

University of California  
Systemwide Administration

Office of the  
Assistant Vice President —  
Business Management  
Contracts and Grants Office

# Memo

## Operating Guidance

January 4, 1983  
No. 83-1

### VICE CHANCELLORS — BUSINESS AND FINANCE/ADMINISTRATION\* CONTRACTS AND GRANTS OFFICERS (NON-LAB) SYSTEMWIDE ADMINISTRATION FUNCTIONAL MANAGERS

Subject: U.S. Department of Education Letter of Credit

The U.S. Department of Education has developed its automated payment system and transferred its payment recipients from the Department Federal Assistance Financing System (DFAFS) to its own system. All grants from the Department of Education are now under the letters of credit issued to each campus. Contracts are not, except in a few cases. Moreover, new contracts are being received by various campuses with payment provisions indicating the cost reimbursement billing method of payment.

At present, the Department of Education does not have in place a reliable method of administrative control for contracts when funds are drawn for them under a letter of credit. General Services Administration (GSA) requires this control, and the Department of Education is attempting to abide by the GSA regulation. William Ward, the Director of Financial Management for the Department of Education, has assured us that a method of control to satisfy GSA requirements will be forthcoming and eventually all contracts will be paid under the letters of credit. Although he could provide us with no definite date for full implementation, he doubted that it would be as soon as April 1, 1983, a date quoted in one or two cases by a contracting officer of the Department of Education.

#### Guidance

In the interim, our advice is to negotiate some method of advance payment for each Department of Education contract. In view of the emphasis on control, you should be prepared to negotiate a method of advance which requires submission of reports. For example, the method may be periodic advances based on estimated costs followed by periodic submission of actual costs. Since this payment method would require submission of financial reports by the campus Accounting Office, the proposed advance payment clause should be coordinated with your Accounting Office to obtain assurance that the proposed financial reporting requirements, especially as to detail and timing, can be fulfilled. A sample of an advance payment term is enclosed for guidance, but is not meant to be the only satisfactory term to negotiate.

\*Note: The addressees above represent the standard distribution of Contracts and Grants Office Memos. Additional addressees, if any, may be added based on the subject of the Memo. See cc's.

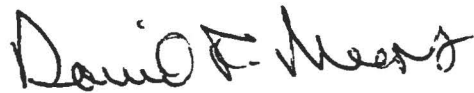
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As a reminder in your negotiations, if a contract is not advance funded, OMB Circular A-125, "Prompt Payment" may apply. (See Operating Guidance Memo No. 82-36, September 13, 1982.) Advance funding, of course, is preferable to the limited benefits of OMB Circular A-125, but Circular A-125 should not be ignored.

If developments indicate additional guidance may be necessary, we will provide appropriate information in a subsequent C&G Memo.

Refer: Willie C. Archie  
(415) 642-2885  
ATSS (8) 582-2885

Subject Index: 06  
Organization Index: F-255



David F. Mears  
University Contracts and  
Grants Coordinator

Enclosure

cc: Accounting Officers  
Milton Goldberg, Executive Director,  
Council on Governmental Relations

SAMPLE ADVANCE PAYMENT CLAUSE

Upon execution of this agreement, the University will submit an advance payment invoice to the Department of Education to advance to the University the estimated reimburseable costs shown by major cost 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 the Department of Education to advance to the University the estimated reimburseable costs shown by major cost categories for the ensuing three months. The Department of Education 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 \_\_\_\_\_ days of the end of each quarter the University will submit to the Department of Education a statement of actual expenditures by major cost categories incurred during the preceding quarter and cumulatively.

Within \_\_\_\_\_ 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.

Enclosure to:  
C&G Memo No. 83-1  
Date: 1/4/83