**Direct Cash Transfers and Reimbursements**

# Direct Cash Transfers (DCT/Advances)

1. Direct Cash Transfers (“advances” or “NEX advances”) in operating context follow the Prepayment modality in the Quantum AP Module. Cash Transfer Modality (CTM) is used to transfer cash to Partners (Implementing Partner [IP] or Responsible Parties [RP]) in advance of implementation of activities as agreed in annual work plans. Request for Direct Cash Transfers should be prepared as specified in the project or annual work plan and must be signed by the authorized signatories of the Partner. The Partner is responsible for funds advanced and must follow UNDP’s policies and procedures as referred to in the project document.

The Partner must have a sound system of recording accounting transactions and appropriate filing of financial documentation which may be required for verification during audit and spot check visits.

# Management of risk

1. The Harmonized Approach to Cash Transfers (HACT) Partner Risk Rating is used as a basis for selecting the cash transfer modality and assurance activities for each Partner. Refer to the [HACT POPP](https://popp.undp.org/node/10891) for reference. There is a risk that cash transferred to a Partner may not be used as intended per the approved project work plan or may not be correctly reported and/or supported per the exact expenditure in the FACE form. The level of risk can differ across Partners and over time. Offices should effectively and efficiently manage this by:
	* Assessing each Partner's financial management capacity **at the start of the project** prior to any cash disbursements **and throughout the life of the project** in accordance with UNDP HACT guidelines;
	* Selecting the appropriate cash transfer modality in accordance with the [HACT POPP](https://popp.undp.org/node/10891) and applying the appropriate procedures;
	* Maintaining adequate awareness of a Partner's internal controls for cash transfers through assurance activities, including spot checks, and revising the cash transfer and/or the implementation modality based on results of assurance activities in accordance with [HACT POPP](https://popp.undp.org/node/10891).
2. Over time, changes in assessments and results of assurance activities may require UNDP to change the cash transfer modalities, as well as adjust HACT Assurance Activities (audits and spot checks).

If the Office considers that the Partner is inappropriately using the Direct Cash Transfer modality, the Office should follow the procedures outlined in the [HACT POPP](https://popp.undp.org/node/10891) on considerations for changing the cash transfer modality to Reimbursements or [Direct Payments](https://popp.undp.org/node/10661)[.](https://intranet.undp.org/global/popp/frm/pages/direct-payments.aspx) Where the risks persist even with the change of the cash transfer modality, the Office should explore the possibility of changing implementation modality to DIM or Country Office Support to NIM to manage the risk exposure.

# Reimbursements

1. Reimbursement is a Cash Transfer Modality (CTM) where Partners pre-finance some project activities. While this option requires the Partner to use its own resources in advance of the cash transfer from UNDP, it does not eliminate the risks around the project implementation. Hence, pre-financing of project activities by Partners can be done only upon prior approval by UNDP and in line with the approved project work plan. The request for reimbursement should be made as follows:
* The Partner should submit a FACE form to seek approval from UNDP prior to incurring (pre-financing) any expenses or commitments in the implementation of project activities. The UNDP office approves the FACE form after confirming the validity of the request and ensuring the request is in accordance with the approved work plan.
* FACE forms should be accompanied by a completed [Itemised Cost Estimate (ICE)](https://intranet.undp.org/unit/ofrm/hact/_layouts/15/WopiFrame2.aspx?sourcedoc=%7bfc08eaff-8336-4a48-b2a3-7a1bb92c2ce9%7d&action=default) showing the detailed activity budget including price and quantities.
* A designated Partner official shall be responsible for certifying the accuracy of the data provided in the FACE form. Typically, this is the same individual who signs the work plan. Certification includes (1) ensuring funding request represents estimated planned expenditures as per the work plan, and Itemised Cost Estimates (ICE) forms are attached; (2) ensuring actual expenditures for the reported period have been disbursed in accordance with the work plan and previously approved Itemised Cost Estimates; and (3) confirming supporting accounting documentation will be retained and made available to UNDP upon request for a period of seven years.
* Upon incurring the expenditure as agreed, the Partner should submit an approved FACE form to the UNDP office to report the expenditures incurred and request reimbursement.
* Where UNDP-approved pre-financing of activities is done in supplement of an existing advance, the Partner must include the reimbursable amount in the FACE form reporting the expenditure on the advance, expenditure to be reimbursed and new advance for the subsequent quarter.
* Reimbursements should be recorded in Quantum as expenditure (in the corresponding expenses GL account 7xxxx, Responsible Party, Task Number/ID, Donor, Fund, etc.) and not as an advance (GL account 16005 – NEX Advances).

# Recipient of Advances

1. Advances for pre-financing project activities can only be made to the Partner, and not to entities engaged by the Partner in a project (Partner refers to, in the case of NIM, the Implementing Partner and in the case of DIM or Country Support to NIM, Responsible Party). The highest authority of the Partner must clearly designate project personnel authorized to approve FACE forms for cash transfers, which should be part of the project signatory panel submitted to UNDP. In most projects, a project director is designated and given the authority to request advances, payments, contracts, etc.

# Periodicity of Advances

1. Advances should be disbursed for up to three-months of cash forecasted needs or cash forecasted needs up to end of the calendar quarter whichever is lesser, according to the envisaged activities agreed in the annual work plan. The frequency is agreed between the Partner and the Office at the outset of the project and specified in the project document. Detailed realistic planning of expenditure and close monitoring of the project implementation by UNDP are essential to avoid issuing advances to the Partner which will not be fully utilized within the quarter.
2. UNDP Programme officers are responsible for ensuring advances issued to Partners do not exceed three-months of cash forecasted needs or cash forecasted needs up to end of the calendar quarter, whichever is lesser. The Head of Office or his/her designee is responsible for ensuring the advances issued to Partners are in compliance with this policy and where advances remain outstanding for long periods of time (i.e. more than three-months) additional advances are not issued. Regional Bureaus exercise oversight in the management of the advances by country offices to avoid aged balances and closing the year with Advances that are later reversed with refunds.

# Purpose and Requirements of the Advances

1. Funds can be advanced to the project for activities contemplated in the annual work plan provided that corresponding inputs have been budgeted, and that available funds can cover the amount requested.
2. Advances shall only be made in local currency, which are subsequently liquidated as expenditure in the same local currency and against the original full Quantum Segment Distribution (Chart of Account). Requests for non-local currency advances should be submitted to UNDP HQ Treasury for appropriate approval in accordance with UNDP Financial Regulations and Rule 125.06 taking into consideration local conditions including requirements for payments to be affected in the same non-local currency by the Partner.

However, where the Letter of Agreement (LOA), Responsible Party Agreement (RPA), Performance Based Payment Agreement (PBPA), or similar contracts or agreements as well as the project document or annual work plan have clearly identified activities and expenditures to be incurred in non-local currency, such as, fees and/or travel expenses for an international consultant or payment to a supplier, UNDP HQ Treasury Approval is not required for the Office to process advances to the Partner in non-local currency. This provision is limited to the scope of such activities and related amounts as specified in the supporting documents. All such cases should be reviewed by the Office and approved by the Head of Office. The Office should maintain adequate documents to support such a rationale and provide relevant documents to GSSC to support the disbursement of funds. In the absence of the aforementioned supporting documents, GSSC will require the Office to submit approval from HQ Treasury. The Head of Office is not authorized to approve advances in non-local currency where the obligations are in local currency. Any unspent balance must be returned by the partner in the same currency in which the advance was received.

When the Partner is advanced the funds in non-local currency under the circumstances described in para 9 above, but expenditure is incurred in local currency, the Partner is required to report in non-local currency using the UNORE at the point the advance was issued. Before the project output is operationally closed, any balance in local currency in the Quantum Distribution must be cleared by Office to avoid the foreign exchange revaluation gain/loss at the Operating Unit – Fund – Expenditure Department – Responsible Party – Donor level. Before charging foreign exchange losses to projects, Offices should ensure losses are acceptable to the funding donor. Offices should budget for unforeseen cost fluctuations in project budgets as contingency elements in order to avoid foreign currency losses being rejected by the funding partner when donor reports are submitted. Offices should note that some donors, e.g. the European Commission (“EC”) usually sign agreements that do not allow offices to cover foreign exchange losses with funds provided by the funding partner.

1. The use of all advances for project expenses must comply with UNDP procurement and contracting procedures agreed in the project document. All payments made by the Partner using funds advanced by UNDP must be issued by check or bank transfer in the name of the fund recipient (the Partner may make small payments of less than $50 out of petty cash).

# Bank Accounts

1. To receive funds advanced by UNDP, the Partner may open a bank account to be used only for receiving UNDP advances and making project payments if deemed necessary as a risk mitigation measure by UNDP e.g. where the Partner does not have a proper financial reporting system that allows for accurate tracking and reporting of funds provided by UNDP. Office should review the findings in the HACT micro assessment on financial reporting, cash management and controls over payments to ensure that the Partner has adequate controls in place under which case a separate bank account is not deemed necessary. If a separate project bank account is deemed necessary, it should be opened under the name of the project, and advances of funds by UNDP done by Electronic Fund Transfer (TRF) or bank transfer. The UNDP office should maintain a copy of the bank account signatories and ensure appropriate controls are exercised in the operation of the account. In some jurisdictions, opening separate bank accounts for national implementation may not be permitted and funds must be deposited in a central government bank account. In these cases, UNDP may deposit advances intended for a government partner in a central government bank account, provided the Partner’s ability to meet UNDP reporting requirements has been assessed and found to be adequate.
2. Opening a separate bank account for the project will usually lower risk but may also place an additional administrative burden on the Partner. If adequate controls are in place over operation of bank accounts, the Partner may use an existing bank account under its name, but this option may only be usedif the Partner’s procedures for operating bank accounts and approving payment have been reviewed and found to be adequate as part of the Partner’s capacity assessment or other alternative procedures, and the UNDP programme officer has taken into consideration the inherent risk involved and the UNDP programme officer has ensured that the partner has adequate procedures to account for funds provided by UNDP and the related expenditures.
3. For control purposes, where the Partner has opened a separate bank account, the account should be managed by dual signatories. The account must not have access to any credit (i.e., overdrafts) nor be used for investments. If the project needs advances to make payments in local currency and non-local currency with applicable approval per paragraph 9, then two bank accounts matching the approved currency of advances should be opened. At the finalization of the project, it is the responsibility of the Partner to close the account(s) and return any remaining balances to UNDP.

Bank statements must be filed by the project and copies submitted to UNDP with FACE forms periodically to the Office or reviewed during HACT Assurance Activities e.g. partner-based spot checks and audits.

# Recording of Advances and Expenses

1. Advances (DCTs) are recorded in Quantum through an accounts payable (AP) prepayment invoice that reduces the funds availability in the Quantum Project & Portfolio Management (PPM) module. The advance is recorded against GL Account 16005 (NEX Advances) which is specifically designated for Direct Cash Transfers, processed via FACE form, to Implementing Partners and Responsible Parties. In the FACE form, after the column indicating the Activity, the second column should indicate account 16005 (NEX Advances) and the donor and fund combination for each portion of the advance requested. The FACE forms should be reviewed and approved by the UNDP programme officer who should ensure the appropriate Quantum segments are reflected in the FACE form and in the request to raise a prepayment invoice.

**Expenses**

1. The advance is liquidated, and expenditures are recognized using the Quantum Payable module standard invoice and applied against the prepayment invoice when the Partner reports, via FACE forms, the expenditures incurred from the funds advanced. The application against the prepayment of the standard invoice to liquidate must be done using first-in-first-out method on the same project, where the oldest prepayment invoice at any given point of time, would be processed through FACE form submission. The FACE form should be approved by the designated Partner official and reviewed and approved by the UNDP program officer. FACE forms are the primary document for liquidating the advance in Quantum[.](https://intranet.undp.org/global/popp/frm/Pages/direct-cash-transfers-and-reimbursements.aspx#TemplatesForms) The Quantum Distribution and Project information used in the standard invoice to liquidate the advance should mirror the Quantum Distribution and Project Information of the initial advance. Any interest earned from advances must be reported in the FACE form and will be credited to the project as miscellaneous revenue.

Expenditures should be recorded in Quantum in the period they were incurred by the Partner. UNDP offices should ensure timely reporting from partners to enable timely and accurate reporting of expenditures in UNDP accounts.

# Monitoring

1. Close monitoring by UNDP by conducting HACT Assurance Activities should verify the correct use of funds advanced for achieving immediate results and expected outputs. UNDP must also monitor amounts to be advanced to the project according to planned activities in any period, outstanding balances and the rate of implementation. If there is unutilized balances at the end of the period, the Office needs to determine the source of the problem and, together with the Partner, take corrective action.

# Reporting

1. The [General Account Analysis Report](https://app.powerbi.com/groups/me/reports/4890441a-b77f-4a3b-b0ac-2631a8e884ae/ReportSectionf56df3b9e8e4227778f7?experience=power-bi) can be used to monitor advances issued to Partners. Ongoing monitoring must encompass operational, financial and programmatic considerations.
2. Each programme activity should be audited “at least once in its lifetime” in accordance with OAI guidelines and OAI’s annual Audit Call Letter. Project activities are also subject to HACT Assurance Activities in accordance with [HACT POPP](https://popp.undp.org/node/10891).

# Rejection of Advance Requests or Expenses

1. Based on the review/verification of the FACE report, the UNDP programme officer will either:
	1. Accept, sign and approve the FACE form.
	2. Request amendments from the Partner.
	3. Reject the FACE form, keeping a copy on file, and returning it to the Partner with the reason(s) for rejection.
2. UNDP has a responsibility to accept appropriate cash advance requests and reported expenses consistent with annual work plans and UNDP’s Financial Rules and Regulations, and to reject improper advance requests or expenses. If subsequent information questions the validity of reported expenses, UNDP should suspend further advances until the issue is satisfactorily resolved with the Partner.
3. The rejection of reported expenses should occur where they are not consistent with UNDP’s Financial Rules and Regulations or are otherwise considered improper. Improper payments may occur when:
	* Payment is not consistent with the annual work plan or project budget, or is not within available funding ceilings;
	* Required supporting documentation is missing;
	* Inconsistencies exist with regards to the vendor or Partner approval;
	* Funds are transferred to the wrong recipient;
	* The right recipient receives incorrect amount of funds including payments not requested or properly approved by UNDP;
	* Additional documentation is made available that leads to UNDP questioning the validity or appropriateness of the payment including suspected fraud;
	* The recipient uses funds in an improper manner;
	* Funds are not directed towards the attainment of expected project outputs.
4. If a UNDP office identifies improper payments through the review and approval of the FACE form submitted by the Partner or ongoing project monitoring and assurance activities, further advances should be suspended until the issue is resolved with the Partner to the satisfaction of UNDP.
5. When reviewing FACE forms, the UNDP Programme Officer, the Finance Officer and the Approving Manager should look out for potential signs of fraud or misuse of funds in line with the [Anti-Fraud Policy](https://popp.undp.org/policy-page/anti-fraud-policy) (see list of potential red flags below). A secondary review and investigation of transactions which have potential fraud red flags should be performed and documented. A request for advances should not be processed until the potential red flags are fully investigated and the transaction confirmed to be valid.
6. Potential red flags which require secondary review and further investigation include:
* Last minute changes to payment instructions prior to processing a payment including “change-back” requests;
* Request to change the banking details close to processing of next payment whereas previous payments have been made to a different bank account;
* Where bank account name is entirely different from the Partner’s name;
* Requests from unknown persons or emails to change payment instructions and Partner details including staff;
* Requests to change payment instruction purported to have been sent over the phone;
* Requests from emails which closely mimic valid email addresses but have one or a few conspicuously missing or altered letters;
* Requests marked Urgent and Confidential which request for accelerated payment for no valid reason;
* Requests to send payments to foreign jurisdiction without valid reasons;
* Duplicated reported expenditures i.e. invoices or invoice number which appears out of sequence with previously paid invoices of the same vendor;
* Inflated or deflated expenditures i.e. prices appear abnormally high or low;
* Invoices with arithmetic errors or even (rounded) amounts;
* Supporting documents appear altered, copied, forged (e.g. not on official letter head) and appear inadequate for the specific transaction;
* Unexplained unusual high volume of payments to a specific vendor;
* Payment requests by different vendors using the same bank account;
* Invoice details do not match payment terms, PO ref#, GRN ref #, delivery note ref # etc;
* Multiple invoices at or just below internal threshold levels;
* Invoices lacking sufficient details e.g. no vendor address or contact details;
* Invoices that exceed approved purchase order amounts.

Offices should look out for the above potential red flags when performing assurance activities conducted to verify supporting documents of reported expenditures.

1. Improper payments may result from a lack of supporting documentation, verification or administrative errors, and do not necessarily indicate fraud or other improper practices. If these administrative issues are subsequently rectified, rejected expenditures may be later accepted by the UNDP programme officer. All efforts should be made to resolve contentious issues prior to finalization of FACE forms or the Combined Delivery Report.
2. When audit or spot checks assurance visits raise questions regarding the validity of the reported expenditures, the UNDP programme officer should:
	* Seek adequate explanation from the Partner to the satisfaction of the UNDP office and agree procedures that need to be put in place, including capacity building measures, to avert future issues;
	* Consider performing alternative procedures e.g. verification of assets, seek confirmation from third parties who might have been party to the transaction etc;
	* Perform additional assurance activities to verify there are no more occurrences of invalid or unsupported payments;
	* Corroborate information provided by the partner with other sources e.g. if records were destroyed by a force majeure event such as floods or earthquake, review public information sources to collaborate the information.
	* In case of suspected fraud, request for valid explanations for usual payment instructions; contact suppliers to verify supporting documents that appear suspicious or altered; request for additional supporting documents where necessary; request for payment confirmations from valid supplier contacts on file; escalate the issue to your manager/supervisor if adequate explanation or assurance is not obtained. This suspected fraud case would need to be reported in line with the [Anti-Fraud Policy](https://popp.undp.org/policy-page/anti-fraud-policy).

If the explanation provided and alternative procedures performed provide adequate assurance over management of UNDP resources to the country office, the office should prepare a Note to File detailing the alternative procedures performed, and conclusions arrived at. The Note to File should be signed by the Head of Office or his/her designee.

1. If the explanations provided and alternative procedures performed do not provide adequate assurance, the Office should reject the expenditures and request the Partner to refund any cash that UNDP might have advanced. The Office should ensure rejected items are not resubmitted as part of future reporting and are absorbed by the Partner. If HACT Assurance Activities consistently indicate the Partner is reporting invalid expendituress which cannot be explained or confirmed through alternative procedures, the Office should consider changing the implementation modality to DIM or Country Office Support to NIM to manage the risk.

The Office should contact the OFM Finance Business Partners if further guidance is required.

1. Where the Partner cannot absorb expenditures rejected by UNDP, or where outstanding advances are unaccounted for, the Office should exercise due diligence and pursue all avenues to ensure that any financial liability is not assumed by UNDP. If the case cannot be favourably resolved, and the contentious amount is deemed irrecoverable, the office should fully document all actions taken, including description, causes and responsibility of staff or others. The Office must obtain senior manager approval and contact the OFM Finance Business Partners for further guidance.
2. The Office can accept, request modification or reject the advance amount requested or the expenditures reported on the FACE form following review and verification.