

Purchase Order/Invoice Price Variance

Summary

The price variance procedure establishes guidelines for reviewing price or quantity variances related to Caltech Purchase Orders (PO's) and subsequent supplier invoices. Invoiced amounts should ultimately match PO amounts, within a tolerance indicated in this procedure. Suppliers are required to comply with the terms and conditions set forth on the PO.

This procedure outlines the methods necessary to account for PO/invoice price variances and designate the authority for which a variance can be accepted, rejected or one that requires review and a PO modification.

Applicability and Authority

This procedure applies to all Caltech departments and supersedes any practices in existence prior to its effective date

Definitions

- **10/10 Rule** – The de minimus value designated by Procurement Services for which a price variance may be accepted and processed without the benefit of a change order or modification request.
- **Purchase Price Variance (PPV)** - The difference for an item or service between the amount per unit actually paid and the PO amount per unit multiplied by the number of units bought.
- **Quantity Variance** - Quantity billed is more than quantity received

Procedure

In most circumstances, the invoiced price and quantities should match the PO exactly. However, there are rare occasions when the supplier may bill a slightly higher amount, which is generally due to fluctuations in the market for volatile costs of certain products and commodities, or typically when materials are purchased by weight or footage/yardage, etc.

Insignificant amounts are considered negligible when processing payment, so long as the amount falls within a tolerance set by this procedure. This tolerance however, does not authorize the supplier the ability to overbill purchases intentionally. Price variances will be monitored and suppliers found to be overbilling on a routine basis will be reviewed for proper billing methods. Further, the tolerance does not authorize additional purchases to be added to an existing order. The tolerance is designed to address small differences, allowing for prompt processing of invoices so as not to cause a burden in addressing insignificant price variances between the PO and the invoice.

As a rule, Caltech will not accept any significant variance between our PO and the invoice, including variances related to the following:

- Unit Price
- Extended Price
- Freight Charges
- Unit of Measurement
- Additional Purchases not included on the original PO

To ensure prompt processing and payment of invoices, suppliers should employ all efforts to safeguard against any line item variances between the PO and the invoice. Variances may result in significant payment delays.

Quantity Variances on Invoices

- The Procurement Services procedure does not allow the supplier to bill more than the quantity ordered unless an amendment or modification to the PO has been issued. Invoices containing a quantity variance will require department approval and a modification to the PO generated by the Buyer
- Unauthorized verbal orders given to the supplier shall not be sufficient cause to increase a quantity of a PO. Simply asking the supplier to add additional quantities or other goods and services to an existing PO without proper modification to the PO is not acceptable and will not be honored by Caltech. Proper authorization and modification to a PO must occur through the appropriate channels. The supplier is expected to require an updated version of the PO after it has been formally modified so that they may bill in accordance with the modified PO

Insignificant Price Variances on Invoices - The “10/10 Rule”

The Procurement Services procedure shall allow for a price variance of:

- 10% (for PO line item amounts between \$0.01 to \$9.99) or
- A maximum of \$10.00 (for PO line item amounts exceeding \$10.00)

This variance is valid per PO line item and shall never exceed a maximum of ten dollars (\$10.00) per PO line. Variances that fall within the threshold will authorize the payment to be processed by the Payment Services Department without further modification to the PO or approval from the approval authority.

Example 1:

- In this example, the PO is for a quantity of 4 at \$100.00 per unit, or \$400.00 for the PO line. The invoice is presented by the supplier for a quantity of 4 at 101.00 per unit or \$404.00 for the line item. The Payment Services Specialist may override the amount listed on the PO because this falls within the 10/10 rule. It is less than \$10.00 per line item.
- The variance is \$4.00 which is less than \$10.00.

See chart below:

Quantity	PO Price Each	Total Line	Invoice Price Each	Total Invoice	Variance By PO Line	10/10 Rule	Under Threshold?
4	100.00	400.00	101.00	404.00	4.00	Under \$10.00 Maximum	Yes

Example 2:

- In the following example, the PO has four lines. Each line is treated separately for the purposes of the variance threshold.
- Line 1: In this case, line 1 is in our favor, so we process as it was presented by the supplier.
- Line 2: This line is more than the \$10.00 maximum, therefore this line will require the Buyer to review. The Buyer and Caltech department can either agree with the difference and issue a modification (via a Requisition) to the PO or reject the invoice price and the invoice will need to be returned to the supplier to reissue.
- Line 3: This line variance is \$0.30, which is less than 10% of the total line item (0.35) which permits the Payment Services Specialist to process the invoice without Buyer review.
- Line 4: The variance in this case is \$1.50. 10% of the PO line is \$0.50. This means this is over the 10% maximum for this PO line item and the Buyer and Caltech department will need to review this invoice.

See chart below:

PO Line	Quantity	PO Price Each	Total Line	Invoice Price Each	Total Invoice	Variance By PO Line	10/10 Rule	Under Threshold?
1	10	50.00	500.00	49.00	490.00	-10.00	Under \$10.00 Maximum	Yes
2	1	5,171.00	5,171.00	5,200.78	5,200.78	29.78	Over \$10.00 Maximum	No
3	2	1.75	3.50	1.90	3.80	.30	Under 10% Maximum (10% of 3.50 is .35)	Yes
4	10	.50	5.00	.65	6.50	1.50	Over 10% Maximum (10% of 5.00 is .50)	No

Variances in our Favor

In the event that the supplier bills Caltech for less than the PO price, the lower price may be paid as long as the quantities ordered agree. For example, if we ordered 12 at \$15.00 each and the supplier bills us 12 at \$10.00 each, the Payment Services Specialist may proceed with paying the lower price without modification to the PO.

The Payment Services Specialist will inform the Buyer when a lower price has been paid so the Buyer can remove the remaining encumbrance on the PO.

Sales Taxes, Shipping, Handling

Sales tax variances will be cleared in accordance with tax law and application of the appropriate tax treatment as outlined by the Caltech Tax Department.

Shipping and handling will be paid as presented by the supplier unless the shipping and handling charge appear to be extraordinarily in excess of what would be considered normal and customary. In this case, the Payment Services Specialist will provide the Buyer with a copy of the invoice for review. The Buyer will review the PO and validate any shipping/handling overage.

Amendments or Modifications to a PO

To facilitate correction, modification or amendment to a PO, the Payment Services Specialist shall forward the invoice in dispute to the Buyer for resolution. The Buyer will be responsible for reviewing and obtaining appropriate documentation and approvals for any corrections, modifications or amendments and to notify Payment Services of the resolution. This includes, but is not limited to:

- Change of description of items
- Change of price
- Items and/or scope of work added on original PO
- Cancellation of item(s) and/or scope of work ordered
- Cancellation of PO in its entirety

Buyer/Approver Rejection of Variance

In the event that the Buyer and/or approval authority does not agree with the supplier invoice and does not wish to approve an amendment or modification to the PO, the invoice shall be returned to Payment Services. The Payment Services Specialist will reject and return the entire invoice to the supplier for reissue. The supplier will be responsible for resubmitting the invoice correctly and in accordance with the PO.

Short Payments

Payment Services will not accept alterations to invoices or short payments against invoices for pricing disputes. Short payments generally result in remaining amounts lingering on the supplier's books, which appear as open balances on the account for months or sometimes years later. In order for the supplier's financial records to match invoices presented, they must generate one of the following:

- A credit for the difference in dispute
- A full credit for the disputed invoice and a replacement invoice

Damaged Shipments, Order Shortages, Order Overages or Duplicate Shipments

The requesting department has the responsibility to monitor the receipt of goods/services and confirm condition and verify the quality and acceptance of goods/services delivered to Caltech. Should a shipment of goods arrive in an apparent damaged condition, arrive containing a shortage of goods, or otherwise unacceptable, the department must notify the supplier and the Buyer immediately to obtain instructions prior to accepting, or signing for the shipment. Payment approval against invoices for shipping issues should be withheld until the dispute is resolved.

Services Rendered

The requesting department has the responsibility to monitor services provided and ensure they are accurate and satisfy and fulfill the contract in compliance with the original PO. Changes to the original contract, such as additional hours, updated fees, new charges or services added, etc. must be properly added to the PO through a modification prior to acceptance of additional services.

Exceptions

Any exceptions that require a deviation from this procedure shall be reviewed and approved by the Director of Procurement Services and coordinated with the Purchasing and Payment Services business units.