

Advance Payment to Suppliers

(Policy ACG-0006)

I. Purpose of the Policy

This policy outlines the conditions under which an advance payment may be made to a supplier. Generally, an Advance payment to a supplier is to be avoided as much as possible in order to ensure compliance with state funding requirements that products or services be received prior to the University paying these related expenses, to optimize University cash flow, and to promote prudent business practices. However, there may be circumstances in which an Advance payment to a known and reputable supplier is necessary in order to accomplish an important University business objective.

This policy incorporates guidance from the [UC Accounting Manual](#). Where conflicts exist between this policy and the UC Accounting Manual, the guidance provided in the UC Accounting Manual shall take precedence.

II. Definitions

Advance payment: a partial or full prepayment made to a supplier in advance of receiving the product and/or service

III. Detailed Policy Statement

A. General Responsibilities

Generally, goods and services provided to the University are paid for after receipt. Certain circumstances may necessitate providing a known and reputable vendor with an Advance payment. See section C for specific instances of an Advance payment allowed without prior approval.

As with any other payment issued by the University, standard operating procedures apply to all advance payments. All procedures, coordination and approvals are required to take place in order to comply with set policies. Standard operating procedures of the University cannot be circumvented merely because the method is an Advance payment.

Advance payment requests from campus units must meet at least one of the following requirements:

1. There is a lack of a reasonably acceptable alternative to obtain a product or service needed to achieve a critical University operational objective without making an Advance payment to the supplier.

2. Making an Advance payment provides a significant economic benefit to the University.

In addition, the campus unit requesting an Advance payment must meet all of the following requirements:

1. Completed a thorough assessment of any potential risks associated with the transaction, including engaging campus offices as appropriate, to any such risks are reasonable and manageable, and the amount of the advance payment is reasonable given the risks and circumstances.
2. A procurement of significant value and/or risk to the University is transacted with a UCSC purchase order or contract that has been reviewed and/or negotiated through Business Contracts.
3. The satisfactory receipt of the product and/or service can be verified in a timely manner.

B. Review and Approval Responsibilities

A request for Advance payment to a supplier must be reviewed and approved by an authorized departmental CruzBuy or Direct Payment Transaction Approver.

Depending on the level of risk associated with an advance payment request, the transaction may be subject to review and approval by the Procurement Services Director and/or Director of Accounting Services, per the below.

An advance payment request posing a potentially significant financial and/or reputational risk to the University, as determined by the Procurement Services Director or Director of Accounting Services, must be reviewed and approved by the Campus Controller.

1. Authorized department approval is required for advance payments <\$10,000
2. Designated Central Procurement Buyer approval is required for advance payments ≥\$10,000.

C. Specific instances in which Advance payments are permissible with prior approval

1. Procurement of the following:

- Books, periodicals and newspapers, including special order items for trade and professional publications;
- Caterers for food and beverage service for large functions where caterer requires a deposit;
- Customized goods/services that cannot be re-sold to others once work has started;
- Facilities/hotel deposits;
- High-cost equipment manufactured to meet University-specific functional specifications;
- Honoraria;
- Maintenance service contracts;
- Membership dues;

- Performing artists, where the contract requires deposit or payment before performance begins;
- Principal investigators and other research personnel who conduct research using human subjects and pay the subjects a small amount (check for entire amount is paid to the investigator or experiment controller);
- Research abroad: including deposits or expenses related to the research;
- Seminar and colloquia registration fees;
- Research expeditions such as charters for boats and other modes of group transportation and/or expenses;
- Software License Agreements;
- Subscriptions;
- Suppliers who offer substantial prepayment discounts;
- Suppliers who require pre-payment if order is less than a certain minimum amount.

2. Qualifying Small Businesses

In the continuing commitment to support small businesses, suppliers that qualify as a small business under [BUS-43](#) have the opportunity to receive an Advance payment, not to exceed 25% of the total cost or \$50,000. The use of an Advanced payment in a transaction involving a qualified small business, must require a 2% discount on the total transaction cost from the small business and is akin to payment terms of 2% Net 30.

D. Purchase Order and Posting Procedure

Include the Advance payment in the total purchase order amount and provide a full description of the refund policy with the purchase order.

E. Documentation

1. PO Advance payment: Companies to whom an Advance payment is issued must provide an invoice for the full amount of the Advance payment and reference the PO number, prior to the issuance of the advance payment.
2. An Advance payment must be supported by documentation indicating the business need, as well as confirmation that the requirements outlined in Section III(A) have been met, for the Advance payment (or written confirmation of total cost, including tax, freight, and handling).

F. Procedures

1. Advance Payment Required Documentation (see section E).
2. Advance Payment ≤\$5,000: Debit expense and credit cash when advance payment invoice is processed.
3. Advance Payment >\$5,000: Accounts Payable will debit the pre-payment account, Vendor Advance Payments when Advance payment invoices are processed. The Financial Accounting and Reporting team (FAR) regularly monitors and clears advance payments as appropriate. When Advance payments are processed against a purchase order, a related encumbrance

liquidation should also be processed to help ensure that future overpayments against the encumbrance do not occur.

IV. Getting Help

The Procurement Services Office provides assistance and guidance related to procuring goods and services from suppliers. The Accounting Services Office provides assistance related to direct payment transactions. Please consult the UCSC directory or UCSC Financial Affairs website for specific contact information.

If you need help with...	Contact
purchase orders	Procurement Help Desk, https://financial.ucsc.edu/pages/procurement_dept.aspx , buy4me@ucsc.edu , 831-459-2311, Option 4
vendor payments	FAST Help Line: financial.ucsc.edu/Pages/FAST_Dept.aspx , aphelp@ucsc.edu , 831-459-4488
exceptions to policy	Campus Controller, Biju Kamaleswaran, biju@ucsc.edu , 831-502-865, Campus Controller's Office , financial.ucsc.edu/Pages/Campus_Controller_Dept.aspx

V. Applicability and Authority

This policy applies to any department, unit, or program seeking payment to a supplier in advance of receiving the supplier's product or service.

This policy supersedes the Advanced Payment to Vendor policy, dated May 7, 1997.

The Vice Chancellor of Business and Administrative Services is the campus authority for the Advanced Payment to a Supplier Policy, with implementation authority delegated to the Campus Controller.

This policy was reviewed and approved by Campus Provost/Executive Vice Chancellor, Lori Kletzer [tba]. This policy will be reviewed every five years.

VI. Related Policies/References for More Information

Related Policies and Procedures

[UCSC Policy MM0001: Purchasing Common Goods and Services](#)

[UCSC Subject Payment Guide](#)

References

[UC Accounting Manual](#) Chapters

D-371-16, Disbursements: Approvals Required

D-371-28, Disbursements: Freight

D-371-35, Disbursements: Honorarium Payments

University of California Policies

[BFB-BUS-43, Purchases of Goods and Services; Supply Chain Management](#)

[BFB G-28, Travel Regulations](#)

VII. Revision History

05/03/2022: Revisions include reorganized and removed duplicative language for clarity, internal procedures were removed, and eligibility criteria for qualifying small businesses to receive an advance payment was added.

May 7, 1997: New policy.