Financial Management

FINANCIAL MANAGEMENT

Financial management is more than just keeping accurate accounting records. It also involves planning, controlling and monitoring financial resources to achieve organizational objectives. At a minimum, a financial management system should ensure that costs are properly categorized, tracked and charged to the appropriate accounts, and that managers are able to report financial information accurately to the Board and to donors.

A good financial management system makes it easier to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This, in turn, helps an NGO be more competitive and can increase its chances of maintaining long-term financial health.

This section introduces the key elements of a comprehensive financial management system and ways an NGO can strengthen its capacity in this critical area. It also covers USAID requirements for requesting funds, reporting expenditures, allocating resources and auditing.

Topics:

2.1

Overview of Financial Management

Q **What does good financial management involve?**

A Good financial management involves planning, organizing, controlling and monitoring resources so that your organization can achieve its objectives and fulfill its commitments to beneficiaries, donors and other stakeholders.

Good financial management requires more than simply keeping accurate accounting records. Many NGOs may have only an accounting or bookkeeping system rather than a financial management system. Accounting is a subset of financial management. A financial management system encompasses both administrative systems and accounting systems.

Administrative systems provide the framework for handling procurement, travel, inventory, facilities and personnel matters such as payroll and benefits. (See *Compliance 5.1–5.6*).

Accounting systems encompass the methods, procedures and controls established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data.

Four Key Pillars of Financial Management

Although no one model of financial management fits every organization, the following components are essential to good financial management:

1. **Planning** looks ahead to prepare for the future, such as developing budgets to cover activities of a program or the entire organization for a year or a longer period.
2. **Organizing** clarifies who does what, why, when and how.
3. **Controlling** establishes systems and procedures, checks and balances, to make sure that the financial resources of the organization are properly handled and that risks are managed.
4. **Monitoring** compares plans with actual performance to identify strengths and weaknesses in planning and implementation and adjust as necessary.

Who is responsible for financial management?

Staff members at every level have a role to play in helping manage risks, answer to donors and beneficiaries and deliver results for the organization. The Board is responsible for the financial oversight of your organization and is ultimately accountable by law. However, the Board typically delegates the day-to-day responsibilities to the executive director or top management who delegate some functions to senior

DEFINITIONS

Financial Management—Planning, organizing, controlling and monitoring financial resources to support the objectives and functioning of an organization.

Financial Management Manual—A collection of the policies and practices that describes how an organization conducts its day-to-day fiscal affairs.

NGO FINANCIAL MANAGEMENT MANUAL

Sample Table of Contents

- Financial accounting routines
- The Chart of Accounts and cost center codes
- Delegated authority rules (that is, who can do what)
- The budget planning and management process
- Ordering and purchasing procedures
- Bank and cash handling procedures
- Management accounting routines and deadlines
- Management and control of fixed assets
- Staff benefits and allowances
- Annual audit arrangements
- How to deal with fraud and other irregularities
- Code of Conduct for staff and Board members

The manual may also include reference materials such as:

- organization chart,
- job descriptions,
- standard forms, and
- glossary and/or list of acronyms and abbreviations.

Source: *Practical Financial Management for NGOs—Getting the Basics Right*. Terry Lewis. Mango (Management Accounting for Non-governmental Organisations) 2009. http://www.mango.org.uk/

Good financial management enhances your accountability to your donors and beneficiaries. It also builds respect for and confidence in your organization, improving your chances for long-term financial health.

managers. The senior managers, in turn, delegate some functions downward, and so on, as illustrated in the table below.

Players in Financial Management	Sample Responsibilities
Board of Directors (Trustees)	• Oversee financial controls and ensure accountability • Review and approve annual budget • Approve financial policies, including delegating authority • Review and approve financial reports and audited financial statements • Monitor and support resource mobilization • Assess financial risks facing the NGO
Chief Executive Officer — CEO (Executive Director)	• Report to the Board and manage budgeting process • Appoint/hire financial staff and delegate tasks • Review donor and other agreements/contracts • Ensure financial records are accurate and up to date • Ensure correct, timely preparation and submission of financial reports • Ensure that program activities are in line with budget and deliverables • Monitor resource use and manage income generation • Monitor financial needs of the organization and business planning
Senior Managers	• Manage and monitor the budgets for their departments or projects • Review organization financial reports and give input to CEO • Further delegate some financial responsibilities to their team • Project future financial needs
Program Staff	• Set project budgets to ensure that all costs are included (such as deliverables, M&E implementation) • Control budgets to ensure money is spent as agreed and work with finance staff to ensure policies and procedures are followed, expenditures are coded and reported accurately • Work with appropriate staff to ensure that procurements are best value for money
Finance Staff	• Handle the NGO's cash, including banking and issuing receipts • Administer the payment process to ensure bills are paid on time • Complete the books of accounts and reconcile them every month • Prepare internal and external financial reports

Review USG Financial System Minimum Requirements

The U.S. Code of Federal Regulations (CFR) provides a set of minimum requirements that an NGO's financial management system must meet before it can receive a USG award and must maintain throughout the period of performance. Detailed information is available online at **http://www.access.gpo.gov/nara/cfr/waisidx_10/22cfr226_10.html**.

Create a Financial Management Manual

Document how your administrative and accounting systems work. There is no single model financial management manual, and yours will depend on the needs and structure of your organization. However, the sample table of contents on the previous page is a good starting point. Print and assemble the policies and procedures in a manual that is shared with staff and readily accessible to everyone.

REFERENCES

U.S. Government Standards for Financial Management Systems U.S. Code of Federal Regulations 22 CFR 226.21 http://www.access.gpo.gov/nara/cfr/waisidx_10/22cfr226_10.html

The Essential NGO Guide to Managing Your USAID Award www.NGOConnect.NET/resources/ngoguide

Practical Financial Management for NGOs—Getting the Basics Right. Mango (Management Accounting for Non-governmental Organisations) http://www.mango.org.uk/Guide

A Practical Guide to the Financial Management of NGOs. Namibia Institute for Democracy http://www.nid.org.na/pdf/publications/Financial%20training%20manual.pdf http://www.nid.org.na/pdf/publications/Financial%20training%20manual.pdf

MSH EHandbook Chapter 6 "Managing Finances and Related Systems" http://www.msh.org/Documents/upload/msh_eHandbook_ch06.pdf

2.2

Pipelines and Burn Rates

Q **What are our "pipeline" and "burn rate," and how do we calculate them?**

A You may have heard the terms "pipeline" and "burn rate" discussed in relation to the financial management of your Cooperative Agreement. But what do they mean, what are they used for and how do you calculate them?

To monitor how much money you are spending under your USAID Agreement and to make sure there is enough money available to cover your upcoming expenses, two key figures to track are your **pipeline** and **burn rate**.

To calculate these, start by looking at your grant agreement to identify the amount the USG has committed so far, known as the "obligated amount." Note that this amount is different from the "award amount," which is the total expected to be obligated over the life of the Agreement.

Your **pipeline** is the amount of funds obligated but not yet spent. This is the amount of money that is available for you to draw down on for project activities. Calculate this by adding up all the funds you have spent to date and subtracting that amount from the total obligation.

Calculation: Pipeline = Obligation – Total Amount Spent

The **burn rate** is the rate at which you are spending your obligation. The basic calculation for your burn rate is to figure how much you have spent and divide that by the number of months you have been spending.

Calculation: Burn Rate = Total Amount Spent / Number of Months

Example:

- "MyNGO" has been awarded a Cooperative Agreement for a total of US$1,000. We received an initial obligation of US$10. When the workplan was approved, we received an additional obligation of US$300, bringing our total obligation to US$310.
- MyNGO has been operating the project for four months and has spent a total of US$145.
- Subtracting our total spent (US$145) from our total obligated (US$310) gives us a pipeline of US$165.
- Dividing the amount spent (US$145) by the number of months we have been spending (4) gives us a burn rate of US$36.25 per month.

DEFINITIONS

Award Amount—The total amount that is anticipated to be spent by the USG over the life of the project.

Obligated Amount—The amount the USG has committed to the project at any given time, which may be the full amount of the award or a portion of the award amount. In other words, it is the amount available to your organization to spend on the project at that particular time.

Pipeline—The amount of funds obligated but not yet spent.

Burn Rate—The rate at which an organization spends its award funds on a periodic basis, typically monthly.

OBLIGATIONS VS. AWARD

It is important to understand that your obligation amount is not necessarily the full amount of your award. The total award amount is the amount anticipated to be spent over the life of your project. The obligated amount is the amount USAID has definitely committed to spending on the project.

Therefore, just because your organization has received an award, USAID is only liable to pay you up to the amount of the obligation. Any spending your organization does above the obligated amount is at your own risk!

ITEMS TO CONSIDER

Remember: The process for requesting and receiving additional funds from USAID can take a considerable amount of time, so plan ahead so that your project can continue without interruption.

REFERENCES

ADS Glossary
http://www.usaid.gov/policy/ads/glossary.pdf

USAID's Accrual Documentation
http://www.usaid.gov/policy/ads/600/631sab.pdf

Next Steps

Using your pipeline and burn rate, you can calculate how many months worth of money you have left before you will need an additional obligation.

> **Calculation:** Pipeline / Burn Rate = Approximate # Months Money Left Before the Obligated Amount Will be Spent

In our above example, dividing MyNGO's pipeline of US$165 by the burn rate of US$36.25 tells us that MyNGO will spend its remaining obligation in about four and a half months, assuming spending stays at about the same level.

By tracking your pipeline and burn rate, you can monitor your spending to make sure you are neither spending too quickly nor too slowly. Most important is that by watching these figures, you will know when you need to request an additional obligation from the USG.

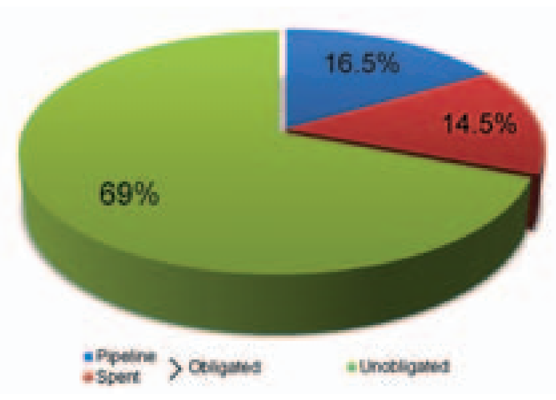
MyNGO's USG Award

Award Amount	$1,000
Original Obligation	$10
Additional Obligation	$300
Total Obligation to Date	$310

	Jan	Feb	Mar	Apr	Total
Spending	$25	$55	$35	$30	$145

	Calculations	Result
Pipeline	$310-$145	$165
Burn Rate	$145 / 4	$36.25
Months Remaining	$165 / $36.25	4.5 months

Total Award Amount Breakdown



2.3

Understanding Fluctuating Exchange Rates

Q **What are fluctuating exchange rates, and what is their impact on project implementation?**

A Although most transactions with vendors in-country need to be completed in local currency, the budget submitted for your USAID award, the amount obligated and the financial reports you provide need to be in U.S. dollars (USD). Consequently, as you convert funds from one currency to another, you need to be aware how changes in the exchange rate between currencies can affect the actual amount of funding available to implement your program.

The following discusses the effects of fluctuating exchange rates and provides strategies for addressing the issue with minimum disruption to program services.

Fixed versus Fluctuating Exchange Rates

An exchange rate is the price for which one currency may be exchanged for another at a given moment in time. There are two ways the price of a currency can be established: 1) the government (central bank) determines the rate and maintains it as the official exchange rate; or 2) the private foreign-exchange (forex) market determines the rate based on supply and demand for a particular currency relative to other currencies. As a result, the rate fluctuates or floats. The majority of the world's currencies are fluctuating.

One example of a country with a fluctuating exchange rate is South Africa, where the value of the Rand might be 8 Rand to 1 USD one day and 11 Rand to 1 USD the next day.

Program Impact

When you created the budget for your program, you likely used the exchange rate in effect when you submitted your proposal. But that rate has likely changed since you won the award and began receiving funding in USD. As a result, when you convert your funds USD into local currency, you may find that the actual amount will vary depending on how different the current exchange rate is from the rate projected in your original budget. In some cases, this may work to your advantage, and you will end up with more funding than anticipated; in others cases, you will end up with less.

Managing the Effects of Fluctuating Exchange Rates

Sound financial management practices are the best way to anticipate the impact of fluctuating exchange rates and mitigate any negative effects on your program. Ideally, an organization will have a multi-currency accounting system that can automatically record transactions in local currency and generate reports in local currency and equivalent USD.

DEFINITIONS

Burn Rate—The rate at which an organization spends its award funds on a periodic basis, typically monthly.

Exchange Rate—The amount of money needed in one currency to purchase another. This process is frequently called "currency conversion."

Obligated Amount—The amount the USG has committed to the project at any given time, which may be the full amount of the award or a portion of the award amount. In other words, it is the amount available to your organization to spend on the project at that particular time.

Pipeline—The amount of funds obligated but not yet spent.

Weighted Average Exchange Rate—The average of the exchange rates over a given period of time.

Sound financial management practices are the best way to anticipate the impact of fluctuating exchange rates and mitigate any negative effects on your program.

If the exchange rate greatly affects your programming and your targets, it is important to share this challenge with your funder and troubleshoot how the shortfall will be addressed.

For organizations that do not have a multi-currency system, there are two methods suggested to account for the exchange rate:

- "first in, first out"; and
- weighted average exchange rate.

"First In, First Out" Method

The "first in, first out" method uses the oldest exchange rate to account for expenses until funds received at that exchange rate have been fully expensed. For example, let's say your organization receives US$1,000 on January 1, and the exchange rate at that time is US$1 = 7 Rand. Then on January 15, you receive US$2,000 at an exchange rate of US$1 = 8 Rand, and on January 23, you receive US$500 at an exchange rate of US$1 = 5 Rand. During this period of time, you spend 17,300 Rand. Using the "first in, first out" method, this amount will be converted to USD as follows:

Date	Amount Received in USD	Exchange Rate	Amount Received in Rand	Expenses in Rand	Expenses in USD
January 1	1,000	7	7,000	7,000	7,000/7 = 1,000
January 15	2,000	8	16,000	8,000	8,000/8 = 1,000
January 23	500	5	2,500	2,300	2,300/5 = 460
TOTAL	**3,500**		**25,500**	**17,300**	**2,460**

In this example, if you spent 17,300 Rand, it would be equal US$2,460, and your balance of funds in USD would be US$1,040 (US$3,500 – US$2,460).

Weighted Average Exchange Rate Method

In locations where the exchange rate fluctuates significantly during a month, using the weighted average is the preferred method to calculate a realistic exchange rate.

The weighted average exchange rate is the average of the exchange rates over a given period of time. It is calculated by multiplying each rate by the amount exchanged at that rate, adding the three subtotals together and dividing by the total USD amount exchanged. Using the same example, the table below shows the exchange rate at which costs can be converted back to USD for reporting on expenses.

Date	USD	Exchange Rate	Rand
January 1	1,000	7	7,000
January 15	2,000	8	16,000
January 23	500	5	2,500
TOTAL	**3,500**		**25,500**

In this example, the weighted average exchange rate would be 7.29 (3500/25,500). If you spent 17,300 Rand, using the weighted average exchange rate method, it would be equal to US$2,373.11 (17,300/7.29), and the balance of funds on hand would be US$1,126.89 (US$3500–US$2,373.11).

With the weighted average exchange rate, the program can accurately capture the costs incurred and what funds are remaining and minimize the exchange rate variance, which should be accounted for in your accounting system.

As you can see, the different methods result in slightly different answers. However, the goal is to limit the foreign exchange risk using a relatively simple conversion method.

As mentioned above, you may have used a different exchange rate in effect when you submitted your proposal. For this example, had the exchange rate been 10 Rand to US$1 at the time, either illustrated method would provide a more accurate reflection of costs in USD than if you were to use your initially budgeted exchange rate.

Pipelines

Calculating how much you are spending in both local currency and USD is crucial to effectively managing your award, but it is only the first step. Once you account for the fluctuating exchange rate, it is important to keep track of your spending by regularly updating your pipeline and burn rate so that you know how much funding remains for planned activities, and you can adjust activities if necessary. (For information on how to calculate your pipeline and burn rate, see *Financial Management 2.2*.)

It is important for your financial team to be in touch with your program team regarding the project's pipeline and the amount of funding remaining for activities. Work planning in particular should be done with careful consideration of updated pipelines.

Reporting

Quarterly and annual financial reports to USAID must be in USD. Local costs will be captured in the report according to the exchange rate method your organization selects.

Maintaining communication with USAID is essential. If the exchange rate has a measureable impact on your programming and your targets, it is critical to share this information and troubleshoot how you will address a shortfall. On the other hand, should the exchange rate result in some additional money, it may be used for the program.

Documentation

Establish a written policy on how you will address foreign exchange rates. Not only will this help ensure that the policy is applied consistently by all staff, but it will also serve as backup documentation if questions arise during an audit.

Managing Subgrantees

To reduce the burden of managing foreign exchange rates, it is recommended that all subgrants be signed in local currency. This allows your subpartner to better manage its budget, since both the budget and actual expenditures are in the same currency. (See *Program Management 4.2*.)

REFERENCES

Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients – Local Procurement (#8)
http://www.usaid.gov/policy/ads/300/303mab.pdf

Code of Federal Regulations – Local Procurement – 22 CFR 228.40
http://www.access.gpo.gov/nara/cfr/waisidx_01/22cfr228_01.html

2.4

Cost Share

DEFINITIONS

Cost Share—The portion of project costs not covered by the USG. This may be cash or in-kind contributions.

In-Kind Contribution—Non-cash resources contributed to a project. This may include volunteer services, equipment or property.

COST SHARE VS. MATCHING FUNDS

The term "matching funds" is used when program recipients are required to provide a certain amount of non-USG funds to a project in order to be eligible to receive USG funds.

"Cost share" refers to all other cases where non-USG contributions are committed to a program.

Q **What is cost share? What counts toward cost share, and how do we report it?**

A Cost share is the non-U.S. Government portion of the costs of your project. Cost share may either be cash or in-kind contributions.

Once you commit to providing cost share and it is included in your agreement's approved budget, you are required to provide documentation showing that this obligation has been met successfully.

If you committed to providing cost share, but are unable to meet your obligation as planned, you are still responsible for it.

Example: Your agreement has an approved budget of US$1.1 million, which is composed of US$1 million in USG funds and US$100,000 in cost share. If you document and report cost-share contributions of only US$75,000, you are responsible for the remaining US$25,000. If you do not provide acceptable documentation and report the remaining balance before the end of the project's period of performance, the Agreement Officer may reduce your final obligation of USG funds by US$25,000.

What Counts Toward Cost Share?

Cash and in-kind contributions from a non-USG source may be eligible to count toward your cost-share commitment. To be counted, a cost-share contribution must meet all of the following criteria:

- must be verifiable in your organization's records;
- cannot be included as a contribution for any other USG-assisted program;
- is necessary and reasonable for proper and efficient accomplishment of project objectives;
- is allowable under the applicable USG cost principles (including reasonableness of the cost or value of the donated goods or services);
- is not paid for by the USG under another agreement; and
- is included in your approved budget.

Tip: Certain procurement restrictions that apply to the use of USG funds may not apply to the use of non-USG cost-sharing resources. For example, the source and origin procurement requirements and international travel provisions in your agreement may not apply to purchases or travel using non-USG funds.

Reporting Cost Share

In order to demonstrate that you are meeting your cost-share obligation, you must record the amount (or equivalent amount in the case of in-kind contributions) in your quarterly Federal Financial Report using the Standard Form-425 (See SF-425, section 10. Transactions, Recipient Share: line i.) Cost share amounts must be verifiable in your organization's records and are subject to being audited.

Tips for Documenting and Reporting In-Kind Contributions

- *Volunteer services* may count toward your cost-share obligation, but they must be documented and, to the extent feasible, supported by the same methods you use with your employees (such as timesheets). Rates for volunteers should be consistent with those paid for similar work by your organization or rates paid for similar work in the local labor market.
- *Donated supplies* may include expendable equipment, office supplies, laboratory supplies or workshop and training materials.
- The value claimed for expendable personal property, donated or loaned equipment, donated land or buildings or donated space must be reasonable and may not exceed its market value at the time of the donation.
- The value of donated land and buildings or office space should be established by an independent appraiser (e.g., certified real property appraiser) and certified by a responsible official in your organization.
- You must document the basis you used for determining the value for any personal services, material, equipment, buildings, or land that you report as an in-kind contribution. There is no mandatory way to do this, but it must be fair and clearly documented.

With the authorization of the Agreement Officer, you may capture cost-share contributions from your subrecipients on the project (if any) in meeting your obligation. Please note that the same parameters apply to the subrecipients.

IN YOUR AGREEMENT

If applicable, your cost-share commitment is listed in the following sections:

- The end of your award letter in section A. General Item 5—"Cost Sharing Amount (Non-Federal)"
- Attachment A to your award in the Schedule section
- Part 4—"Cooperative Agreement Budget"
- Part 9—"Cost Sharing"

REFERENCES

OMB Circular A-110 - Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
http://www.whitehouse.gov/omb/circulars_a110

2.5

Allocating Shared Costs

DEFINITIONS

Direct Project Expenses—Goods and services specifically purchased for the exclusive benefit of one project that are charged to that project.

NICRA—Negotiated Indirect Rate Cost Agreement, a rate negotiated individually between an organization and the USG to cover indirect costs.

Shared Project Costs—Goods and services used by multiple projects and for which a vendor cannot invoice each project separately that are charged to each benefiting project based on a pre-determined formula.

Q **We have multiple projects with different funders; how do we account for shared office expenses?**

A An organization with more than one project incurs three categories of expenses:

1. **Direct project costs**. Costs that can be clearly attributed to a specific project, such as a dedicated staff person, office space used by project staff or specific equipment and supplies used only by a single project.
2. **Shared project costs**. Costs that are required to carry out a project, but are difficult to attribute to a specific project, such as electricity or administrative support staff.
3. **Non-project costs**. Legitimate organizational expenses, but costs not related to any specific project or costs that are not "allowable."

Most of your expenses will easily fall into the direct cost category, while non-project costs are usually self-evident. Costs that may be shared, however, may be the biggest challenge.

Shared Resources versus Shared Costs

There is an important difference between a resource that *may* be shared by more than one project versus something that is a shared or indirect cost.

A resource that may be shared by more than one project typically falls into the direct cost category. For example, think of a professional staff member as a resource that may devote time to more than one project. Since the individual's time is tracked on a timesheet, you will know exactly how many hours were spent working on Project A versus Project B. Therefore, you can allocate the exact number of hours and salary to each project as direct costs.

Another example: If your organization has a vehicle, it may be used for trips by staff working on more than one project. Every trip taken should be noted in the vehicle usage log book. Therefore, the expenses for each trip can be allocated as a direct cost to each project.

A shared or indirect cost, on the other hand, is one that is has been incurred for common or joint project need. Examples of common shared office costs are utilities, Internet service charges and expendable office supplies like paper and paper clips. Unlike the examples above, it is not obvious how much should be charged directly to any one project.

Some organizations have gone through a process with USAID to establish a Negotiated Indirect Cost Rate Agreement (NICRA) and use that to address these kinds of costs. But most organizations do not have a NICRA (or only have a NICRA for headquarter expenses) and, therefore, need a method for figuring out how to allocate these kinds of costs.

Set—and Keep Up to Date—a Shared or Indirect Cost Policy

With these guidelines in mind, set a policy that answers the following questions:

- What specific costs and resources are considered "shared"?
- How will your organization divide shared costs among different projects?
- When the formula will be revised?

Sample Formula for Calculating Shared Expenses

Costs that cannot be attributed to one project or another as direct costs will need to be addressed by establishing a formula. One approach is to use a percentage based on the number of employees on one project versus the total number of employees or the allocation of dedicated office space.

To do this, first figure out what parts of your office are dedicated to a specific project, such as space for dedicated project staff, and what parts are shared, such as meeting rooms or the reception area. Of the areas that are dedicated to specific projects, calculate the square meters allocated to each project. You can even divide the office space of an individual who splits time based on the percentage she or he allocates to each project. Add up the area dedicated to each project and calculate the percentage dedicated to each project.

For example, let's say a 1,000 square meter office houses two projects; eight hundred square meters of office space is dedicated to the projects, while the rest is shared. Of the dedicated space, 600 square meters is for one project, while 200 is for the other project. This means 75 percent of the overall space is charged to the first project (750 square meters), and 25 percent for the second (250 square meters). *These percentages may also be used as the basis for allocating costs for other shared expenses.*

There is no single correct method for allocating shared costs, but it should be clear how your organization handles these costs. This helps to ensure that your project funds are used wisely and that you are distributing costs fairly. And do not forget, as projects and funding streams change, you should adjust your formula accordingly.

Multiple Offices

If your organization has offices in several different locations, you may want to set some general guidelines and have each office set its own specific policy based on the projects and expenses at that location. The policies should be in writing because during your annual audit, the auditors will review and compare your policy with your practice. Some projects that share offices set a formal Memorandum of Understanding that includes detailed agreements on additional topics, such as shared assets, payroll and human resources issues. This is especially common when the separate "project teams" come from different operational units or are from completely different organizations.

ITEMS TO CONSIDER

Q: If we have a NICRA, do we still need to allocate shared costs?

It is tempting to think that having an established Negotiated Indirect Cost Rate Agreement (NICRA) will solve the challenge of allocating shared project costs. A NICRA can simplify how you are reimbursed for your overhead costs in certain USG-funded projects. However, if you have projects funded by other donors, if your NICRA only covers headquarters' expenses or if you want to verify that your NICRA is accurately covering your shared expenses, you will still need to allocate your shared costs. Thus, regardless of whether or not you have a NICRA, it is a good management practice to establish a policy for allocating shared project expenses.

REFERENCES

Best Practices Guide for Indirect Costing.
http://www.usaid.gov/business/regulations/BestPractices.pdf

2.6

Foreign Tax (VAT) Reporting

DEFINITIONS

VAT—Value Added Tax. Tax levied on the purchase of goods and services, similar to sales tax in the U.S.

IN YOUR AGREEMENT

The "Reporting Foreign Tax" clause is in the standard provisions of a Cooperative Agreement.

The Foreign Tax Report must be submitted by all organizations receiving USAID funding by April 16 each year.

Q **Is our organization exempt from paying VAT and customs duties on goods and services purchased with USG funds? And, what are the Foreign Tax Reporting requirements?**

A Organizations implementing U.S. Government (USG)-funded development projects are exempt from certain taxes and duties imposed by the government of the country where they are working. Exemptions cover both prime recipients as well as subrecipients.

Specific exemptions and the process for requesting reimbursements of taxes paid are outlined separately for each country in bilateral agreements between the USG and host governments. Below are several common exemptions, as well as taxes you may be required to pay. You will need to find out what exemptions and requirements are relevant in each of the countries in which your organization is working.

The following provides examples of the kind of information to report, discusses the requirements of the USAID Foreign Tax Report, due from USAID recipients every year on April 16, and offers suggestions for tracking your tax payments and reimbursements to make reporting easy.

Taxes Exempt in Most Countries

- Value Added Tax (VAT) levied on commodities purchased in-country.
- Customs duties levied on commodities imported into the country for use in USG-funded projects.

Taxes Not Exempt

- VAT or sales tax levied on items purchased outside of the host country where you are implementing your USG-funded program. For example, if an organization purchases commodities in South Africa for use on its USG-funded project being implemented in Mozambique, it would not be exempt from paying VAT in South Africa.
- Organizations with headquarters (HQ) outside of the host country, including those in the U.S. or Europe, are not exempt from VAT or sales taxes in their home country, whether the items purchased are used in the HQ office or in the field.

Other Taxes Levied by Host Governments

Though the USG seeks exemptions on all taxes levied against foreign assistance projects by host governments, there are several categories of taxes that you may be required to pay, for example:

- Taxes levied on services, including lodging and rental of conference facilities;
- Payroll taxes; and
- VAT on projects with no USG funding.

Be sure to check with the in-country Mission and other donors for details about what taxes your organization may be required to pay.

Country Specifics

Each country negotiates its own bilateral agreement with the U.S., which includes provisions regarding the taxation of U.S. foreign assistance. These provisions typically address what taxes are exempt and how organizations implementing USG-funded programs can receive reimbursements for any taxes paid. Exemptions and reimbursement procedures can vary widely from country to country, but it is your responsibility to check with the Mission regarding the rules in the country where you are working.

Work with the in-country USG team to answer the following questions:

- What taxes am I exempt from paying?
- What taxes, if any, am I required to pay?
- What is the process for obtaining an exemption or reimbursement?

The process for obtaining an exemption or reimbursement varies by country. Some countries provide VAT exemption letters to show vendors at the time of the purchase. Others require that you pay the VAT and later request reimbursement, either through the Revenue Authority or through the local Mission or Embassy.

Contact your AOR for further guidance.

Foreign Tax Reporting

A Foreign Tax Report must be submitted by all organizations receiving USAID funding by April 16 each year. All organizations receiving USAID funds must comply with the foreign tax reporting requirements established by the U.S. Embassy in that country.

The purpose of the Foreign Tax Report is to ensure that U.S. foreign assistance is not being taxed and, therefore, that the funds are used for their intended purposes. The USG uses these reports to track whether or not foreign governments are complying with the terms of their bilateral agreement.

Who Must Report

Any organization that purchased US$500 or more worth of commodities with USG funds or paid any customs duties in the country where it is operating during the prior fiscal year, is required to submit an annual report on foreign taxes. This report is required *even if you did not pay any taxes* on those items during the reporting period!

All subrecipients under your award with in-country purchases of US$500 or more must also track taxes paid and reimbursements received. You must incorporate subrecipient data directly into your report.

The purpose of the Foreign Tax Report is to ensure that U.S. foreign assistance funds are being used for their intended purposes and not being taxed, and to track whether or not foreign governments are complying with the terms of their bilateral agreements.

What Taxes Do I Report?

Only include taxes paid in the Foreign Tax Report if the following conditions are all true:

- The tax was paid to the government in the country where you are implementing.
- The transaction was US$500 or more (not including the VAT).
- The tax being paid is one your organization is exempt from paying (for example, if you are not exempt from lodging taxes in a particular country, then do not report them).
- The purchase is related to your USG-funded project. (Report the purchase regardless of whether the specific purchase is made with USG funds or is part of cost share, as long as it is a legitimate part of the project).

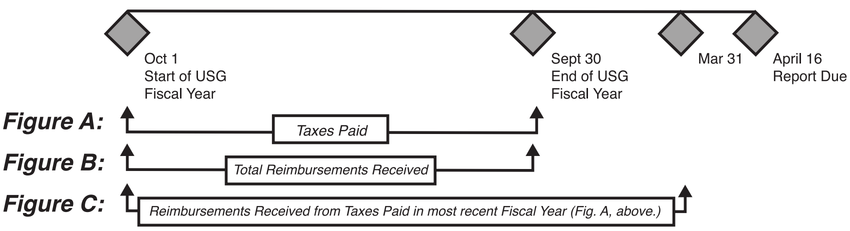
When Is the Report Due, and What Time Frame Should It Cover?

The Foreign Tax Report is due each year on April 16. You are required to report the following three figures:

Figure A. ***Taxes paid to the host government during the previous fiscal year***. This includes VAT and customs duties.

Figure B. ***All reimbursements received during the previous fiscal year,*** regardless of when the original tax was paid.

Figure C. ***Reimbursements received*** from the taxes paid ***through March 31 in the current fiscal year*** being reported on.



Because exemptions and reimbursement procedures vary from country to country, check with the in-country team or U.S. Embassy in the country in which you are working.

Where Do I Submit My Report, and What Is the Format?

Submit the report to the office listed in your Cooperative Agreement under the Reporting of Foreign Taxes standard clause or as directed by your funding agency (usually the U.S. Embassy or your funding agency's in-country financial management office). Also send a copy of your report to your AOR.

There is no standard form for the report. However, the report must contain the following:

1. Your organization's name.
2. Contact name with phone, fax and e-mail.
3. Your agreement number(s).
4. Amount of foreign taxes assessed by a foreign government on purchases valued at US$500 or more financed with USG funds under the agreement(s) during the prior fiscal year. If you work in multiple countries, list each country separately. However, if you work on multiple projects within one country, you can report on the total for each country. Only

foreign taxes assessed by the foreign government in the country in which you are working are to be reported. Foreign taxes assessed by a third-party foreign government are not to be reported.

5. Report all reimbursements you have received during the prior fiscal year regardless of when the foreign tax was assessed. Also, provide a separate figure giving the total of any reimbursements of taxes assessed during the fiscal year for which you are reporting and that you have received through March 31.

Example

Organization: MyNGO

Contact: Jane Smith

Phone: +255-555-5555. *Fax*: +255-555-5556. *Email*: jane@myngo.org

Agreement Number: XYZ-123

Country	Taxes Assessed during FY 08	Total Reimbursements Received during FY 08	Reimbursements Received on FY 08 Taxes through Mar 31
Mozambique	US$0	US$500	US$0
Tanzania	US$1,000	US$1,000	US$1,000

In this example, the organization is operating in two countries: Mozambique and Tanzania. The amounts in this table are summaries by country and are not broken down by project or subrecipient. During FY08, the Mozambican government did not assess any taxes on the prime recipient (or subrecipients, if any). However, it did reimburse the organization US$500 for taxes assessed prior to FY08. During FY08, the Tanzanian government assessed the organization US$1,000 in taxes, but reimbursed the organization in full by March 31, 2009. A separate Foreign Tax Report must be submitted for each country (Tanzania and Mozambique).

Tracking VAT and Duty Payments and Reimbursements

Your organization should develop a process for tracking VAT and customs duties paid, as well as for requesting and receiving reimbursements from the host government. Establishing such a process greatly simplifies your annual reporting and helps ensure your funds go toward providing services to beneficiaries.

Consider the following strategies for tracking your VAT payments and reimbursements:

- *Develop a list of exemptions and required taxes*, so everyone in your organization involved with procurements is aware of the policy. Share this with subrecipients as well.
- *Create a special code in your accounting system for tracking all payments of exempt taxes*. Use this code only for exempt taxes—not for legitimate taxes paid.
- *Create a special code in your system for tracking incoming tax reimbursement payments from the host government*. Make sure you can tie the reimbursements received back to the original accounting

To simplify your annual reporting, your organization should develop a process for tracking VAT and customs duties paid, as well as for requesting and receiving reimbursements from the host government.

entry that recorded the taxes being paid. This will make it easy to identify which reimbursements have and have not been received.

- *Establish a log that tracks the tax payment and reimbursement process.* This should document each tax payment, reimbursement request and payment received. You may also want to have a policy for keeping copies of receipts and reimbursement requests sent to the host government or USG office, as applicable (see the example below). Customize your process so it fits in with the host government and USG in-country requirements regarding submitting requests and expected turn-around time for tax reimbursements.
- Since your subrecipients also may have purchases of commodities or other expenditures covered by these provisions, *work with subrecipients to submit their reports to you prior to the April 16 deadline*, so you will have sufficient time to incorporate their data into your report. Note that their reports also must include reimbursements through March 31, so their deadline would need to be sometime between April 1 and April 15.

Example VAT Tracking Log

Below is an example of a log for tracking your VAT payments, reimbursement requests, and payments received. You can create a log like this for each country in which you operate, and the log can include all requests related to that country, even from different projects. You also may want to use this log to track VAT payments for transactions under US$500 for auditing purposes, though you will not include these in your USAID-required Foreign Tax Report.

* You may want to track your payments and reimbursements in local currency.

Acct Sys Ref #	Date	Vendor	Description	Transaction Value (pre-VAT)*	VAT*	Project	Date Reimb. Requested	Date Reimb. Received
210	23-Oct-07	ABC Supplies	Office Furniture	$1,200	$120	A	31-Oct-07	15-Jan-08
223	15-Jan-08	DEF Imports	HBC Kits	$1,000	$100	B	31-Jan-08	
235	02-Feb-08	GHI Computers	Computers	$2,000	$200	C		
236	02-Feb-08	JKL Inc.	Printer	$500	$50	D		

REFERENCES

USAID Guidance on Foreign Tax Reporting
http://www.usaid.gov/policy/ads/300/302mac.pdf

2.7

Requesting USG Funds Using the Standard Form-270 (SF-270)

Q **When and how do we request funds, and how much may we request at a time?**

A The U.S. Government (USG) disburses funds to grantees in two ways: 1) by advancing funds or 2) by reimbursing partners for expenses after they have been incurred. Your Cooperative Agreement and/or USAID's financial management office (FM) will direct you on the disbursement channel you are authorized to use.

To request funds, you must fill out the *SF-270 Request for Advance or Reimbursement* and submit it to your funding agency's FM. If you have multiple USG awards, you must fill out a separate SF-270 for each award. A detailed explanation of how to fill out and submit the SF-270 follows.

Initially, you will be limited to requesting funding advances one month at a time. Each request must be for the amount you estimate you will spend in the upcoming 30-day period. You are not allowed to request or hold on to any extra "contingency funds." However, if a particular planned procurement is delayed, you are permitted to carry over those funds until the following month. If an activity is cancelled you can spend the funds on another activity in your approved workplan.

Though individual agency policies may vary, typically you will be required to complete the SF-270 and submit it approximately one week before the month in which you require the funds. The FM will review and determine the appropriateness of the funds requested. If your request is unusual, such as a request for an atypically large amount of funds for an upcoming procurement, it may be helpful to provide an explanation or documentation with your request. Turn-around times vary among agencies, but generally you can expect funds within one week.

When you have demonstrated, over a period of time, that the funds you request are spent efficiently and that you are neither spending too quickly nor too slowly, you may be allowed to request funds on a quarterly basis. Your Agreement Officer's Representative (AOR) and FM will determine this by reviewing the data from your quarterly SF-425 Federal Financial Reports and your SF-270 to calculate your pipeline and burn rates.

DEFINITIONS

FM—Your funding agency's financial management office.

Program Income—Program income is money earned by a program for the benefit of the program itself. It is generated from charging fees for services or from sales of commodities. Program income also may be generated by selling equipment that is no longer needed that was purchased with program funds.

Program income is different from income-generating activities, through which a program's grantees or beneficiaries keep income earned.

DOWNLOADING SF-270

Download a PDF version of SF-270 at http://www.whitehouse.gov/sites/default/files/omb/grants/sf270.pdf.

To take advantage of some of the form's features, including auto-calculations, be sure you have the latest version of Adobe Reader. Download it for free at http://www.adobe.com/products/acrobat/readstep2.html.

ITEMS TO CONSIDER

Timing Your SF-270 and SF-425 Submissions
Since the FM uses the information from your SF-425 Federal Financial Report to process your SF-270 Request for Advance, it is important to make sure you have completed and submitted your SF-425 in a timely fashion. Though you are technically not required to submit the SF-425 until 30 days after the end of the quarter, waiting that long could delay the processing of your request for funds. Therefore, submit the SF-425 as soon as possible if you have a pending request for funds.

Bank Account Requirements
Your organization and your subrecipients are required to keep USG funds in interest-bearing accounts, separate from all other funds. You may only use a non-interest-bearing account if:
1) your organization (or one of your subrecipients) receives less than US$120,000 in USG funds per year; or 2) an interest-bearing account requires a minimum balance that is so high as to make it impractical to use.

You may keep up to US$250 of any interest earned to cover administrative costs. Interest earned in excess of US$250 per year must be remitted to your funding agency.

Keep an Eye on Your Obligation Ceiling!
The turn-around time for processing a request for funds is fairly short *as long as you have sufficient funds obligated under your award.* If you request funds above your obligation ceiling, your agreement will have to be modified to obligate additional funds to your award amount before the FM can process your SF-270.

It is in your best interest to monitor your obligation amount closely. As soon as you have expended 75% of your obligation, contact your AOR to request that additional funds be obligated. (For more information on tracking your obligation amount, see the sidebar “Obligation vs. Award” in *Financial Management* section 2.2 *Calculating Pipeline and Burn Rates.)*

Estimating Advances

When estimating your request, do not merely divide your annual budget by 12 months; instead, calculate specifically what you think you will spend in the upcoming month. Some elements of your budget may be divided evenly among months, (for example, salaries), but some, such as purchases of non-expendable equipment, may happen all in one month (for example, at the beginning of a project).

Partners who are implementing projects with subrecipients should work together to ensure funding requests and spending are managed smoothly, so no organization runs out of money. To do this, ask subrecipients to provide monthly or (when approved) quarterly funding estimates. You also may wish to institute a process with subrecipients for advances and reimbursements similar to that which you follow for the USG.

Filling Out the SF-270

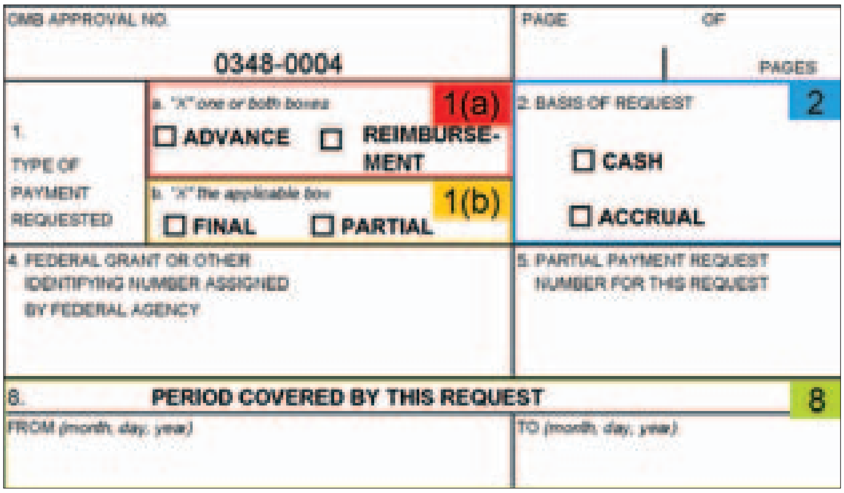
The SF-270 is used to request advances or reimbursements from the USG.

The SF-270 is a two-page form: the first page contains space for you to input information and data; the second is for signature and includes instructions on how to complete the form.

On the first page, there are three primary sections—the top portion for information about your grant and your request; the middle section in which you calculate your advance or reimbursement; and the third section for requesting advances only.

Top Portion

Below are tips for the key sections.


OMB APPROVAL NO.
0348-0004
PAGE OF PAGES
1. TYPE OF PAYMENT REQUESTED
1(a) a. "X" one or both boxes
☐ ADVANCE ☐ REIMBURSE-MENT
1(b) b. "X" the applicable box
☐ FINAL ☐ PARTIAL
2. BASIS OF REQUEST 2
☐ CASH
☐ ACCRUAL
4. FEDERAL GRANT OR OTHER IDENTIFYING NUMBER ASSIGNED BY FEDERAL AGENCY
5. PARTIAL PAYMENT REQUEST NUMBER FOR THIS REQUEST
8. PERIOD COVERED BY THIS REQUEST 8
FROM (month, day, year)
TO (month, day, year)

- <u>Box 1(a)</u> – The type of payment requested will be an *advance*, a *reimbursement* or a combination of the two.
- <u>Box 1(b)</u> – For all requests other than the final request at the end of your grant, select *partial* payment.
- <u>Box 2</u> – The basis of the request depends on the type of accounting system you are using.
- <u>Box 8</u> – The "period covered by this request" should be one calendar month (for example, from January 1, 2012 to January 31, 2012), unless otherwise directed by the FM.

After completing the top portion, you must determine whether to fill out the full calculation area in the middle of the form or the simplified calculation area for *Advances Only* at the bottom of the form.

Fill out the full calculation area if any portion of the funds requested includes a reimbursement. You also must fill out the full calculation area if you have any **program income**.

If you are not requesting a reimbursement and do not have program income, you may skip down to the *Advances Only* portion of the form, described on the following page.

Calculation Area

The primary calculation area includes three columns across the top (*a-c*) and a *Total* column. It is not necessary to break out your funding request across these columns unless directed to do so by your AOR or FM.

The calculations (rows labeled *a-j*) are explained and illustrated on the following page.

The U.S. Government disburses funds to grantees in two ways: 1) by advancing funds or 2) by reimbursing partners for expenses after the fact.

> *Initially, you may be limited to requesting funding advances one month at a time. When you have demonstrated that you are spending funds efficiently, your donor agency may allow you to request advances quarterly.*

> *In general, you will be required to complete and submit the SF-270 no earlier than a week before the month in which you require the funds.*

11. COMPUTATION OF AMOUNTED			
PROGRAMS/FUNCTIONS/ACTIVITIES ►		(a)	TOTAL
a. Total program outlays to date	(As of date)	$	175,000
b. Less: Cumulative program income			0
c. Net program outlays (Line a minus line b)		.00	175,000
d. Estimated net cash outlays for advance period			58,250
e. Total (Sum of lines c & d)		0.00	233,250
f. Non-Federal share of amount on line e			11,750
g. Federal share of amount on line e			221,500
h. Federal payments previously requested			167,500
i. Federal share now requested (Line g minus line h)		0.00	54,500
j. Advances required by month, when requested by Federal grantor agency for use in making prescheduled advances	1st month		
	2nd month		
	3rd month		

a. *Total program outlays to date:* All expenditures for your program, including cost share, as of the beginning of the request period. In other words, if your request is for January 1 to 31, 2009, give the total outlays as of December 31, 2008.
b. *Less: cumulative program income*: If your program has earned any program income, enter it here.
c. *Net program outlays (line a minus line b).*
d. *Estimated cash outlays for advance period*: How much you will need for the advance period (in our example, January 1 to 31, 2009). All funding needed (including cost share), regardless of any carryover cash on hand.
e. *Total (sum of lines c & d).*
f. *Non-federal share of amount on line e:* All past cost-share contributions, plus all cost-share contributions you plan to make during the advance period. (If you are not sure what cost share you may be able to commit to during the advance period, it is fine to put US$0 in your SF-270, as long as you properly account for the *actual* cost share generated in your next SF-425.)
g. *Federal share of amount on line e:* This is the total amount you have requested from the USG toward this project to date, including the funds requested for the advance period.
h. *Federal payments previously requested:* Sum of all money you have requested to date from the USG.
i. *Federal share now requested (line g minus line h):* The result will be the total amount of USG funds you need for the upcoming month (request period), less any unspent USG funds you have on hand.
j. *Advances required by month:* The final row is used only when you request funds on a quarterly basis, but receive these funds in monthly installments.

Advances Only

To fill out the alternate computation for advances only *(see box 12)*, calculate how much funding you will need for the next month and subtract the amount of any unspent USG funds you have remaining from your previous advance to come up with the amount you are requesting for the period. During the previous period, if you spent more than your previous advance, the unspent funds remaining block may show a negative amount.

Submitting Your SF-270

Once you complete the first page, have the Project Director or other designated certifying authority within your organization sign and date the second page. Then, scan and email the form to ei@usaid.gov and mark for the attention of the FM. Always make a copy for your files and then *mail the original to the FM*. If you have not heard from your FM within a few days, email him/her and your AOR to make sure he/she has received your request.

REFERENCES

SF-270 Request for Advance or Reimbursement
http://www.whitehouse.gov/sites/default/files/omb/grants

2.8

SF-425: Completing Your USG Financial Status Reporting Form

DEFINITIONS

FFR—Federal Financial Report, also called the SF-425.

FM— USAID's financial management office.

Obligated Amount—The amount the USG has committed to the project at the time of the award, which may be the full amount of the award or a portion of the award amount. In other words, it is the amount available to your organization to spend on the project at that particular time.

Recipient Share or **Cost Share**—The portion of project or program costs not covered by USAID. This may be in the form of cash or in-kind contributions. On the SF-425 this is called the recipient share.

USG—United States Government

DOWNLOADING SF-425

Download a PDF version of SF-425 at http://www.whitehouse.gov/sites/files/omb/assets/grants_forms/ff_report_fill.pdf.

In order to take advantage of some of the form's features, including auto-calculations, be sure you have the latest version of Adobe Reader for free at http://www.adobe.com/products/acrobat/readstep2.html.

Q How do we complete the SF-425, and when is it due?

A The Federal Financial Report (FFR), often referred to as SF-425, is a snapshot of where you stand on spending your award and tracks how much cost share your organization has contributed. The completed SF-425 must be submitted quarterly to the agency's financial management office (FM).

Filling Out the SF-425

What follows are tips to help you complete the form. This information is not meant to substitute for the USG instructions found online or for guidance provided by your FM. Instead, these tips aim to address some questions first-time users may have when filling out this form.

Use a separate SF-425 for quarterly reporting for each Cooperative Agreement. Download a PDF version of the SF-425. Start by filling out the top portion. It asks for basic information about your organization, grant and the period covered in this report.

Top Portion of the SF-425

FEDERAL FINANCIAL REPORT

(Follow form instructions)

1. Federal Agency and Organizational Element to Which Report is Submitted		2. Federal Grant or Other Identifying Number Assigned by Federal Agency (To report multiple grants, use FFR Attachment)		Page 1 of pages
3. Recipient Organization (Name and complete address including Zip code)				
4a. DUNS Number	4b. EIN	5. Recipient Account Number or Identifying Number (To report multiple grants, use FFR Attachment)	6. Report Type ☒ Quarterly ☒ Semi-Annual ☒ Annual ☒ Final	7. Basis of Accounting ☒ Cash ☒ Accrual
8. Project/Grant Period From: (Month, Day, Year)		To: (Month, Day, Year)	9. Reporting Period End Date (Month, Day, Year)	

The numbers in the following list correspond to the numbered blanks on the SF-425.

1. *Federal Agency and Organizational Element to Which Report is Submitted*—USAID or other USG funder.

2. *Federal Grant or Other Identifying Number Assigned by Federal Agency*—Insert your Cooperative Agreement identification number, which may look something like XXX-A-00-09-00XXX-00, and can be found on the first page of your agreement.

4b. *EIN*—Employer Identification Number, for U.S. grantees only.

5. *Recipient Account Number or Identifying Number*—This number is for your use only and is not required by the USG.

7. *Basis of Accounting*—Your accountant or financial manager will know whether you are reporting on a cash or an accrual basis.

8. *Project/Grant Period*—The start and end dates of your award.

9. *Reporting Period End Date*—The date for each report depends on which quarter you are covering:
   - 1st Quarter: December 31
   - 2nd Quarter: March 31
   - 3rd Quarter: June 30
   - 4th Quarter: September 30.

Next, fill out the middle portion, which contains the main calculations as outlined below. Some figures will be calculated automatically if you are using Adobe Reader. Once you have finished, double-check to make sure all the calculations are correct.

Middle Portion of the SF-425

10. Transactions	Cumulative
(Use lines a-c for single or multiple grant reporting)	
Federal Cash (To report multiple grants, also use FFR Attachment):	
a. Cash Receipts	
b. Cash Disbursements	
c. Cash on Hand (line a minus b)	
(Use lines d-o for single grant reporting)	
Federal Expenditures and Unobligated Balance:	
d. Total Federal funds authorized	
e. Federal share of expenditures	
f. Federal share of unliquidated obligations	
g. Total Federal share (sum of lines e and f)	
h. Unobligated balance of Federal funds (line d minus g)	
Recipient Share:	
i. Total recipient share required	
j. Recipient share of expenditures	
k. Remaining recipient share to be provided (line i minus j)	
Program Income:	
l. Total Federal program income earned	
m. Program income expended in accordance with the deduction alternative	
n. Program income expended in accordance with the addition alternative	
o. Unexpended program income (line l minus line m or line n)	

Section 10: Transactions

Federal Cash

a. *Cash Receipts*—Enter the total amount of actual cash received from the USG (before deduction of bank fees and other miscellaneous fees) through the end date of the reporting period specified in line 9.

b. *Cash Disbursements*—Enter the cumulative amount of cash and check payments as of the reporting period end date. This total includes the sum of cash expended for goods and services, cash advances and payments made to subrecipients and contractors as well as the amount of indirect expenses charged to the award.

c. *Cash on Hand*—Enter the amount of Line 10a minus Line 10b.

Federal Expenditures and Unobligated Balance

d. *Total Federal funds authorized*—Enter the total award amount. This refers to the "Total Estimated USAID Amount" listed in your Cooperative Agreement. If this amount has been revised through a modification, please use the amount listed in the modification.

e. *Federal share of expenditures*—Enter the amount of expenses.

f. *Federal share of unliquidated obligations*— Enter the total amount of unexpended USAID-obligated funds as of the reporting period end date. This amount should be calculated by subtracting the USG share of expenditures, 10e, from the current obligation amount as listed in the most recent modification.

g. *Total Federal share*—Enter the amount by adding line 10e plus line 10f. This will equal the total USG funds obligated as of the reporting period date.

h. *Unobligated balance of Federal funds*—Subtract line 10g from line 10d.

Recipient Share

i. *Total recipient share required*— Enter the total required recipient cost share as listed in the Cooperative Agreement. If this amount has been revised through a modification, please use the amount listed in the modification.

j. *Recipient share of expenditures*—Enter the amount of cost share expended through the reporting period.

k. *Remaining recipient share to be provided*—Enter the amount by subtracting line 10i minus line 10j.

Program Income

If your agreement allows for program income, please refer to the detailed instructions on how to fill lines 10l through 10o at http://www.whitehouse.gov/omb/grants/standard_forms/ffr_instructions.pdf

Next, fill out the bottom portion, which contains the main calculations as outlined below. Some figures will be calculated automatically if you are using Adobe Reader. Once you have finished, double-check to make sure all the calculations are correct.

Finally, the bottom portion contains information on indirect expenses and the signature. All documents must be signed by the authorized certifying officer.

Bottom Portion of the SF-425

11. Indirect Expense	a. Type	b. Rate	c. Period From	Period To	d. Base	e. Amount Charged	f. Federal Share
				g. Totals:			

12. *Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation:*	
13. Certification: By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and intent set forth in the award documents. I am aware that any false, fictitious, or fraudulent information may subject me to criminal, civil, or administrative penalties. (U.S. Code, Title 18, Section 1001)	
a. Typed or Printed Name and Title of Authorized Certifying Official	c. Telephone (Area code, number and extension)
	d. Email address
b. Signature of Authorized Certifying Official	e. Date Report Submitted (Month, Day, Year)
	14. Agency use only:

Section 11: Indirect Expense

Complete this information only if required by USAID and in accordance with your Cooperative Agreement.

b. *Rate*—Enter the indirect cost rate(s) in effect during the reporting period.

d. *Base*—Enter the total amount against which the indirect rate is applied.

e. *Amount Charged*—Enter the amount of indirect costs charged during the time period specified.

Section 13: Certification/Submission

Once you have finished, double check to make sure all calculations are correct. Type in the name of the authorized certifying official (13a), have this person sign the form (13b), provide his/her contact information (13c/13d) and date the form (13e) Then scan and email the form to your FM at ei@usaid.gov, copying your Agreement Officer's Representative (AOR). Always make a copy for your file, and then mail the original to your FM. If you have not heard from your FM within 10 days, follow up to make sure your submission was received.

Due Dates for Submitting the SF-425

Although each Cooperative Agreement varies, most grantees are required to submit Federal Financial Reports 30 days after the end of a quarter, based on the USG's fiscal year (October 1–September 30). The table below lists the due dates for each quarter and what period each report covers. Please check your Cooperative Agreement to make sure this applies to you.

Period	Due	Covers
Quarter 1	Jan. 30	Oct. 1–Dec. 31 (of the previous calendar year)
Quarter 2	Apr. 30	Jan. 1–Mar. 31
Quarter 3	July 30	Apr. 1–June 30
Quarter 4	Oct. 30	July 1–Sept. 30
Final Financial Status Report	90 days after the end of the award	Entire life of award

REFERENCES

Federal Financial Report SF-425
http://www.whitehouse.gov/omb/assets/grants_forms/ff_report_fill.pdf

Detailed instructions to fill out Federal Financial Report SF-425
http://www.whitehouse.gov/omb/grants/standard_forms/ffr_instructions.pdf

Annual Audit Requirements: Questions and Answers

DEFINITIONS

ADS—The Automated Directives System encompasses the totality of USAID's regulations. It also includes suggested, but not mandatory, procedures and links to examples of best practices.

Allowable Cost—An incurred cost determined to be an acceptable charge to the USG.

Audit—An independent review and examination of system, records and activities.

Finding—Any error, exception, deviation or deficiency noted by an auditor as a result of an examination of audit evidence. Findings generally relate to (a) compliance with policies, procedures and legal requirements, (b) adequacy and effectiveness of controls and/or (c) efficiency and effectiveness of administration.

Fiscal Year—Sometimes called a financial or budget year, a period organizations use for calculating "yearly" financial statements. It may or may not correspond to the calendar year, which is January 1 through December 31. The USG fiscal year covers a 12-month period that begins October 1 and ends September 30.

Management Decisions—The evaluation of a recommendation by management and a decision upon an appropriate course of action.

OMB—The Office of Management and Budget (OMB) is one of the agencies of the Executive Branch of the U.S. Government. Among other duties, OMB evaluates the effectiveness of agency programs, policies and procedures, assesses competing funding demands among agencies and sets funding priorities.

Q **What is an annual audit and how does the audit process work?**

A An audit is an independent review and examination of an organization's systems, records and activities. Many donors require yearly audits of their grant recipients, and the U.S. Government (USG) is no different. Both prime recipients and subrecipients that receive a certain threshold of funds from the USG must conduct an annual audit.

An audit enables you to verify financial numbers, ensure their accuracy and identify and assess internal controls that should be in place to improve the integrity of your financial systems. It evaluates how you are spending USG funds and complying with the regulations set forth in your agreement. Think of it is a tool to help you keep your financial house in order. To ensure objectivity, an independent auditor, whom you hire, conducts the annual audit.

The audit process involves gathering financial and other records, providing them to your auditor, responding to your auditor's report, and implementing corrective action plans. What follows are answers to some commonly asked questions about annual audits.

Who is Required to Conduct an Annual Audit?

- U.S.-based nonprofit organizations that receive US$500,000 or more in total funding from the USG either directly or as a subrecipient, during their fiscal year.
- Foreign nonprofits that receive all or a majority of their USG funding from USAID (either directly or as a subrecipient), if they receive US$300,000 or more during their fiscal year.
- For-profit organizations that receive all or a majority of their funding from USAID will be reviewed annually to determine if an audit is required.

Are Audit Costs Allowable?

If your organization is required to be audited, the costs of conducting the audit are allowable, provided the audit is conducted according to the appropriate regulations outlined below.

If you are not required to be audited (in other words, if you do not reach the funding threshold), then audit costs are not allowable.

Where May I Find the Audit Requirements?

U.S.-based nonprofits are governed by the rules outlined in OMB Circular A-133. These regulations are the same regardless of what USG agency provides the majority of your funding.

USAID ADS Chapter 591 governs all USAID for-profit and foreign-based recipients. This document also may be helpful to U.S.-based nonprofits as it provides clarification of OMB Circular A-133.

What Needs to Be Audited?

An audit typically covers your entire organization. However, if you have just one program that receives USG funding, you may choose to have a single-program audit.

Additionally, if you have a large, complex organization with many different operational units, it is possible to have an audit focus on the organizational unit that receives USG funds.

What Time Frame is Covered by the Audit?

The time frame covered by the audit is your organization's fiscal year. In addition, the audit may look at previous audit findings to determine if corrective actions taken were sufficient to address previous findings.

Who May Conduct an Audit?

U.S.-based nonprofit organizations must follow the procurement process and regulations in their Cooperative Agreements.

USAID-funded foreign-based organizations should contact their in-country or regional mission to request a list of organizations authorized to conduct audits of USG programs.

If an audit is determined necessary for a USAID-funded for-profit organization, the audit may be conducted by a USG official, rather than a private auditor. If a USG auditor is not available, USAID will direct the for-profit organization to hire an independent auditor.

What are Primes and Subrecipients Responsible for if a Subrecipient is Audited?

Subrecipients submit their audits directly to the USG. They are not required to submit their audits to the prime, *unless there are findings related to the funding from that award,* in which case they must submit a copy to the prime.

A prime has the right to request a copy, regardless of whether or not there were findings, and this may be specified in the award between the prime and the subrecipient. (See *Program Management section 4.2.)*

When subs have findings, the prime takes on the role of issuing management decisions on the corrective actions. The management decisions must be issued within six months of receiving the audit.

The Five Step Audit Process

1. Before the Audit

Prepare the following before your audit is conducted:

- identify all USG funds received and the programs under which they were received;
- gather financial reports (such as SF-425s) covering the fiscal year being audited (See *Financial Management section 2.8*);
- prepare a schedule of expenditures made under your USG awards; and
- prepare a schedule of prior audit findings (if any).

2. The Audit

The audit will focus on the following questions:

- Were financial reports submitted during the year accurate?
- Were the rules, regulations and policies governing the award followed?
- What is the status of any previous audit findings?
- Are there any questionable costs?

ITEMS TO CONSIDER

Q: If we have a NICRA, do we still need to allocate shared costs?

It is tempting to think that having an established Negotiated Indirect Cost Rate Agreement (NICRA) will solve the challenge of allocating shared project costs. A NICRA can simplify how you are reimbursed for your overhead costs in certain USG-funded projects. However, if you have projects funded by other donors, if your NICRA only covers headquarters' expenses or if you want to verify that your NICRA is accurately covering your shared expenses, you will still need to allocate your shared costs. Thus, regardless of whether or not you have a NICRA, it is a good management practice to establish a policy for allocating shared project expenses.

An audit typically covers your entire organization. However, if you have just one program that receives USG funding, you may choose to have a single-program audit.

WHO IS YOUR OVERSIGHT AGENCY

If you receive funding from multiple USG agencies, one acts as you oversight agency and takes the lead on management decisions for any audit findings that relate to multiple USG agencies.

The oversight agency is the USG agency that provides the majority of funding in a given year. The oversight agency is responsible for:

- Providing technical audit advice to your organization and your auditor;
- Considering requests for extensions; and
- Reviewing the audit package for quality and completeness.

3. Responding to Findings
If an audit results in any findings, each must be addressed specifically by your organization in a plan for corrective action. For each item, provide the following:

- the responsible individual;
- the corrective action planned; and
- the anticipated completion date.

If you do not agree with an audit finding or believe corrective action is not required, then include an explanation and specific reasons.

4. Submitting to the USG
U.S.-based nonprofit organizations will submit their audit packages directly to the Federal Audit Clearinghouse (FAC). The FAC will distribute copies to the USG agency funding your award. Submit one copy to the clearinghouse, plus one copy for each USG agency that had audit findings in your report.

The address for the FAC is:
Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, IN 47132, USA

Your audit package must be submitted within 30 days of receiving the report from your auditor or 9 months after the end of your fiscal year (the audit period).

The Audit Package Must Include:

- SF-SAC Form (Data Collection Form for Reporting on Audits)
- Financial Statements
- Schedule of Expenditures Under USG Awards
- Summary Schedule of Previous Audit Findings
- The Auditor's Report
  - Opinion on the Financial Statements
  - Opinion on the Schedule of Expenditures
  - Report on Internal Controls for Financial Statement
  - Report on Internal Controls for Compliance
  - Schedule of Findings of Questionable Costs
- Corrective Action Plan

You are not required to submit your audit directly to your USG funding agency.

Example: If you receive funding from USAID and CDC, but only had findings related to your CDC award, you are required to submit two copies (one for the FAC, one for CDC.)

Foreign and for-profit organizations may have different submission rules set by their funding agency. Please contact your funding agency, in-country, or regional Mission office for guidance.

5. Issuing Management Decisions
For each finding, the agency or the prime (in the case of a finding for a subrecipient) will issue a corresponding management decision within six months of receiving the audit package.

The management decision must clearly state whether or not the agency is supporting the audit finding, the reasons for the decision and the expected auditee action, such as repaying disallowed costs, making financial adjustments or taking other action.

If the auditee has not completed corrective action, a timetable for follow-up will be given. The management decision should describe any appeal process available to the auditee.

Audit Follow-Up

In addition to submitting the audit package, you will be responsible for implementing your corrective action plan. Be sure to maintain documentation showing your progress on each item.

Even if there were no findings relevant to a particular USG agency, that agency still may request a copy of your audit directly from you. Further, the USG reserves the right to conduct its own audits, regardless of the outcomes of your audits.

Finally, you are required to maintain records and a copy of the audit package for a minimum of three years following submission or three years after a finding from that year was resolved.

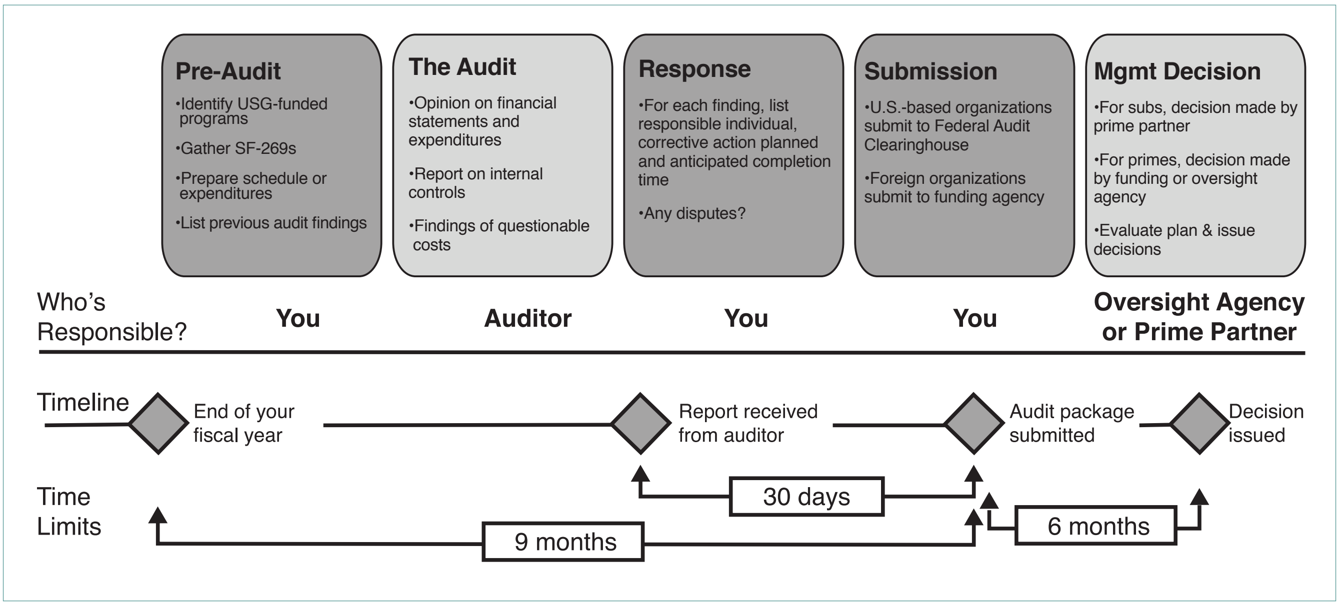
REFERENCES

OMB Circular A-133: Audits of States, Local Governments and Nonprofit Organizations http://www.whitehouse.gov/omb/circulars_default

USAID ADS Chapter 591: Financial Audits of USAID Contractors, Recipients and Host Government Entities http://www.usaid.gov/policy/ads/500/591.pdf

FAR (48 CFR part 42) https://www.acquisition.gov/far/current/html/FARTOCP42.html

SF-SAC –Data Collection Form for Reporting Audits https://harvester.census.gov/fac/collect/ddeindex.html



Five Key Steps in the Audit Process