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## Credit Memo Processing

### Purpose

Suppliers issue credit memos for returned goods as well as pricing discrepancies. If a credit memo is anticipated, for overpayments, exchanges, etc., the credit memo and the invoice should be approved and submitted to Accounts Payable for processing. In the event an invoice is processed prior to receipt of the corresponding credit memo, the department can approve the credit, referencing the original PO number and submit to Payment Services for processing. Future invoice payments will offset the credit memo balance, affecting a payment to the supplier. If the corresponding invoice has been paid, and the Institute does not anticipate doing additional business with the supplier, Payment Services will request a refund check from the supplier in lieu of a credit.

Because the Institute does not employ a formal returned goods process through a centralized unit, it is the responsibility of each department to ensure that any goods rejected or returned result in proper credit returned to the Institute.

For the purposes of clearing encumbrances, the following procedure has been approved for processing supplier credit memos against purchase orders. This procedure specifically addresses clearing any remaining values to eliminate encumbrances in suspense.

### Applicability and Authority

- This Procedure applies to all Caltech departments and supersedes any practices in existence prior to its effective date.

### Definitions

- **Invoice** – The bill received from the supplier for goods and services
- **Credit Memo** – The document showing the credit due to the Institute for price discrepancies, overpayments, returns and uneven exchanges.

### Procedure

#### General Provisions

Credit memorandums from suppliers are funds owed to the Institute and should be handled immediately. The clearing of credits from the system may require generating “zero dollar checks” when debits and credits balance and no further payables are due to the payee. In circumstances where there is an open credit balance on the account, Payment Services will contact the supplier for a refund.

## Clearing Encumbrances

In order to clear encumbrances from open PO's, the Payment Services Specialist will process credit memorandums according to this procedure:

- The Payment Services Specialist will forward the credit memo to the end user on the Purchase Order for review & approval.
- The Payment Services Specialist will confirm with the end user to verify if a replacement product against the Purchase Order will be received.
- If the end user confirms no additional goods will be received to replace the returned materials, they are to inform the Buyer of the Purchase Order to close out the encumbrance.
- If the end user confirms they will receive additional goods to replace the returned materials, the Payment Services Specialist will wait for the replacement invoice.
- If the end user does not respond with the requested information, the Payment Services Specialist will escalate the issue to the Grant Manager of the PTA assigned to the Purchase Order.

## Coordination of Policies and Adherence to Standard Operating Procedures

As with any other payment issued by the Institute, standard operating procedures apply to all transactions, including credits. All procedures, coordination and approvals are required to take place in order to comply with set policies. Standard operating procedures of the Institute cannot be circumvented.

## Expense Distribution

The PTA or GL will be booked upon the processing of an approved credit memo by Payment Services and will offset expenses for the period in which the credit was processed.

## Returns and Supplier Requirements

When goods or materials are returned for a credit, it is up to the department returning such goods or services to ensure that Payment Services receives the credit due, or to notify Payment Services that a credit is pending so that credit memos can be booked in the Institute system and/or refund requests can be submitted to the supplier by Payment Services in a timely manner. The department should maintain accurate records of goods being shipped back to the supplier and secure the RMA (Returned Materials Authorization) number from the supplier and the POD (Proof of Delivery) from the freight carrier to support the return claim.

The supplier must perform and shall issue a credit memorandum in the name of the Institute, reflecting the proper Purchase Order number and submitting the credit memo directly to the Payment Services Department. If there is a lack of performance from the supplier, the Institute may declare the supplier in default and may exercise appropriate legal remedies to resolve the return.

## Exceptions

Any exceptions or requirement that requires a deviation from this Policy shall be reviewed and approved by the Director of Procurement Services.