

CONTRACTS AND GRANTS: CASH ADVANCE PROGRAMS

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CONTRACTS AND GRANTS: CASH ADVANCE PROGRAMS

I. POLICY

Under University policy, the University seeks to minimize the use of its operating funds as working capital for extramurally sponsored projects. Accordingly, campuses must secure advance payment for all sponsored projects, unless an advance payment arrangement is not feasible.¹

II. INTRODUCTION

Federal Agencies. A cash advance method of payment should be arranged with the sponsoring agency by the campus Contracts and Grants Officer at the time the terms and conditions of the contract or grant are being negotiated. The University prefers advances by letter of credit or other cash advance payment programs. Federal sponsoring agencies generally use one of these methods for advance payments. These agencies generally have their own regulations regarding such payments, which should not conflict with the Department of the Treasury Circular 1075 (Fourth Revision), Part 205, Withdrawal of Cash from the Treasury for Advances Under Federal Grant and Other Programs. This Circular can be found in Appendix 1 of Volume 1, Part 6, Chapter 6-2000 of the Department's Fiscal Requirements Manual.²

Other Sponsors. Occasionally, a letter of credit may be arranged with a sponsor other than a Federal agency. If a letter of credit is not available, an alternative method of advance payment should be negotiated. For example, when negotiating a cash advance payment arrangement, the advance may be based on a quarterly estimate of expenses, or a percentage of the total contract or award, to be paid at the beginning of regular time periods.

Accounting for Payments. Payments provided to the University in accordance with an agreement are credited to individual income accounts, income clearing accounts, or

¹ Under a plan instituted by the President in 1982, a chancellor's unrestricted fund share of Short Term Investment Pool income will decrease if University cash is used to fund expenditures from extramurally sponsored projects.

² A copy of these regulations can be obtained from the following web site address: <http://www.fms.treas.gov/tfm/vlp6c200.txt>

accounts receivable. If a clearing account is credited, the credits are ultimately transferred to the appropriate individual income accounts, either at fiscal closing or at the end of the individual contract or grant period.

III. NEGOTIATING ADVANCE PAYMENTS

A. FEDERAL

In order to be issued a letter of credit, a campus must have established a continuing relationship with the Federal agency of at least one year, involving an annual dollar level of activity of at least \$120,000. If a letter of credit is not feasible, another method of advance payment should be negotiated.

The Department of the Army operates an advance payment pool, rather than issuing letters of credit. This pool, like letters of credit, provides cash income at the time expenditures are made.

Under the terms of the Office of Management and Budget Circular A-110, these advances must be deposited in a bank with Federal Deposit Insurance Corporation (FDIC) insurance coverage and any balance exceeding the FDIC coverage must be collaterally secured. The Treasurer's Office will make all the necessary arrangements to provide adequate collateral.

B. STATE OF CALIFORNIA

The State of California does not have a cash advance program comparable to the Federal program. The State, as a matter of policy, discourages cash advances or progress payments. Letters of credit are not available, but negotiations should always include a request for some form of cash advance. Even though the State agency may refuse to consider advances over the full term of an agreement, it may be possible to negotiate advances for the estimated costs of starting a program.

Use of the Interagency Agreement, State of California Form 13, rather than Standard Agreement, Form 2, allows for negotiation of cash advances; however, Form 13 does not have the unqualified approval of the General Counsel. Guidance on Interagency Agreement use is issued in the OP Contracts and Grants Office Operating Requirement Memo No. 82-26, dated June 24, 1982.

III. NEGOTIATING ADVANCE PAYMENTS (Cont.)

C. PRIVATE SPONSORS

Each contract and grant issued by a private sponsor should be negotiated to include some method of cash advance payment. Sponsors are generally receptive to negotiating cash advances; however, because of individual policies and needs, flexibility is necessary. The preferred advance would be to receive the full amount at the time of execution of the contract or acceptance of the award. If negotiation results in an agreement to pay periodic advances based on estimated reimbursable costs, the understanding should be clearly spelled out in the contract. The sample advance payment clause attached as Appendix I should be tailored to meet the campus' needs and its ability to comply.

IV. PROCEDURES

Most advance payments are administered by the campus. The procedures for administering letters of credit are developed by individual campuses and vary according to the requirements of the Federal agency concerned and whether the letter of credit is administered for payment through a U.S. Treasury Regional Disbursing Office or through a Federal Reserve System Bank.

Two letters of credit and one advance payment pool are administered by the Office of the President (OP). The accounting procedures and bookkeeping entries for the advance payments administered by OP are presented in this section.

A. LETTERS OF CREDIT ADMINISTERED BY OP

1. U.S. Department of Agriculture Hatch Act Letter of Credit

a. Hatch Act Appropriations

U.S. Department of Agriculture (USDA) Hatch Act appropriations (funds 21001 through 21016) at OP, Berkeley, Davis, and Riverside are funded by a letter of credit. The USDA makes an annual appropriation of Hatch Act funds for the Federal fiscal year (October 1 through September 30). By letter addressed to the Vice President--Agriculture and Natural Resources, each quarter the USDA

makes available approximately one quarter of the funds allotted under the letter of credit.

Note: Expenditures incurred during the University's fiscal year may not exactly match the revenue received, because the University budgets and spends exactly three quarters of the appropriation during the period October 1 through June 30, but the Federal Government does not make exactly three quarters of the appropriation available under the letter of credit during the same period.

b. Cash Requests

Each month the Office of the Vice President--Agriculture and Natural Resources (VPA&NR) determines the revenue required to fund expenditures. Funds are drawn down through the DHHS Payment System (PMS) Smart Link II and wired to Union Bank of California. A wire transfer deposit notice is faxed to the Treasurer's Office to indicate the amount requested and the accounts to which the funds will be credited.

c. Accounting for Cash Received

Cash received is credited to the receivable account J-111521. At the time the cash is received, VPA&NR prepares a journal entry allocating the funds to the campuses that participate in the programs as follows:

- 1) Amounts received for OP and Berkeley appropriations are credited to the appropriate revenue accounts.
- 2) Amounts received for campus appropriations are credited to the applicable financial control account with reference made to the appropriate revenue account at the campus. Campuses respond to the financial control account credit by recording a credit to the appropriate revenue accounts and debiting financial control.

IV. PROCEDURES (Cont.)

A. LETTERS OF CREDIT ADMINISTERED BY OP (Cont.)

2. U.S. Department of Agriculture Smith-Lever Letter of Credit

a. Smith-Lever Appropriations

U.S. Department of Agriculture (USDA) Smith-Lever and Cooperative Agreements (Funds 21017 through 21099) administered by the Vice President--Agriculture and Natural Resources at OP, Berkeley, Davis, and Riverside are funded by a letter of credit. The USDA makes an annual appropriation of Smith-Lever and Cooperative Agreement funds for the Federal fiscal year (October 1 through September 30). By letter addressed to the Vice President--Agriculture and Natural Resources, the USDA makes available monthly approximately 1/12th of the funds appropriated for the year under the letter of credit.

b. Cash Requests and Accounting for Cash Received

The procedures detailed in Sections 1.b. and c. above should be followed.

Annual financial status reports to the agency (Form SF269) on cash received and expenditures are prepared by the Office of the Vice President--Agriculture and Natural Resources.

B. CASH ADVANCE PROGRAMS

1. U.S. Department of Energy (DOE)

The DOE sends contract modifications or additions to OP Financial Management monthly, showing the amount of credit extended by project and project modification, i.e., for the initial contract and any subsequent extensions or modifications. This information is forwarded to the appropriate campus(es).

When the DOE has not authorized cash drawdowns for a contract or commitment that has been fully executed for more than 20 days, the campus Accounting Officer should contact the DOE (copy to OP--Financial Management) to determine why the funds have not been obligated.

a. Monthly Cash Requests

Campus estimates of the amount of cash needed to cover expenditures for the next period must be submitted to OP by the 10th or the 25th of the month. The request indicates the amount needed for each project; however, the amount cannot exceed the obligated amount for each project. The campus cash request is made using the Department of Energy Cash Advance Request (Appendix III).

Based on the campus requests, OP Financial Management prepares a Request for Funds form, Standard Form 5805 (Appendix II) for each campus. The completed form is mailed (and a copy faxed) to the Department of Energy Albuquerque Operations Office.

b. Accounting for Cash Received

Cash received is debited to the Treasurer's General Cash Account. For all campuses, the funds are credited to the financial control accounts to which the campuses respond by transferring the funds to individual income accounts. OP Financial Management will notify campuses of cash received.

c. Reports

Campuses are responsible for submitting individual project reports to the agency specified in the individual project agreements.

2. U.S. Department of the Army

a. Limit on Advances

The Army has established a one-time advance to the University, which is held at OP. This advance is designed to provide working capital equivalent to approximately 70 days of expenditures. The maximum amount of the advance currently authorized is \$650,000. Campuses are allocated a pro rata share of the advance for purposes of calculating STIP income. However, no journal entries are prepared to actually transfer funds among the campuses.

IV. PROCEDURES (Cont.)

B. CASH ADVANCE PROGRAMS (Cont.)

2. U.S. Department of the Army (Cont.)

b. Accounting for Billings and Cash Receipts

Campuses submit vouchers to the Army which reflect actual expenditures on a monthly basis. The Army will issue checks directly to campuses as reimbursement for actual expenditures.

When vouchers are issued to the Army, campuses prepare an entry debiting an accounts receivable account and crediting the appropriate income account for the particular contract. When payment is received, the campus credits an accounts receivable account and debits the appropriate cash account.

c. Periodic Reporting

Under the terms of the advance payment pool agreement with the Army, the University is required to submit quarterly reports of expenditures, by month for each contract (Appendix IV). Campuses must submit their report to OP Financial Management within twenty-five days of the end of the quarter, in order to allow sufficient time for preparation and submission of a consolidated report. The consolidated report is due within thirty calendar days of the end of the quarter.

V. ADVANCES ON CONTRACTS INVOLVING TWO OR MORE CAMPUSES

Contracts with extramural sponsors may involve more than one campus. The prime contractor campus should include estimated costs for the subcontractor campus(es) in any request for an advance made to the sponsor. Therefore, it is the responsibility of the prime contractor campus to make drawdowns for both the prime and subcontractor campuses under its letter of credit or advance payment pool, based on the estimate of its own costs and the estimate submitted by the subcontractor campus. The prime contractor campus then advances the appropriate part of the drawdown to the subcontractor campus. The actual costs incurred by the subcontractor campus must later be submitted to the prime contractor campus in order to account for the advance.

VI. REPORTING REQUIREMENTS

This section applies specifically to Federally sponsored contracts and grants because of published requirements of the Federal sponsors. However, the same principles are applicable to State and private sponsor contracts and grants.

A. FINANCIAL AND TECHNICAL REPORTS

Financial and technical reports are required by the sponsoring agencies. To avoid possible suspension of funding under an advance payment program, the requisite reports should be filed within the time frame specified by the granting agency.

B. REPORTS ON CURRENT AND CUMULATIVE EXPENDITURES (CLAIMS FOR PAYMENT)

To avoid possible disallowances, the detailed report(s) on current and cumulative expenditures, submitted either monthly or quarterly to the program sponsor or grant awarding Federal agency, must be:

1. Recorded in the appropriate grant accounts in the month they occur, to meet the requirements of Office of Management and Budget Circular A-110 for accurate, current, and complete disclosure of financial results;
2. In accordance with Business and Finance Bulletin (BFB) A-47, University Direct Costing Procedures, and the procedures set forth in Accounting Manual chapter P-196-13, Payroll: Attendance, Time Reporting, and Leave Accrual Records. Specifically, no transfer of expenditures should be effected unless it is well documented and timely, as specified in section V.B of BFB A-47; late charges must be supported by convincing proof that documents the reason such expenditures were not included in the appropriate reporting period(s).
3. Consistent with the specific terms, conditions, and requirements agreed upon between the University and the funding Federal agency; and
4. Prepared in conformance with the internal control standards of the University (see the Accounting Manual chapters and Business and Finance Bulletins listed in Section VIII, References), including adequate supporting documentation for all

VI. REPORTING REQUIREMENTS (Cont.)

B. REPORTS ON CURRENT AND CUMULATIVE EXPENDITURES (CLAIMS FOR PAYMENT) (Cont.)

transactions. The documentation must be retained in accordance with the University's record retention policy and reviewed by an authorized official who has an up-to-date signature authorization form on file.

VII. RESPONSIBILITIES

A. CHANCELLORS

Chancellors are responsible for minimizing the use of general operating funds as working capital for extramurally sponsored projects. As part of their cash management function, chancellors are responsible for administering cash advance programs negotiated with extramural sponsors.

B. CONTRACTS AND GRANTS OFFICERS

Contracts and grants officers are responsible for negotiating a cash advance method of payment whenever feasible. If there appear to be problems with a particular agency, the OP Contracts and Grants Office should be notified, in order to assist in solving the problems.

C. ACCOUNTING OFFICERS

Accounting officers are responsible for administering the cash advance programs negotiated for their campuses, in accordance with the guidelines of this chapter. For cash advance programs administered by OP, estimated cash requirements must be submitted and the requisite reports prepared, on a timely basis. Accounting officers must ensure that each cash advance program is reviewed at least quarterly, to ascertain that cash balances are adequate but do not exceed projected needs. It is also the responsibility of the accounting officers to ensure that any STIP income or other interest earned on advances made by the Federal government is returned to the government at least quarterly, as required by OMB Circular A-110.

D. DIRECTOR, FINANCIAL MANAGEMENT

The Director, Financial Management, is responsible for monitoring cash advance programs and for furnishing guidance and assistance to accounting officers with

respect to their cash advance programs. The Director is also responsible for administering cash advance programs maintained by OP.

E. ASSISTANT VICE PRESIDENT--ACADEMIC PERSONNEL PLANNING AND BUDGET, VICE PRESIDENT AGRICULTURE AND NATURAL RESOURCES

The Assistant Vice President--Academic Personnel Planning and Budget--VPA&NR, is responsible for administering the U.S. Department of Agriculture cash advance programs under its control. It is the responsibility of the Financial Services Officer to submit estimated cash requirements and required reports on a timely basis and to ensure that each cash advance program is reviewed at least quarterly, to ascertain that cash balances are adequate but not in excess of projected needs.

VIII. REFERENCES

Letters and Memoranda:

Vice President--Financial and Business Management, Letter to Chancellors and Vice President Kendrick on Plan to Reduce Cash Deficit of Sponsored Projects, September 30, 1981.

Contracts and Grants memo, Operating Guidance No. 83-9, Cash Advances for Sponsored Projects, April 8, 1983.

Accounting Manual chapters:

- C-173-61 Cash: Petty Cash Disbursements
- C-557-23 Contracts and Grants: Federal Contract and Grant Administration Funds--Allocation for Administrative and Disallowed Costs
- D-371-36 Disbursements: Invoice Processing
- F-351 Financial Control Accounts
- P-196-13 Payroll: Attendance, Time Reporting, and Leave Accrual Records
- R-212-2 Receivables Management

Business and Finance Bulletins:

- A-47 University Direct Costing Procedures

A-60 Short-Term Investment Pool (STIP)--
Distribution of Income

VIII. REFERENCES (Cont.)

BUS-54 Operating Guidelines for University Supply
Inventories

IA-101 Internal Control Standards: Departmental
Payrolls

IA-403 Internal Control Standards: Issuance and
Control of Operating Cash Funds

Publications:

Department of the Treasury Fiscal Requirements Manual,
Chapter 6-2000, Vol. 1, Part 6, Appendix 1, Part 205, which
contains Circular No. 1075, Fourth Revision, Withdrawal of
Cash from the Treasury for Advances Under Federal Grant and
Other Programs.

Office of Management and Budget Circular A-110, Uniform
Administrative Requirements, Attachment I, Payment
Requirements.

Federal Procurement Regulations, Part I-30, Contract
Financing.

State Administrative Manual 8099, Cash, Maximization of
Interest Earnings.

Historical note: Original Accounting Manual chapter first
published 8/2/71. Revised: 8/1/76, 7/1/83, 3/1/84, 9/1/88, and
12/30/99; analyst--Federico Gomez.

APPENDIX I

SAMPLE ADVANCE PAYMENT CLAUSE
FOR COST REIMBURSEMENT CONTRACTS WITH PRIVATE SPONSORS

Upon execution of this agreement, the University will submit an advance payment invoice to _____ to request that the University be advanced the estimated reimbursable costs, shown by major categories, for the first three months of the period of performance of the agreement. Prior to the beginning of each quarter thereafter, the University will submit an advance payment invoice to _____ to request that the University be advanced the estimated reimbursable costs shown by major cost categories for the ensuing three months.

_____ will make the payment to the University within thirty (30) days of receipt of the invoice. The total amount requested in advance will not exceed the total allowable costs of this agreement.

Within sixty (60) days of the end of each quarter, the University will submit to _____ a statement of actual expenditures by major cost categories, incurred during both the preceding quarter and cumulatively.

Within ninety (90) days after completion of the agreement, the University shall submit a final fiscal report of expenditures by major cost categories incurred during the agreement period. Any unexpended balance remaining at the completion of the agreement shall be returned to _____.

APPENDIX II

REQUEST FOR FUNDS
FEDERAL FORM 5805

☆ U.S. GOVERNMENT PRINTING OFFICE: 1996-410-447

FOR PAPERWORK REDUCTION ACT NOTICE,
SEE RECIPIENT'S INSTRUCTIONS

OMB No. 1510-0055
EXPIRATION DATE 5-31-95

REQUEST FOR FUNDS		FOR FINANCIAL INSTITUTION USE ONLY
SECTION I - MESSAGE FORMAT		<input type="checkbox"/> PAID DATE _____ <input type="checkbox"/> REJECTED DUE TO _____
SENDER ABA:		
RECEIVER ABA: 051036612	LOC RICHMOND TREAS	TYPECODE:
AMOUNT:	REFERENCE NUMBER:	
SENDING BANK INFORMATION:		
ORG=	SERIAL NUMBER	0200397
RECEIVE BANK INFORMATION:		
DRC/DBT=	/AC=	CDT=
BNF=	/AC=	\$
BBI=		

SECTION II - CERTIFICATION (Must Be Completed By Drawer)

I certify that this Request for Funds has been drawn in accordance with the terms and conditions of the Letter of Credit cited and that the amount for which drawn is proper for payment to the account of the drawer at the drawer's financial institution. I also certify that the data reported is correct and that the amount of the Request for Funds is not in excess of immediate disbursement needs.

DATE	SIGNATURE	TITLE
DATE	COUNTERSIGNATURE	TITLE

(Formerly TFS Form 5805)
NSN 7540-01-240-2132
5805-103

STANDARD FORM 5805 (Rev. 6-92)
Prescribed by Dept. of the Treasury
II TFM 4-5000

ORIGINAL - SUBMIT TO FINANCIAL INSTITUTION

