



City and County of San Francisco

Office of the Controller

Departmental Guidelines No. 007-11

Advance Payment to Vendors Processing Guidelines

DATE OF ISSUANCE

March 15, 2011

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APPROVED FOR DISTRIBUTION:

Ben Rosenfield, Controller

Purpose of Guidelines

The purpose of this document is to provide departments with guidelines and prerequisites for advance payments or prepayments to contract providers.

Authority

These guidelines are issued under the authority granted to the Controller's Office in City Charter, Article I, Sec. 3.105.

OVERVIEW OF ADVANCE PAYMENTS OR PREPAYMENTS TO CONTRACT PROVIDERS

The City recognizes the contributions that community-based organizations provide to its residents. In agreeing to serve the needs of the community, such organizations rely on limited financial resources and personnel to carry out their missions. Contracting government entities who are themselves burdened with budget constraints understand the need to assist these non-profit organizations in some ways but with no added financial burden to the City.

Advances or prepayments are allowable in order to meet contractor cash flow needs in certain circumstances. Departments must have approved contracts with the vendor, and contracts must explicitly allow prepayments. The contracts must explicitly define and allow prepayments to contract providers, who have been awarded the contracts according to the City's procurement and contracting rules and regulations. If the original contract does not allow advance payment, then it needs to be amended to include prepayment provision. In the event the funder does not allow advance payment, the City department should not enter into such agreement with the contractor or sub-recipient. Any City agency's agreement allowing prepayment to a vendor should be based on the department's assessment of the organization's financial situation, proven track record of providing services, justified needs for advances, as well as compliance with City's purchasing and contracting rules and regulations. Periodic reconciliation, service tracking, and control procedures must be clearly defined in the contract, as they are critical to the effectiveness of this arrangement to prevent overpayment, misuse or loss of City funds.

Procedures for Advances or Prepayments to Contract Providers

These procedures are necessary to ensure uniform implementation of agreements to provide advances or prepayments to contract providers.

City Agency - Advances or Prepayments to Providers

- Select service providers according to the City's purchasing and contracting guidelines.
- Ensure that proposed prepayment agreement does not violate funding agencies' or City's rules or regulations, and that it does not create a difficult cash management situation for the department.
- Develop required text to be inserted in contracts that will outline maximum prepayment amounts (dollar or percentage), permitted frequency, required repayment timelines, and method for tracking prepayment balances on claim forms or other reconciliation documents.
- Add appropriate language to the contract to identify any special payment arrangement or agreement that does not fall within the standard or boiler plate provisions or rules of purchasing or contracting regulations.

City Agency – Ensuring Internal Controls Over Appropriate Use and Collection of Advances or Prepayments

- Require written request and justification from vendor to request prepayment for services.
 - Develop policy that states the criteria under which providers are eligible for advances or prepayments. Include allowable reasons for approving requests, and any additional requirements based on the department's assessment of satisfactory contract performance to date.
 - Require review and approval of advance and prepayment requests by responsible managers, and approval from the Department Head or highest financial officer in the department.
 - Effectively monitor prepayment activity and balances to safeguard against misuse or loss of City funds.
 - Ensure segregation of duties among contracting, program management, accounts payable, and accounts receivable functions within the department.
 - Ensure funds are available before issuing contract, and encumber funds as soon as purchase order is issued. Encumber the funds in FAMIS. When submitting prepayment request transaction, clearly describe as a prepayment against the purchase order and with appropriate notepad to certify that prepayment is explicitly allowed in the contract.
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**City Agency –
Processing
Prepayments
in FAMIS**

- Process voucher of a purchase order or encumbrance payment. DO NOT use direct payment document (DV, PR, OT) or transaction code TC200 (from FAMIS-Purchasing system) or TC210 (FAMIS-Accounting) to process advances to contract providers covered by purchasing order or FAMIS-Accounting encumbrance.
 - Process invoice (IVDD) and voucher (VCDD) in the FAMIS-Purchasing system if advances are being paid against a purchase order. Both documents should clearly describe the payment as advances on the description field and/or on the notepad. Posted vouchers are interfaced into FAMIS and recorded with a transaction code 205(P) on FAMIS transaction detail inquiry screen 6300 and on FAMIS document inquiry screen 6051, liquidation field of the related purchase order (GL470), or voucher payable (GL201).
 - Process invoice as an encumbrance payment (EPDD) if advances are being processed against a FAMIS-Accounting encumbrance. The document should clearly describe the payment as advances on the description field and/or on the notepad. Posted encumbrance payments are recorded with a transaction code 215(P) on FAMIS transaction detail inquiry screen 6300 and on FAMIS document inquiry screen 6051, liquidation field of the related encumbrance (GL470), or voucher payable (GL201).
 - Apply repayment of advances against subsequent invoices according to repayment agreement between the City Agency and contract provider. Process the net reconciled amount using applicable transaction code and/or document in FAMIS-Accounting or Purchasing.
 - Prepayments are considered expenses at the time of payment, i.e. a reduction to the encumbrance. Ensure the time of payment, service period, and fiscal month posted in FAMIS are consistent and accurate.
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**City Agency –
Preventative
Measures
Against
Overpayment**

- Review invoices in detail to ensure payment only for actual and authorized services rendered for the period indicated.
- Maintain accurate records of advances that match the balance in FAMIS vendor history. Departments should use tracking applications such as spreadsheets, contract management system, invoicing system, and perform reconciliation process to monitor advances and rendered services.
- Monitor closely the vendor payment history to ensure that the advances are being repaid as deduction from subsequent invoices and to safeguard against overpayment.
- Process final payment only when advances have been fully repaid, all services have been rendered and properly invoiced, documented, and authorized, and detailed review has confirmed the accuracy of the contract's remaining balance. This is especially important at fiscal year-end to ensure expenses are booked in the proper reporting period.
- Have a contingency plan to recover funds and act immediately in the event an overpayment is identified, to prevent further loss of City funds.
- Contract providers must be made aware of legal consequences and possible loss of city business if negligence and fraudulent billings result in overpayment.

Summary

When considering advances or prepayments to contract providers, departments must develop policies and procedures to ensure accurate and timely reconciliation of payments. Departments must have approved contracts with the vendor, and contracts must explicitly allow prepayments. If the original contract does not allow advance payment, then it needs to be amended to include prepayment provision. Contract provisions should also include terms which state the maximum prepayment amount, permitted prepayment frequency, required repayment timelines, and required method for tracking prepayment balances on claim forms or other reconciliation documents. Any deviations from these policies require the Controller's pre-approval.

In general, the prerequisites and conditions described in these guidelines should be met for contract providers to be considered for prepayment. Departments must also have in place service tracking, and internal control procedures to monitor and reconcile the advance payments, with the goal that such arrangements do not negatively impact the City's financial resources.

For accounting-related questions, refer to the Controller's Fund Accounting Supervisors assigned to your departments.