do not have to get into the unpleasant situation of having to refer the delinquent accounts to a collection agency. You are even happier if the customers pay very early (as defined in the negotiated terms of payment) and you express your gratitude by offering them a **cash discount**. By the same token, if they pay you very late (beyond the negotiated grace period), they should incur some sort of a fine or late payment. Indeed this happens today in standard SAP releases in the form of "interest on arrears", meaning you can configure your system to calculate and pay interest on items that are paid beyond their net due date.

If you are a US Federal Government Agency, federal legislation mandates that if you do not pay your vendor on or before the net due date, you incur **penalties**. This is one aspect of the legislation known as the Prompt Payment Act (PPA). This act grew out of the Debt Collection Improvement Act (DCIA) of 1996, and its regulations are contained in OMB (Office of Management and Budgeting) Circular A-125. The PPA came into effect on October 29, 1999. In this first part of this two-part series, I will provide you with an overview of the act, its features, and how SAP's functionality supports compliance with the PPA.

The PPA is an integral component of SAP financials for the Public Sector. In the pre-SAP Enterprise world, you would need to be running IS-PS 4.62 (on standard R/3 4.6C) to use it. In the SAP Enterprise world, activating the PS (Public Services) Enterprise Add-On gives you the ability to use it. And if you are already on mySAP® ERP, you will find the PPA in the ECC (ERP Central Component).

What Are the Primary Features of the PPA?

Below are some of the major features of the act. The act, in all its details, is available for review at www.fms.treas.gov/prompt/.

- 1) Pay vendors of the goods and/or services consumed in a timely manner. This does not imply that an Agency must take a discount offered by a vendor (by paying early). "Timely" means paying as close to the due date as possible *if this is economically justified*.
- 2) Pay for goods consumed and/or services completed no later than 30 days of the later of the goods receipt/completion of service or receipt of invoice for the same goods or service. There are a couple of exceptions to this default of 30 days. For certain commodities like meat and dairy products, payment is due within 7 days of delivery of the goods. For certain other



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perishable commodities, payment is due within 10 days of the receipt of an invoice (that is deemed "proper").

- 3) Pay penalties (or penalty interest) for any invoices that are paid after the net due date. If the penalty amount is \$1 or less, you do not have to pay it. The PPA clock stops at 365 days, meaning if you have not paid an invoice for over 365 days, your penalty interest is computed on 365 days only.
- 4) Goods/services are considered received when they are accepted by the agency. If time taken to accept the goods/services exceeds the agreed-upon acceptance period, they are considered accepted by default.
- 5) An invoice can be considered a basis for the payment only if it is complete in all respects. Furthermore, every agency should make every effort to review an invoice as soon as practicable, after receipt. If it is deemed "improper", barring certain special cases, the PPA allows 7 days to return it to the vendor for re-submission.

How Does SAP Satisfy the PPA Requirements?

Certain aspects of the PPA made it a challenge for us to design a way to support the PPA in SAP. We found that often there were differences in the interpretations of the requirements among agencies. The requirements themselves seem to change and as we all know, aiming at a moving target is never easy. Nonetheless, we took on this challenge and this functionality was made generally available (GA) for the first time in IS-PS (Industry Solutions-Public Sector) version 4.62 of R/3 standard version 4.6C. Major enhancements were made in EA-PS (Enterprise Add-On for Public Services) version 1.1 and 2.0 of SAP Enterprise 4.7. And as we've noted, if you are using mySAP ERP, the PPA is in the ECC (ERP Central Component).

The PPA is tightly integrated with the purchase-to-pay cycle. There are three scenarios in the purchase-to-pay cycle that are relevant to the PPA. They are shown in **Figure 1**. Certain assumptions common to the three scenarios are not shown in the diagram:

1. A purchase order (P.O.) can be preceded by a purchase requisition (P.R.), but the latter is not a prerequisite for a P.O. **A P.O. is a prerequisite for the PPA and, with relation to the Act, is considered the contract between the vendor and the customer.**
2. It is important to note that the three scenarios are depictions of business processes from a vendor's perspective. '
3. The goods can be returned if they are defective, and the customer/agency is not held liable for the extra time that this adds to the process. The goods receipts do not have to be in toto, they can be partial.
4. An invoice can be returned to your vendor as an 'improper invoice' if it does not satisfy every single criterion of the PPA. The customer/agency is not held liable for the extra time that this adds to the process.