July 17, 2009

DEANS, DIRECTORS, DEPARTMENT CHAIRS, AND ADMINISTRATIVE OFFICERS

RE:  Advance Payments

Dear Colleagues:

Many requests are being submitted to the Accounts Payable office in Corporate Accounting to make advance payments to vendors. While there are exceptional circumstances in which an advance payment may be appropriate and prudent, generally, advance payments should not be made. The longstanding University policy on advance payments as detailed in Accounting Manual Chapter D-371-11 states that such payments are to be avoided for two primary reasons:

a. It is prudent business practice to pay for goods or services only after they have been received in good order or rendered satisfactorily; and
b. Interest income (STIP) is lost on funds used to make advance payments, especially if delivery of materials or performance of services ordered is to take place at some distant future date.

Advance payments may be appropriate in exceptional circumstances. Such circumstances include:

- When the item purchased is being specially manufactured to meet specific requirements
- Situations in which vendors offer substantial prepayment discounts
- Deposits required by a caterer for a large official event or by a hotel to confirm space for an official function such as a conference

These prepayments must be defined as terms within the purchase order document.

University policy prohibits advance payments for low-value purchases without the approval of the Purchasing Director. If prepayments are required on low-value purchases, the individual requesting the purchase should submit a requisition to central Purchasing in order to ensure proper approval. An exception waiving central Purchasing approval has been made for low-value procurements for registration fees, subscriptions, and subject payments from an established petty cash fund.

Central Accounts Payable and Purchasing will be working closely with vendors now requiring advance payments to eliminate this requirement wherever possible.

Should you have any questions regarding this policy please contact Ian Da Costa at extension 48790 or idacosta@finance.ucla.edu, or reference the Accounting Manual chapter directly at the Office of the President web site http://www.ucop.edu/ucophome/policies/acctman/d-371-11.html.

Sincerely,

Susan K. Abeles
Associate Vice Chancellor/Controller
Corporate Financial Services