

Chapter 11

Authorization to Begin Performance, Review and Acceptance, Invoicing and Payment

11.1. Authorization to Begin Performance

The State contract must include the mechanism, such as a purchase order release or otherwise specified method that authorizes the contractor to begin performance. This Chapter applies to multi-year contracts and purchase order contracts (as defined in Chapter 10) and does not apply to the Alternative Purchasing Methods that are identified in Chapter 10, Section 10.2.2.

11.2. State Review and Acceptance

The delivery of goods, services and other contract deliverables does not constitute State acceptance. All goods, services, and other contract deliverables are subject to the inspection, testing, and other appropriate review outlined in the State contract.

11.2.1. Delivery of Goods - Shipping Terms – Loss or Damage in Transit

The standard shipping term is FOB destination. This means that the risk of loss remains with the contractor during transit and up to State acceptance. Any claim for loss or damage incurred before State acceptance must be made by the contractor to the carrier directly.

11.2.2. Inspection and Acceptance - Goods

Goods delivered by the contractor must be inspected and either accepted or rejected. Inspection should be completed as soon as possible, but at a minimum in accordance with the contract terms. Acceptance constitutes the State's acknowledgment that the goods conform to the quality and quantity requirements identified in the contract.

Inspection of used equipment should be performed prior to the purchase to validate the value before acceptance.

11.2.3. Inspection and Acceptance - Services

For service contracts, inspection and acceptance may be upon the completion of stated tasks or timely achievement of milestone events defined in the contract. Acceptance constitutes the State's acknowledgment that the services conform to the quality and other requirements identified in the contract.

11.3. Contractor Invoicing

The State is responsible for the payment of all invoices for goods and services in accordance with the payment terms of the State contract. The State must not pay any invoice, unless an exception applies (see [Part II – Accounting and Financial Reporting Policies, Chapter 23 of](#)

[the Financial Management Guide](#)) without a corresponding State contract and the State's affirmative receipt and acceptance of the good or service.

11.3.1. Invoicing and Billing Requirements

The State contract must describe the appropriate invoice requirements. The contractor's invoices and statements should include the following information:

- Contractor name, address, and FEIN
- Purchase order contract or multi-year contract number
- Name and address of the ordering State agency, and zip code
- Itemized and detailed list of goods, quantities, agreed prices
- Invoice number and total price
- Contracted payment remit date
- Discount, if applicable
- Date of order and shipping date, and
- Back order amount, if any and shipping date

11.3.3. Taxes

The State is exempt from all sales, use and excise taxes, and any other similar taxes, duties and charges of any kind imposed by any federal, state, or local governmental entity on any amounts payable by the State. Upon request, the State will provide the contractor with a [tax exempt certificate](#). Contact can be made with the Department of Treasury, Sales and Use Tax Technical Services Division at 517-636-4357 with any questions regarding taxes.

11.4 Payment

State contracts must have an appropriate payment stream (i.e. payment schedule that has the appropriate payment at the time of major milestones and only after the acceptance of deliverables; etc.). Payment for goods or services must be made after the State's affirmative acceptance that the goods or services conform to the contract requirements. The business area or program manager must serve as a resource to the State entity's accounts payable personnel to ensure that all invoices comply with the terms and conditions of the contract, that the contractor is only billing for goods or services received and accepted by the State, and that the total payments do not exceed the contract limits and do not include exempt taxes. The business area or program manager must also ensure that applicable deductions for credits are applied. The payment of any invoice must be made pursuant to [Part II – Accounting and Financial Reporting Policies, Chapter 23 of the Financial Management Guide](#).

The following subsections provide additional policy governing the payment.

11.4.1 Prompt Payment - Net 45

Unless otherwise provided in writing, the State will take all steps necessary to pay a contractor within 45 calendar days after receipt of an undisputed invoice, or the State's receipt and acceptance of the goods or services, whichever is later.

11.4.2. Late Fees

If payment is past due, the State will pay the contractor a late fee as may be required by [PA 279 of 1984, MCL 17.51. et seq.](#) The late fee will be 0.75% of the payment due for the first month and each succeeding month or portion of a month the payment remains due. This late fee shall not be assessed if payment is overdue because 1) there is a good faith disagreement with the contractor and it has not been resolved in the contractor's favor; 2) there is an executive order budget cut; or 3) the State has already paid a penalty charged by the contractor.

11.4.3. Prompt Payment Discounts

Prompt payment discount refers to a reduction in the invoice price due to the State's payment of the invoice in advance of the payment due date. If the State is entitled to a discount, but the invoice does not reflect the existence of a prompt payment discount, and the State pays the invoice, the State is entitled, upon demand, to a credit in the amount of such discount.

11.4.4. Withholding Payment and Payment Disputes

In an effort to protect the interest of the State, in the appropriate circumstances determined by the purchasing professional, it may be necessary to withhold payment from contractors. Examples of circumstances, if not contained in the contract, where it may be necessary to withhold payment, include:

- A material breach of the contract by the contractor
- Errors in the invoice
- Unsupported or undocumented costs
- To remedy previous overpayments on the same contract
- Contractor's performance is nonconforming or unacceptable
- Invoices for travel that are not in compliance with Michigan's travel regulations

Any circumstance justifying withholding payment should be documented by the State in writing and maintained as part of the procurement file.

11.5. Payment Methods

Contractors providing goods or services to the State will be paid through electronic funds transfer. In limited situations a contractor may receive payment through other methods. Furthermore, to ensure timely payment to the Contractor and the collection of appropriate spend data, the acceptable payment method must be identified in every State contract. The payment methods are described below.

11.5.1. Electronic Funds Transfer

Contractors must register for electronic funds transfer (EFT) on the [Contract & Payment Express system](#). Contractors must provide a tax identification number, banking information, and other information when registering. Registration on this system must be completed prior to contract award.

11.5.2.

Procurement Card

Payment for Single Purchase \$2,500 or Less

A procurement card may be used for any single state purchase \$2,500 or less in compliance with the [Administrative Guide Procedures](#) and the [Procurement Card Program cardholder and agency manuals](#).

Payment for Purchase on Existing State Contract

With advance written approval from the Central Procurement Office, the procurement card may also be used for the payment of goods obtained under an existing State contract.

Procurement card purchases must be made in accordance with Chapter 5 of the Michigan Procurement Policy Manual, the [Administrative Guide Procedures](#) and the [Procurement Card Program cardholder and agency manuals](#).

11.5.3.

Warrant

In limited circumstances, with the approval of the Office of Financial Management, a paper check may be issued to a contractor for payment of a good or service.

11.6. Processing of Contract Payments – Recording Expenditures in MAIN

In accordance with Chapter 23, Section 100 of the State of Michigan Financial Management Guide, and to ensure the collection of appropriate spend data, payments made to contractors must be properly processed in the State’s financial accounting system (MAIN). MAIN consists of ADPICS (the State’s procurement software system) and R*STARS (the State’s accounting, budgetary control, and financial reporting software system).

11.6.1.

ADPICS - Processing of Contract Payments – Reference to State Contract

All contract payments must be processed by issuing an ADPICS voucher or an ADPICS direct voucher. Each payment must identify the State contract number referenced.

11.6.2.

ADPICS Processing – Exceptions to Section 11.6.1. Reference to State Contract Requirements

In limited situations, as identified in Chapter 23, Section 100 of the State of Michigan Financial Management Guide, or upon approval of the Office of Financial Management and the Chief Procurement Officer, a payment can be made to a contractor directly through the accounting system. The agency should maintain a system to accumulate expenditure data associated with these specific transactions to ensure accurate annual reporting of contractual personal service expenditures to the legislature.