



State of California • Arnold Schwarzenegger, Governor  
State and Consumer Services Agency

DEPARTMENT OF GENERAL SERVICES  
Procurement Division

---

**PROMPT PAYMENT  
TOOL KIT  
For  
SMALL BUSINESS ADVOCATES**

**Purpose:** To provide valuable resource information for training Advocates and executive management on Prompt Payment requirements.

**Contact:** Department of General Services  
Procurement Division  
Purchasing Authority Management Branch  
Lea Fox (916) 375-4351 and [lea.fox@dgs.ca.gov](mailto:lea.fox@dgs.ca.gov)

## EXECUTIVE SUMMARY OF PROMPT PAYMENT ISSUE

In Fiscal Year 2002 - 2003, the state paid \$4.9 million in late payment interest penalties to contractors, pursuant to the California Prompt Payment Act (California Government Code Section 927 et seq.).

Many of these contractors are small businesses (SB) and disabled veteran business enterprises (DVBE) that do not have the financial reserves to buffer late payments. An Administrative directive to increase state contracting with California SB/DVBE firms has heightened state executive management's attention to this prompt payment issue.

According to Department of General Services (DGS) statistics, the biggest cause for payment delays is that "end users" who receive goods and services do not approve and forward invoices to accounting offices in a timely manner. The Prompt Payment Act (copy attached) requires payment of an undisputed invoice within 45 days of receipt **at the location identified in the purchase document as "billed to" or "invoice submitted to" for payment.** If the invoice is not date-stamped upon receipt, the 45-day cycle begins on the date the contractor issued/prepared the invoice. Still, many end users delay this administrative work in lieu of their program work, although the firms, with which they have contracted for goods and services to help accomplish their goals, have delivered on time and in good faith.

With executive management support, invoices can be processed timely and fewer contractors will become frustrated with the bureaucracy, the state will save money, and more quality businesses will want to participate as state partners.

# PROMPT PAYMENT PROGRAM ADVOCACY

## PUBLICATION RESOURCES

### TABLE OF CONTENTS

<b>1</b>	SUMMARY AND DIRECTORY OF PROMPT PAYMENT ACT	This summary of California Government Code, Section 927, is a reference that answers FAQ's about what is specifically required of agencies regarding payments to contractors ( <a href="http://www.pd.dgs.ca.gov">www.pd.dgs.ca.gov</a> . Select "Prompt Payment Program, then click "Go").
<b>2</b>	CONTRACTOR FAQ	In addition to the <i>Summary</i> and the <i>Directory</i> (at <a href="http://www.pd.dgs.ca.gov">www.pd.dgs.ca.gov</a> . Select "Prompt Payment Program, then click "Go"). Use this section to assist contractors who request help navigating state invoice and payment processes, and to clarify proper expectations for state payment timeliness.
<b>3</b>	STATE DEPARTMENT FAQ	In addition to the <i>Summary</i> (at <a href="http://www.pd.dgs.ca.gov">www.pd.dgs.ca.gov</a> . Select "Prompt Payment Program, then click "Go"). Use this section to provide information to departmental staff about the Act, and to clarify requirements of the law and the Legislature's intentions.
<b>4</b>	SAMPLE FLOWCHART OF INVOICE PROCESS	This is an "at a glance" look at the typical state invoice payment process.
<b>5</b>	EXCERPT FROM THE STATE ADMINISTRATIVE MANUAL CHAPTER 8400, DISBURSEMENTS, PENALTY CALCULATION PROCESS	This is a copy of the SAM section that instructs state departments on how to calculate late payment penalty amounts. An example calculation is included.
<b>6</b>	CALIFORNIA GOVERNMENT CODE SECTION 927, THE CALIFORNIA PROMPT ACT	Contains full text of the law.

**CALIFORNIA PROMPT PAYMENT ACT**  
**GOVERNMENT CODE, SECTION 927, STATUTES OF 1999**  
**SUMMARY**

Frequently Asked Questions	Small Business (Incl. Non-Profits with Contracts <\$500k and Gross Receipts <\$5m)	All Other Businesses
When is payment due? <ul style="list-style-type: none"> <li>Specified contract term</li> <li>No date set forth in contract</li> </ul>	Date set forth in contract (GC 927.1a) and within 45 calendar days (GC 927b)	Date set forth in contract (GC 927.1) and within 45 calendar days (GC 927b)
When does payment clock start?	The date of receipt of an undisputed invoice by department personnel is equal to Day Zero (GC 927 & 927.4).	The date of receipt of an undisputed invoice by department personnel is equal to Day Zero (GC 927 & 927.4).
What if invoice is disputed (for good cause) within 15 working days?	Stops penalty clock until dispute resolved (GC 927.3)	Stops penalty clock until dispute resolved (GC 927.3)
When do penalties begin accruing? <ul style="list-style-type: none"> <li>State agency</li> <li>State Controller</li> </ul>	<p>The day after payment due date per contract; if no payment date in contract, on the 31<sup>st</sup> day after receipt of invoice (i.e., the day after the “<b>required payment approval date</b>”) (GC 927.4)  <i>Example: An invoice received on March 1<sup>st</sup> would begin accruing interest on April 1<sup>st</sup> if not submitted to the State Controller on or before March 31<sup>st</sup> (Day Zero = 3/1 plus 30 days = 3/31).</i></p> <p>On the 16<sup>th</sup> day after receipt of the state agency claim (GC 927.4)</p>	<p>The day after payment due date per contract; if no payment date in contract, on the 31<sup>st</sup> day after receipt of invoice (i.e., the day after the “<b>required payment approval date</b>”) (GC 927.4)  <i>Example: An invoice received on March 1<sup>st</sup> would begin accruing interest on April 1<sup>st</sup> if not submitted to the State Controller on or before March 31<sup>st</sup> (Day Zero = 3/1 plus 30 days = 3/31).</i></p> <p>On the 16<sup>th</sup> day after receipt of the state agency claim (GC 927.4)</p>
When do penalties stop accruing? <ul style="list-style-type: none"> <li>State agency</li> <li>State Controller</li> </ul>	<p>The day claim schedule is submitted to Controller (GC 927.6a) or check is issued from Revolving Fund.</p> <p>The date warrant is issued (GC 927.7)</p>	<p>The day claim schedule is submitted to Controller (GC 927.6a) or check is issued from Revolving Fund.</p> <p>The date warrant is issued (GC 927.7)</p>
What is the penalty rate?	0.25% per calendar day (GC 927.6a) (Factor per day = 0.0025)	PMIA plus 1% (not to exceed 15%) (GC 927.6b); the 2005-2006 rate is <b>3.256%</b> (Factor per day = 0.0000892)
Is a separate penalty invoice required?	No; departments must automatically calculate and pay penalties as incurred (GC 927b & 927.6a)	No; departments must automatically calculate and pay penalties as incurred (GC 927b & 927.6a)
Is there a minimum payment?	No minimum (GC 927.6a)	No payment under \$75.00 (GC 927.6b)
Can penalties be waived?	Penalties may not be waived, altered, or limited by the state agency or the contractor (GC 927.1b) except for non-profits when there is no budget (GC 927.11b), and declaration of major disaster (GC 927.11c)	Penalties may not be waived, altered, or limited by the state agency or the contractor (GC 927.1b) except for fire season emergency (GC 927.11a), and declaration of major disaster (GC 927.11c)
What if there is no Budget Act?	Penalties shall accrue to small businesses until invoice is paid (GC 927.11d); non-profits will <b>not</b> be paid penalties (GC 927.11b)	Penalties shall accrue until the invoice is paid (GC 927.11d)

**CALIFORNIA PROMPT PAYMENT ACT  
GOVERNMENT CODE, SECTION 927, STATUTES OF 1999  
SUMMARY**

Frequently Asked Questions	Small Business (Incl. Non-Profits with Contracts <\$500k and Gross Receipts <\$5m)	All Other Businesses
Are penalties applicable to: <ul style="list-style-type: none"> <li>• Medi-Cal Claims?</li> <li>• Advances?</li> <li>• Non-profit organizations?</li> <li>• Local entities?</li> </ul> How about subcontractors?	Yes (GC 927.5), when such small businesses are located in California (GC 927.2j) The law makes no provisions for advances  Yes, if contract <\$500,000 (GC 927.7) No, the law specifically refers to "contracts with a business" (GC 927.1) rather than with public entities as defined in GC 811.2 Agencies shall encourage contractors to promptly pay their subcontractors (GC 927.10)	Special provisions apply (GC 927.5)  The law makes no provisions for advances  No (GC 927a) No, the law specifically refers to "contracts with a business" (GC 927.1) rather than with public entities as defined in GC 811.2 Agencies shall encourage contractors to promptly pay their subcontractors (GC 927.10)
Are there any exceptions?	No exceptions	1. 30-day payment extension in a declared fire season emergency (GC 927.11a); 2. In major calamity, disaster or criminal act, penalty suspended (until reinstated) by Director of Finance (GC 927.11c)
Are any reports required?	Annual report (identifying number of penalty payments and dollar amount) to the Director of DGS 90 days after the end of the fiscal year (GC 927.9)	Annual report (identifying number of penalty payments and dollar amount) to the Director of DGS 90 days after the end of the fiscal year (GC 927.9)

Please see additional information at our web site: [www.pd.dgs.ca.gov/promptpay/](http://www.pd.dgs.ca.gov/promptpay/)

- Select *Prompt Payment Toolkit* for detailed information and more.
- Select *Directory of State Payment Offices* to locate the proper accounts payable telephone number and address of specific State offices.
- To view California Laws, including Government Code (GC) and Public Contract Code (PCC), please go to [www.leginfo.ca.gov](http://www.leginfo.ca.gov).
- Regarding Construction Contract Payments, please see Public Contract Code Section 10261.5 at [www.leginfo.ca.gov](http://www.leginfo.ca.gov).
- Contractors who have specific questions about invoice status: Please contact the Small Business Advocate for the subject department. The Small Business/DVBE Advocates Directory is located at: [www.pd.dgs.ca.gov/smbus](http://www.pd.dgs.ca.gov/smbus).

More questions? Feel free to contact:  
 Lea Fox at (916) 375-4351 and [lea.fox@dgs.ca.gov](mailto:lea.fox@dgs.ca.gov)

**PROMPT PAYMENT PROGRAM  
ADVOCACY  
CONTRACTOR FAQ'S**

The role of the Prompt Payment Advocate is to assist contractors who request help navigating state invoice and payment processes and to clarify the requirements of the California Prompt Payment Act. State payment procedures are not always obvious to contractors and they can become confused and frustrated by this lack of understanding. Although each state department has its own accounting processes, there are some basic requirements for processing invoices to payment that are consistent across most departments (see Sample Flowchart of Invoice Process).

Here are some of the questions most frequently asked by contractors, in addition to those addressed in the Summary, along with appropriate answers:

QUESTION	ANSWER
How can I find out when my invoice will be paid?	<p>You will find a link to the <i>Directory of State of California Payment Offices</i> in our Prompt Payment Program website at: <a href="http://www.pd.dgs.ca.gov">www.pd.dgs.ca.gov</a>. Select "Prompt Payment Program" from the pull-down search window then click on "Go." Look up the contracting department in the <i>Directory</i> and telephone the appropriate accounting office. Ask the staff two questions: 1) When can I expect payment of my invoice #NNN? (Be prepared to fax a copy) and; 2) If late payment penalties are owed to me, can I expect to receive them included with the invoice payment or will they be coming to me in a separate check? Document these answers, including the name of the employee and the date you had the conversation, so that you can follow-up at a later date should that be necessary.</p> <p>Note: It may be necessary or helpful to summarize the Act: Basically, the Act requires payment of an undisputed, properly submitted invoice within 45 calendar days of invoice receipt, or delivery or acceptance of the subject goods or services, whichever is later, to avoid accruing late payment penalty interest. Direct the contractor to the linked <i>Summary of the Prompt Payment Act</i>, also within the Prompt Payment Program website, which provides answers to questions frequently asked about the Act, including the current penalty interest rates, the impact of an Invoice Dispute Notification, minimum penalty payments, etc.</p>
Are all state departments subject to the Act?	<p>No. These entities are not subject to the Act:</p> <ul style="list-style-type: none"> <li>• The University of California system</li> <li>• The California State Universities</li> <li>• The Judicial Branch (e.g., Courts)</li> <li>• The Legislative Branch</li> </ul>
Does the Act apply to local agencies?	<p>No. The Act applies only to contracts between a state department and a business.</p> <p>Note: When a contractor is researching whom to contact regarding payment on a local agency (i.e., school district, city, county, etc.) contract, suggest they locate and telephone the entity's accounts payable office.</p>

**PROMPT PAYMENT PROGRAM  
ADVOCACY  
CONTRACTOR FAQ'S**

QUESTION	ANSWER
What if my invoice was scheduled for payment by the department with the SCO more than 15 days ago and I have not yet received the check?	It is not appropriate for the contractor to contact the SCO directly. Rather, ask the accounts payable staff of the submitting department to trace the warrant from its issue date. If necessary, the SCO will stop payment on the missing warrant and issue a new one; this may take several weeks.
If my unpaid invoice was submitted in a prior fiscal year and my company is not certified as a small business, how can I determine which penalty interest rate to apply?	The penalty rate factor for non-small businesses changes each fiscal year. The Dept. of Finance (DOF) sets the Pooled Money Investment Account (PMIA) rate annually on June 30 <sup>th</sup> and adds one percent to it to arrive at the rate at which late payment penalties are to be calculated by state departments. The rate differs each year because it is dependent upon the relative average rate of pooled investment markets. The penalty interest rate for non-small businesses: <ul style="list-style-type: none"> <li>• In FY 2001 – 2002 = 7.104% (Factor per day = 0.0001946)</li> <li>• In FY 2002 – 2003 = 4.445% (Factor per day = 0.0001218)</li> <li>• In FY 2003 – 2004 = 3.152% (Factor per day = 0.0000864)</li> <li>• In FY 2004 – 2005 = 2.532% (Factor per day = 0.0000694)</li> <li>• In FY 2005 – 2006 = 3.256% (Factor per day = 0.0000892)</li> </ul> The minimum late payment penalty must be \$75.00 or it is waived. See Late Payment Penalty Calculation Example attached.
How do I calculate the amount of the late payment penalty I believe I am owed?	Refer to SAM Section 8474.3, Penalty Calculation, for instructions and a copy of the form, Std. 208, used by state departments to calculate late payment penalties. See copy and an example, attached.
I supplied goods/services to the Dept. of Forestry during fire season. Does this make a difference?	Yes, if the business is not certified as small or a nonprofit corp. The 45-day requirement is extended by 30 days for non-small businesses during fire season, which is established by the Director of CDFD each year.
If payment is due to me while there is no Budget Act and the payment is late, do late penalties still accrue?	Yes, unless the contractor is a nonprofit public benefit corporation.
I received payment directly from the department, not the SCO, between 30 and 45 days after invoice receipt. Are late penalties due?	No, as long as payment is issued within a total of 45 days, regardless of it's being processed by the SCO or from the department's revolving fund.
My invoice was disputed and now the dispute is resolved. When does the 45-day processing period begin?	Day Zero of the payment process time clock is the date the dispute is resolved.

**PROMPT PAYMENT PROGRAM  
ADVOCACY  
STATE DEPARTMENT FAQ'S**

The role of the Prompt Payment Advocate is to provide information to departmental staff about the California Prompt Payment Act and to clarify how the requirements of the Act impact state payment processes.

State departmental employees aren't always privy to current requirements of the Act and may misunderstand how to apply the law to their payment processes. Experience shows this is especially evident when the Legislature delays passing the annual budget for the state. Although each state department has its own accounting processes, there are some basic requirements for processing invoices to payment that are consistent across most departments (see Sample Flowchart of Invoice Process).

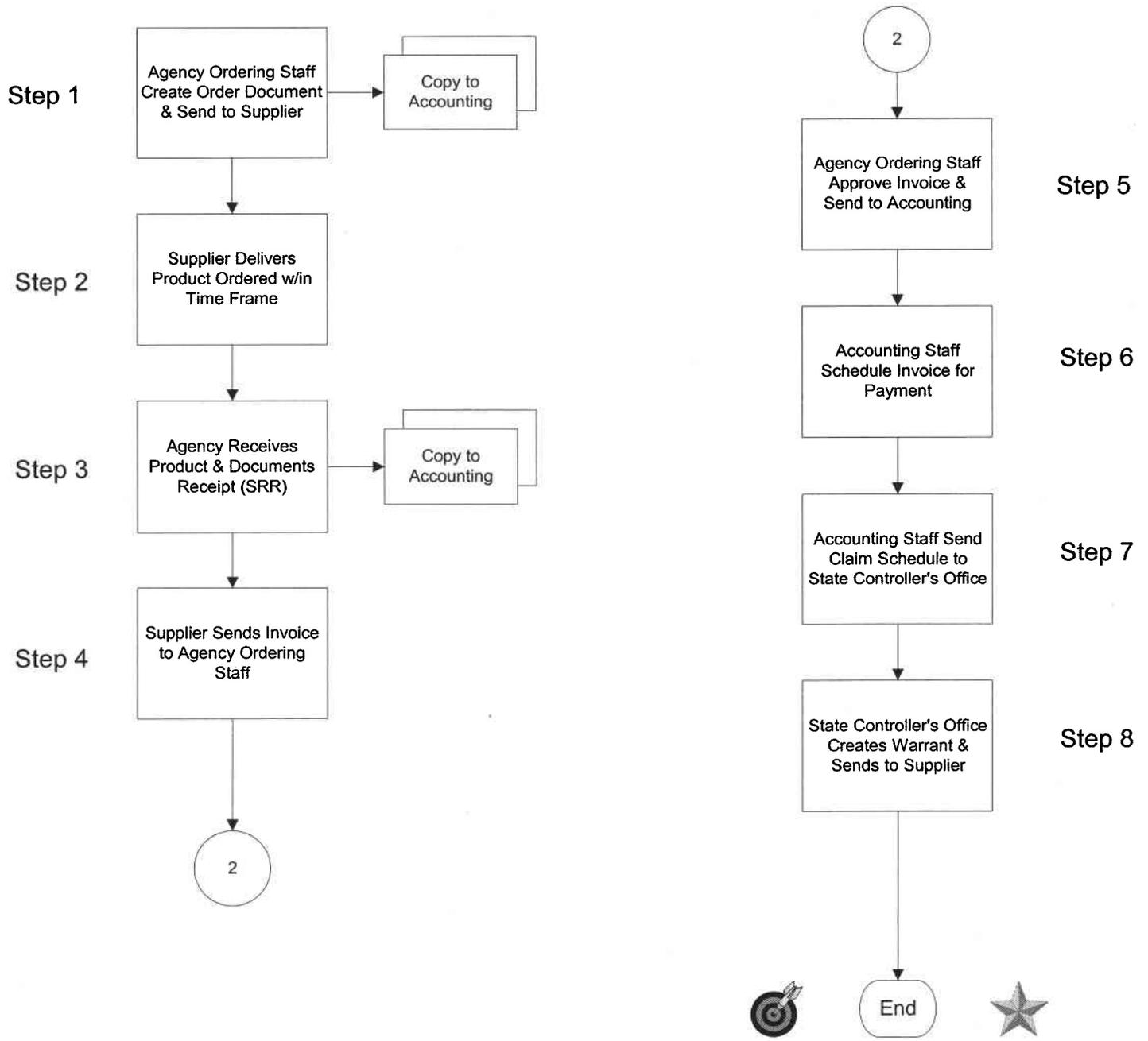
Here are some of the questions most frequently asked by departments, along with appropriate answers:

QUESTION	ANSWER
Does the Act pertain to utility company bills?	No. Per SAM 8474.1(o): "Other Payments: State agencies that pay invoices that also include late payment charges (e.g., Pacific Bell invoices with Public Utilities Commission approved late payment charges) shall pay those late charges only. A contractor is entitled to only one penalty if an invoice is paid late." Schedule Cal PUC No. D & R, 18 <sup>th</sup> Revised Sheet 33, Rule 10 states: "...The late payment date will not be less than 22 days from the postmark date on the billing envelope..."
When do penalties begin accruing?	This question appears on the Summary but the answer is misunderstood at times. To further clarify: Invoice receipt date is equal to Day Zero. Example: An invoice received on 3/1 would begin accruing interest on 4/1 if not submitted to the SCO on or before 3/31 (3/1 plus 30 days = 3/31).
How do I calculate the amount of a late payment penalty due a contractor?	Refer to SAM Section 8474.3, Penalty Calculation, for instructions and a copy of the form, Std. 208, used by state departments to calculate late payment penalties. See copy and an example, attached.
If we issue payment directly to the contractor from our revolving fund after 30 days but before 45 days has elapsed, do we owe late penalties?	No, as long as the check is issued within 45 days total from receipt of the invoice (or delivery and acceptance of goods/services if later than invoice receipt).
If we expedite processing by the SCO after 30 days so that the contractor is paid within 45 days total, do we owe late penalties?	No.

**PROMPT PAYMENT PROGRAM  
ADVOCACY  
STATE DEPARTMENT FAQ'S**

QUESTION	ANSWER
Does the Act pertain to the late payment of rents, when no invoice is issued?	Yes. Rent is due on the date set forth in the contract or lease. If payment is not made by that date, penalties accrue. Example: Rent for June is due on July 1. A claim schedule should be submitted to the SCO for payment by July 1. If not, penalties would accrue until the claim is submitted to the SCO.
When the Small Business Certification status of a business changes during the invoice payment process, and payment is late, does this affect the late penalty calculation?	Yes. The status of the firm's small business certification <u>on the required payment approval date</u> of an invoice governs the penalty rate used in the calculation of any late payment penalties due. <i>If a specific payment date is not prescribed in the contract, the required payment approval date is 30 days after receipt of a valid, undisputed invoice, or the date the subject Claim Schedule is submitted to the Controller, whichever date is earliest.</i>
Must an invoice from a small business contain the small business stamp to qualify as such?	No. It is the responsibility of each state department to ascertain whether or not an invoice has been submitted by a qualified small business.

## SAMPLE FLOWCHART OF INVOICE PROCESS



## PROMPT PAYMENT ADVOCACY LATE PAYMENT PENALTY CALCULATION

### 8474.3 PENALTY CALCULATION

(Revised 9/02)

Whenever a State agency or the SCO determines a penalty is due, the rate for small businesses shall be 0.25 percent per calendar day. This rate does not change. The rate for all other businesses shall be one percent above the rate accrued on June 30 of the prior year by the PMIA, not to exceed 15 percent. This rate changes annually; therefore, the PMIA rate is communicated to State agencies via a Budget Letter (BL). For the latest BL on late payment penalty rates, refer to the DOF website: <http://www.dof.ca.gov/html/budlettr/budlets.htm>

The penalty will be calculated as follows:

**Step 1. Determine The "Required Payment Approval Date":** This is the last calendar day before interest starts to accrue (i.e., the payment date specified in the contract or 30 calendar days after the date State agency receives an undisputed invoice).

**Step 2. Amount Subject To Penalty:** The gross amount of the invoice less sales tax is the amount subject to the penalty.

**Step 3. Penalty Per Day:** Multiply the amount subject to penalty (as determined in Step 2) by the applicable penalty interest factor per day as specified in the BL.

**Step 4. Number Of Days Penalized:** The number of calendar days between the approval date (as determined in Step 1) and the date a correct claim schedule is submitted to the SCO.

**Step 5. Late Payment Penalty Amount:** Multiply the amount (as determined in Step 3) by the number of days penalized (as determined in Step 4). The result is the late payment penalty amount due to the contractor; except that penalty amounts of \$75 or less shall not be paid to an entity that is not a small business. See Penalty Requirements—Other Businesses in SAM Section 8474.2(B).

See SAM Section [8474.3 ILLUSTRATION 1](#) for samples of late payment penalty calculations.

When a late payment penalty is incurred, a completed Penalty Calculation worksheet, STD. 208 must be attached to the related invoice submitted to the SCO. See SAM Section [8474.3 ILLUSTRATION 2](#).

Any invoice included in a claim schedule the SCO determines is subject to a claim correction shall be deemed to be improperly submitted and the State agency shall be responsible for the penalty incurred on the invoice.

**PROMPT PAYMENT ADVOCACY  
LATE PAYMENT PENALTY CALCULATION**

**EXAMPLE:**

At the non-small business penalty interest rate for Fiscal Year 2001 - 2002:

**\$100** invoice X **0.0001946** factor per day = **\$.02** per day

\$.02 X number of days late = amount of penalty

If it takes 90 days to pay the \$100 invoice:

**90** days less **45** days = **45** days late

**\$.02 X 45** days = **\$.90** in penalty interest

Put another way:

A \$6,423.43 invoice is paid 60 days late;

Then

**\$6,423.43 X 0.0001946 = \$1.25** per day X **60** days = **\$75.00**

**CALIFORNIA CODES GOVERNMENT CODE**  
**SECTION 927-927.12**

927. (a) This chapter shall be known and may be cited as the California Prompt Payment Act

(b) It is the intent of the Legislature that state agencies pay properly submitted, undisputed invoices within 45 days of receipt, or automatically calculate and pay the appropriate late payment penalties as specified in this chapter.

(c) Notwithstanding any other provision of law, this chapter shall apply to all state agencies, including, but not limited to, the Public Employees' Retirement System, the State Teachers' Retirement System, the Treasurer, and the Department of General Services.

927.1. (a) A state agency that acquires property or services pursuant to a contract with a business, including any approved change order or contract amendment, shall make payment to the person or business on the date required by the contract and as required by Section 927.4 or be subject to a late payment penalty.

(b) Except in the event of an emergency as provided in Section 927.11, effective January 1, 1999, the late payment penalties specified in this chapter may not be waived, altered, or limited by a state agency acquiring property or services pursuant to a contract or by any person or business contracting with a state agency to provide property or services.

927.2. The following definitions apply to this chapter: (a) "Claim schedule" means a schedule of invoices prepared and submitted by a state agency to the Controller for payment to the named claimant.

(b) "Invoice" means a bill or claim that requests payment on a contract under which a state agency acquires property or services.

(c) "Medi-Cal program" means the program established pursuant to Chapter 7 (commencing with Section 14000) of Part 3 of Division 9 of the Welfare and Institutions Code.

(d) "Nonprofit public benefit corporation" means a corporation, as defined by subdivision (b) of Section 5046 of the Corporations Code, that has registered with the Department of General Services as a small business.

(e) "Reasonable cause" means a determination by a state agency that any of the following conditions are present:

- (1) There is a discrepancy between the invoice or claimed amount and the provisions of the contract.
- (2) There is a discrepancy between the invoice or claimed amount and either the contractor's actual delivery of property or services to the state or the state's acceptance of those deliveries.
- (3) Additional evidence supporting the validity of the invoice or claimed amount is required to be provided to the state agency by the contractor.
- (4) The invoice has been improperly executed or needs to be corrected by the contractor.
- (5) The state agency making the determination or the contractor involved has been subject to a computing or accounting failure related to the Year 2000 Problem

(f) "Required payment approval date" means the date on which payment is due as specified in a contract or, if a specific date is not established by the contract, 30 calendar days following the date upon which an undisputed invoice is received by a state agency.

(g) "Received by a state agency" means the date an invoice is delivered to the state location or party specified in the contract or, if a state location or party is not specified in the contract, wherever otherwise specified by the state agency.

(h) "Revolving fund" means a fund established pursuant to Article 5 (commencing with Section 16400) of Division 4 of Title 2.

(i) "Small business" means a business certified as a "small business" in accordance with subdivision (c) of Section 14837.

(j) "Small business" and "nonprofit organization" mean, in reference to providers under the Medi-Cal program, a business or organization that meets all of the following criteria:

- (1) The principal office is located in California.
- (2) The officers, if any, are domiciled in California.
- (3) If a small business, it is independently owned and operated
- (4) The business or organization is not dominant in its field of operation.
- (5) Together with any affiliates, the business or organization has gross receipts from business operations that do not exceed three million dollars (\$3,000,000) per year, except that the Director

of Health Services may increase this amount if the director deems that this action would be in furtherance of the intent of this chapter.

(k) "Year 2000 Problem" has the same meaning as that set forth in subdivision (a) of Section 3269 of the Civil Code.

927.3. Except where payment is made directly by a state agency pursuant to Section 927.6, any undisputed invoice received by a state agency shall be submitted to the Controller for payment by the required payment approval date. A state agency may dispute an invoice submitted by a contractor for reasonable cause if the state agency notifies the contractor within 15 working days from receipt of the invoice, or delivery of the property or services, whichever is later. No state employee shall dispute an invoice, on the basis of minor or technical defects, in order to circumvent or avoid the general intent or any of the specific provisions of this chapter.

927.4. Except as otherwise provided in this chapter, to avoid late payment penalties, the maximum time from state agency receipt of an undisputed invoice to issuance of a warrant for payment is 45 calendar days, including not more than 30 calendar days from the state agency to submit a correct claim schedule to the Controller, and not more than 15 calendar days for the Controller to issue the warrant.

927.5. This chapter shall not apply to claims for reimbursement for health care services provided under the Medi-Cal program, unless the Medi-Cal health care services provider is a small business or nonprofit organization. In applying this section to claims submitted to the state, or its fiscal intermediary, by providers of services or equipment under the Medi-Cal program, payment for claims shall be due 30 days after a claim is received by the state or its fiscal intermediary, unless reasonable cause for nonpayment exists. With regard to Medi-Cal claims, reasonable cause shall include review of claims to determine medical necessity, review of claims for providers subject to special prepayment fraud and abuse controls, and claims that require review by the fiscal intermediary or State Department of Health Services due to special circumstances, including, but not limited to, the Year 2000 Problem. Claims requiring special review as specified above shall not be eligible for a late payment penalty.

927.6. (a) State agencies shall pay applicable penalties, without requiring that the contractor submit an additional invoice for these amounts, whenever the state agency fails to submit a correct claim schedule to the Controller by the required payment approval date. The penalty shall cease to accrue on the date the state agency submits the claim schedule to the Controller for payment, and shall be paid for out of the state agency's funds. If the contractor is a certified small business, a nonprofit organization, a nonprofit public benefit corporation, or a small business or nonprofit organization that provides services or equipment under the Medi-Cal program, the state agency shall pay to the contractor a penalty of 0.25 percent of the amount due, per calendar day, from the required payment date. However, a nonprofit organization shall only be eligible to receive a penalty payment if it has been awarded a contract in an amount less than five hundred thousand dollars (\$500,000).

(b) For all other businesses, the state agency shall pay a penalty at a rate of 1 percent above the rate accrued on June 30 of the prior year by the Pooled Money Investment Account, not to exceed a rate of 15 percent, except that, if the amount of the penalty is seventy-five dollars (\$75) or less, the penalty shall be waived and not paid by the state agency. On an exception basis, state agencies may avoid payment of penalties, for failure to submit a correct claim schedule to the Controller by the required payment approval date, by paying the contractor directly, from the state agency's revolving fund within 45 calendar days following the date upon which an undisputed invoice is received by the state agency.

927.7. The Controller shall pay contractors within 15 calendar days of receipt of a correct claim schedule from the state agency. If the Controller fails to make payment within 15 calendar days of receipt of the claim schedule from a state agency, the Controller shall pay applicable penalties to the contractor without requiring that the contractor submit an invoice for these amounts. Penalties shall cease to accrue on the date full payment is made, and shall be paid for out of the Controller's funds. If the contractor is a certified small business, a nonprofit organization, a nonprofit public benefit corporation, or a small business or nonprofit organization that provides services or equipment under the Medi-Cal program, the Controller shall pay to the contractor a penalty of 0.25 percent of the amount due, per calendar day, from the 16th calendar day following receipt of the claim schedule from the state agency. However, a nonprofit organization shall only

be eligible to receive a penalty payment if it has been awarded a contract in an amount less than five hundred thousand dollars (\$500,000). For all other businesses, the Controller shall pay penalties at a rate of 1 percent above the rate accrued on June 30 of the prior year by the Pooled Money Investment Account, not to exceed a rate of 15 percent, except that, if the amount of the penalty is seventy-five dollars (\$75) or less, the penalty shall be waived and not paid by the Controller.

927.8. State agencies shall avoid seeking any additional appropriation to pay penalties that accrue as a result of the agency's failure to make timely payments as required by this chapter. Any state agency that requests that the Legislature make a deficiency appropriation for the agency shall identify what portion, if any, of the requested amount is required because of any penalties imposed by this chapter.

927.9. (a) On an annual basis, within 90 calendar days following the end of each fiscal year, state agencies shall provide the Director of General Services with a report on late payment penalties that were paid by the state agency in accordance with this chapter during the preceding fiscal year.

(b) At a minimum, the report shall identify the total number and dollar amount of late payment penalties paid. State agencies may, at their own initiative, provide the director with other relevant performance measures. The director shall prepare a report listing the number and total dollar amount of all late payment penalties paid by each state agency during the preceding fiscal year, together with other relevant performance measures, and shall make the information available to the public.

927.10. State agencies shall encourage contractors to promptly pay their subcontractors and suppliers, especially those that are small businesses. In furtherance of this policy, state agencies shall utilize expedited payment processes to enable faster payment by prime contractors to their subcontractors and suppliers, and shall promptly respond to any subcontractor or supplier inquiries regarding the status of payments made to prime contractors.

927.11. (a) Except in the case of a contract with a certified small business, a nonprofit organization or a nonprofit public benefit corporation, if an invoice from a business under a contract with the Department of Forestry and Fire Protection would become subject to late payment penalties during the annually declared fire season, as declared by the Director of Forestry and Fire Protection, then the required payment approval date shall be extended by 30 calendar days.

(b) No nonprofit public benefit corporation shall be eligible for a late payment penalty if a state agency fails to make timely payment because no Budget Act has been enacted.

(c) If the Director of Finance determines that a state agency or the Controller is unable to promptly pay an invoice as provided for by this chapter due to a major calamity, disaster, or criminal act, then otherwise applicable late payment penalty provisions contained in Section 927.7 shall be suspended except as they apply to a contractor which is either a certified small business, a nonprofit organization, a nonprofit public benefit corporation, or a small business or nonprofit organization that provides services or equipment under the Medi-Cal program. The suspension shall remain in effect until the Director of Finance determines that the suspended late payment penalty provisions of this section should be reinstated.

(d) Except as provided in subdivision (b), in the event a state agency fails to make timely payment because no Budget Act has been enacted, penalties shall continue to accrue until the time that the invoice is paid.

927.12. Section 926.10 shall not apply to any contract covered by this chapter.