



Advance Payments to Suppliers (Prepayments)

Purpose

Generally, goods and services provided to the Institute are paid for after receipt. On occasion, it may be necessary or desirable to provide a known and reputable supplier with an advance payment (prepayment) to pay for goods or services before delivery. This Policy describes the general provisions regarding advance payments including the requirement for Purchase Order notation, the submission of invoice, accounting reconciliation, receiving and documentation, and required approvals.

Applicability and Authority

- This Policy applies to all suppliers of goods or services to the Institute
- This Policy applies to all Caltech departments and supersedes any practices in existence prior to its effective date
- Procurement Services is the authority on advance payments related to Purchase Orders
- Payment Services is the authority for advance payments for non-PO related purchases

Definitions

Advance payment/prepayment: Full or partial payment for goods and services before they are received by the Institute in good order or rendered satisfactorily.

Procedure

General Provisions

Advance payments or prepayments shall be avoided whenever possible. It is a prudent business practice not to pay for goods or services until they have been received in good order or rendered satisfactorily. The Institute may suffer loss of interest on funds used to make advance payments, especially if delivery of materials or performance of services is to take place at some future date.

Exceptions to this Policy may be warranted for:

- Books, periodicals and newspapers, including special order items for trade and professional publications
- Caterers for food and beverage services for functions requiring a deposit
- Foreign orders
- High-cost equipment manufactured to meet functional specifications
- Honoraria
- Maintenance and service agreements
- Membership dues
- Performing artists, when contract requires payment before performance begins
- Principal investigators and other research personnel who conduct research using human subjects and pay the subjects a minimal amount
- Rent and leases for real estate and leases for equipment when payments are no more than one month in advance
- Reservations for group transportation and/or expenses
- Seminars and registration fees
- Suppliers who offer substantial prepayment discounts

Coordination of Policies and Adherence to Standard Operating Procedures

As with any other payment issued by the Institute, standard operating procedures apply to all advance payments. For example, when standard operating procedures require a purchase order be rendered for the purchase of goods or services over a certain financial limit, the procedure must be followed within the guidelines set forth by Procurement. All procedures, coordination and approvals are required to take place in order to comply with set policies. Standard operating procedures of the Institute cannot be circumvented merely because the method is an advance payment.

Purchase Orders

The total amount of the Purchase Order shall include the value of the advance payment and a full description of the refund Policy offered by the supplier. In the case of prepayments, the supplier, by accepting the Purchase Order, signifies this as acceptance of the contract and agrees to perform in accordance with the terms and conditions of the order.

Invoice

Appropriate invoices must be rendered to the Institute by the supplier:

- **Advanced Payment in Full**
Suppliers to which a full advanced payment is issued must provide a complete and final invoice (or Proforma invoice) for the full amount of the advance payment prior to the issuance of payment. The invoice must contain the confirmation of total cost, including tax, freight, handling, etc. Suppliers are discouraged from providing a Proforma as an “estimate” and later billing the Institute in full. Payment Services will consider such subsequent invoices as “duplicates” and not render additional payment to the supplier.

- Deposits, Partial, Progress and Down Payments
Suppliers to which a partial advanced payment is issued (i.e. down payments, progress payments, deposits, etc.) must provide a complete invoice (or Proforma invoice) for the amount equal to the fractional portion of the order, including the proportional amount of sales tax and shipping/freight/handling prior to the issuance of the partial advance payment. Sales tax should not be held back and billed at the final payment, but should be included on each progress or partial invoice for the appropriate amount due at the time of billing.

Expense Distribution

Advance payments issued to suppliers will be charged directly to the PTA or GL string indicated in the requisition or payment request form. The PTA or GL will be charged upon submission of a request for advance payment to Payment Services. Expenses will be booked at the time the request is submitted and thus are reported as expenses for that period. This is an acceptable accounting practice if the goods and services are received in the fiscal period in which payment is made.

In accordance with generally accepted accounting principles, however, amounts paid for services or goods to be received in a future fiscal period should be recorded as prepaid expenditures. Where advance payments cannot be avoided during the year-end fiscal close, year-end adjustments can be made to the accounts, i.e. for significant advance payments. However, it is preferable to limit advance payments to goods and services which will be received or recoveries of expenditures incurred before the end of the fiscal year-end close.

Advanced payments greater than \$50,000 made at the time of fiscal year-end, or when payment and receipt of goods falls between two separate fiscal periods, must be reviewed by Finance, Purchasing Services and Payment Services. This review is to determine if any accrual or allocation as a “prepaid” expenditure is necessary.

Advance payments with respect to low dollar items, such as periodical subscriptions which may cover several fiscal periods are generally not of concern from an accounting perspective because the amounts are not material.

Receiving and Documentation

Pre-Receipt of PO for Payment Processing

- In order for the Proforma invoice or advance payment to be processed, the advance must be submitted through a standard purchase requisition to Procurement Services, or provided in the form of a goods receipt placed against the PO line item in question. While technically, no goods have been received as yet, the pre-receipt of goods against the PO is necessary for those divisions using the receipt functionality in Oracle. Otherwise, the requisition submitted to the Buyer will suffice as proper authorization.

Physical Receipt of Goods and Services

- It is the responsibility of the requester to verify the actual receipt of goods/services and that the goods/services provided by the supplier meet quality expectations.
- The requester is responsible for verifying the actual receipt of the goods/services associated with the advance payment. Requesters should collect all supporting documentation to substantiate the delivery and acceptance of goods/services in the event of an audit. Upon delivery of the goods/services, the requester must ensure that the supplier has satisfied the order and that the goods/services meet with the specifications of the contract. Verification includes the inspection of goods to ensure that they have been delivered timely and in acceptable condition.

Buyer Review

Buyers will review advance payment requests for reasonableness and ensure that the request follows this Policy and all standard operating procedures. Upon receipt of the duly approved requisition and the Proforma invoice from the supplier, the Buyer shall submit them to Payment Services for payment processing.

Supplier Performance

When a prepayment in advance of performance or delivery is issued to a supplier, then the right of the Institute to obtain such service or property on behalf of or in the service of the Institute shall constitute a claim against the supplier to satisfactorily provide said goods/services. Failure of the supplier to perform will constitute a default on the contract. If a supplier fails to perform according to the specifications or the time frame provided for in the Purchase Order or contract, the Buyer or requisitioning department head will contact the supplier. If there is a continued lack of performance from the supplier, the Institute may declare the supplier in default and may exercise appropriate legal remedies.

Process Flow

- Requestor shall submit a Purchase Requisition to the Procurement Department for processing
- The Buyer may attempt to source the goods or services from a provider not requiring payment in advance and willing to extend terms to the Institute
- When the Buyer has no alternative but to issue an advanced payment to a supplier, the Buyer will generate the PO as outlined in standard operating procedures
- The Buyer shall obtain a Proforma invoice from the supplier which specifies the total amount due, including taxes and freight charges
- The Buyer will submit the Proforma invoice to the Payment Services Department for processing
- A pre-receipt of goods shall be placed against the PO line item being prepaid if the division is utilizing the goods receipt functionality in Oracle. Otherwise, the Purchase Requisition submitted permits the Buyer to approve and submit the request to Payment Services for processing.

- Once the invoice is approved, the Accounts Payable Representative will enter the invoice, expense the accounting provided and schedule payment to the supplier
- Disbursements will generate and submit payment to the supplier
- The department responsible for the original Purchase Requisition will monitor the delivery of the goods or services to ensure the delivery takes place timely and that the goods/services comply with their requirements
- When payment and receipt of goods cross fiscal periods and when that payment amount exceeds \$50,000, Payment Services will coordinate a review of the invoice and receipt of goods with the Finance group.

Exceptions

Any exceptions or requirement that requires a deviation from this Policy shall be reviewed and approved by the Director of Procurement Services.