

## CASH: LETTERS OF CREDIT

I. INTRODUCTION

This chapter presents procedures for processing a Letter of Credit. A Letter of Credit is an instrument, issued by a bank to its correspondent bank, that authorizes a business to draw on the correspondent bank for payment of goods or services, provided the business complies with the terms and conditions set forth in the Letter of Credit.

III. PROCEDURES

## A. REQUIREMENT FOR DOCUMENT

A request must be made to a bank for issuance of a Letter of Credit. All applications for a Letter of Credit must be reviewed and approved by the Treasurer's Office.

## B. DOCUMENT PROCESSING

The steps involved in processing an application for a Letter of Credit are as follows:

- 1) The materiel manager determines when it is appropriate to apply for a Letter of Credit. The provision for payment by a Letter of Credit should be included as one of the terms of the purchase order.
- 2) The materiel manager should contact the Treasurer of The Regents for a blank Letter of Credit application. The Treasurer's Office determines which bank will be used.
- 3) The materiel manager completes the application for a Letter of Credit, specifying the dollar amount and the terms and conditions of payment. In addition to the number of copies required by the bank, the University retains three copies for departmental files, accounting and the Treasurer's Office.
- 4) The completed Letter of Credit application is forwarded to the accounting officer for review.

III. PROCEDURES (Cont.)

B. DOCUMENT PROCESSING (Cont.)

- 5) After review, the application is sent to the Treasurer's Office for final review and approval.
- 6) If approved by the Treasurer's Office, the application is returned to the accounting officer. (A copy is retained by the Treasurer's Office for its files.)
- 7) The accounting officer sends the original and the specified number of copies of the approved Letter of Credit application to the bank. (One copy is retained for filing with the purchase order.)
- 8) After processing the Letter of Credit, the bank returns a copy of the application to the accounting office. (This copy is filed with the purchase order.)
- 9) The accounting officer pays the local bank billing upon presentation of a bill(s), in accordance with the Terms and Conditions of Purchase specified in the University purchase order. (These terms and conditions are the same as those included in the terms and conditions of the Letter of Credit.)

IV. RESPONSIBILITIES

A. CAMPUS MATERIEL MANAGERS

Campus materiel managers are responsible for determining when to use a Letter of Credit, initiating, and completing Letter of Credit applications, in conformance with the procedures set forth in this chapter.

B. CAMPUS ACCOUNTING OFFICERS

Campus accounting officers are responsible for ensuring that completed Letter of Credit documents forwarded to the Treasurer's Office are prepared properly, in accordance with the aforementioned University procedures.

C.    TREASURER'S OFFICE

Under Section 21.4(m) of the Bylaws of The Regents, the University Treasurer has the authority to approve or disapprove all applications for Letters of Credit.

V.    REFERENCE

Bylaws of The Regents, Section 21.4(m).

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