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Policies and Procedures

Title: Advance Payments

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This DIRECTIVE states policy; requirements and standards; advance payment methods; and responsibilities for approving, paying, and liquidating advance payments to contractors, cooperators, and grantees.

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1. ABBREVIATIONS

- ADO - Authorized Departmental Officer
- ADODR - Authorized Departmental Officer's Delegated Representative
- CO - Contracting Officer
- CFR - Code of Federal Regulations
- FAR - Federal Acquisition Regulations
- FMD - Financial Management Division
- FMM - Financial Management Manual
- HCA - Head of Contracting Activity
- NFC - National Finance Center
- OMB - Office of Management and Budget
- PL - Public Law
- RS4 - Reporting Section No. 4
- TFM - Treasury Financial Manual
- U.S.C. - United States Code

2. FORM

SF-270, Request for Advance or Reimbursement

3. DEFINITION

Advance Payment: Payments made in contemplation of the future performance of services, receipt of goods, incurrance of expenditures, or for other assets. Examples include a payment of money to contractors before the receipt of fixed assets or inventory; and payments to cooperators and grantees before they incur expenditures.

4. AUTHORITIES

- 41 U.S.C. 255 - Use of Advance Payment Authority
- PL 85-804 - Authority to Use Advance Payments
- FAR 32.4 - Advance Payments
- FAR 52.232-12 - Advance Payment Clause
- 31 CFR 205 - Advance Funding of Federal Programs
- 1 TFM 6-2000 - Cash Advances Under Federal Grant and Other Programs
- OMB Circular A-110 - Uniform Administrative Requirements for Grants and Other Agreements

5. POLICY

It is ARS policy to:

- Ensure that all statutory requirements and standards for advance payment determination are met.
- Insert the advance payment clause provided in FAR 52.232-12 in all solicitations and contracts.
- Ensure that the advance will be the minimum amount necessary for immediate disbursement needs of the contractor, cooperator, or grantee.
- Authorize one of the following methods to provide advance payments to contractors, cooperators, and grantees.
 - Use the letter of credit method of payment if ARS expects to have a continuing relationship with the recipient for a year or more, and with advance payments totaling \$120,000 or more per year; or
 - The direct Treasury check method of payment if the circumstances do not meet the criteria in paragraph (a) above.
- Enter into the contract without authorizing advance payments if the contractor does not need advance payments.
- Authorize advance payments sparingly.

6. STATUTORY REQUIREMENTS AND STANDARDS - (FAR 32.4 for Contracts)

The statutory requirements are:

- The contractor gives adequate security before the advance payment is made.
- The advance payments will not exceed the unpaid balance of the contract or agreement.
- The agency head or designee determines, based on written findings, that the advance payment is in the public interest or facilitates the national defense.

The standards for advance payment determinations are:

- The advance payment will not exceed the recipient's immediate cash needs based on:
 - An analysis of the cash flow required for performance of the contract or agreement.
 - Consideration of reimbursement, or other payment cycle, or recipient's own working capital.
- The advance payment is necessary to supplement other funds or credit available to the recipient.
- The Government will benefit from performance prospects or there are other practical advantages.
- The advance payment will be considered useful and appropriate for experimental, research, or development work with nonprofit educational or research institutions.
- The responsibility for making findings, determinations, and approval concerning advance payments is at an organizational level high enough to ensure uniform application of the requirements and standards for advance payments.
- The agency head or designee may authorize advance payments under the following types of contracts, if in the Government's interest:
 - Contracts for experimental, research, or development work (including studies, surveys, and demonstrations in socioeconomic areas) with nonprofit education or research institutions.
 - Cost-reimbursement contracts with governments, including State or local governments, or their instrumentalities.
 - Other kinds of contracts, or unusual cases, for which the exclusion of interest on advances is specifically authorized by agency procedures.
- The agency will establish procedures for the coordination of approving, paying, and liquidating advance payments.

7. ADVANCE PAYMENT METHODS

Direct Treasury Check Method: The Treasury check payment method will be used when the annual advance to an organization is less than \$120,000, or when the annual advance aggregates more than \$120,000 but there is not an expected continuing relationship between ARS and the recipient organization for at least 1 year. Advances by Treasury check will be made only in amounts necessary to meet immediate disbursement needs and not to exceed a period of 6 months. Advance payments will be scheduled so the funds are available to the recipient organization **only** immediately prior to the need for disbursement by the organization. For example, if disbursements are made by the recipient organization on a monthly, biweekly, or any other regular cycle, the issuance of Treasury checks will be similarly timed.

Letter of Credit (LOC) Method: The advance should be made by LOC when the annual advance to an organization is \$120,000 or more, and there is an expected continuing relationship between ARS and the recipient organization for 1 year or more. All LOC advance payment authorizations for the same recipient organization, including that which ordinarily would not qualify individually, because it does not meet the criteria established for a letter of credit, should be combined with the other authorizations to meet the criteria, where applicable.

See the FMM, Chapter 2700, Section 2730 - Letter of Credit Payments for more details.

8. RESPONSIBILITIES

Director, FMD will:

Establish procedures for coordinating, approving, paying, and liquidating advance payments.

HCA will:

Authorize or disapprove an advance payment, when appropriate, based on the statutory requirements and standards set forth in section G of this Directive.

CO will:

- Determine the following, if an advance payment is authorized:
 - Method of payment for the advance.
 - Payment schedule to advance the payment(s), so that the advance is timed to meet the immediate needs of the contractor, when the direct Treasury check method is used.
- Ensure terms of the agreement state that the contractor will provide adequate security to cover the advance payments, if the direct Treasury check method of payment is selected.

- Follow the instructions provided in the FMM, Chapter 2700, Sec. 2730, if the letter of credit method of payment is selected.

ADODR will:

- Receive, review, and recommend approval/disapproval to the ADO for advance payment requests submitted by ARS grantees on Form SF-270 and indicate the appropriate accounting code from which the payment is to be made.
- Forward the grantee's Form SF-270 and the recommendation to approve/disapprove the payment request to the ADO.

ADO will:

- Review approve/disapprove payment requests for ARS grants as requested by the recipient and approved by the ADODR, however, advance payment shall be limited to the immediate disbursement needs of the recipient and not to exceed 95 percent of the award amount.
- Forward approved payment documentation to NFC RS4 for disbursement action.

RS4 will:

- Set up a system to record data from the SF-270, Request for Advance or Reimbursement, so that the advance payment and period covered for services can be monitored to take proper action to liquidate the advance payment at the end of the period stated on the SF-270.
- Prepare the proper documentation and process the appropriate financial transactions to liquidate the advance from the general ledger when services or goods have been received.
- Monitor the advance payment account in the general ledger to ensure that services or goods received have been liquidated from the general ledger.

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