Direct Cash Transfers and Reimbursements

Advances

1. National implementation advances consist of cash transferred to a national implementing partner for activities agreed in annual work plans. Requests for advances should be prepared as specified in the project or annual work plan, and must be signed by the authorized signatories of the implementing partner. The implementing partner is responsible for funds advanced, and must follow UNDP’s policies and procedures as referred to in the project document.

The implementing partner must have a good system of recording accounting transactions and appropriate filing of financial documentation.

Management of risk

2. The Harmonized Approach to Cash Transfers (HACT) macro- and micro-assessments are the basis for selecting the cash transfer modality and assurance activities for each implementing partner. There is a risk that cash transferred to a national institution may not be used as intended or reported. The level of risk can differ from institution to institution and over time. The UNDP office should effectively and efficiently manage this by:

   • Assessing each institution’s financial management capacity throughout the life of the project
   • Applying appropriate procedures for cash transfers
   • Maintaining adequate awareness of an institution’s internal controls for cash transfers through assurance activities

3. Changes over time may require different transfer modalities as well as audit and monitoring procedures.

   If the UNDP office considers that the implementing partner is not correctly using the advance modality, it can discontinue it and use direct payments (See POPP: Direct Payments). The POPP HACT chapter has more information on assessments to implement the direct cash transfer modality.

Reimbursements

4. If the balance of advances given to the implementing partner is not enough to incur urgent commitments and expenses in support of activities agreed in annual work plans, the implementing partner can proceed with such payments with its own funds upon consultation with UNDP, and request the UNDP office for reimbursement. This request can be made:

   • In the next request for advance (Funding Authorization and Certificate of Expenditure or FACE form), reporting expenses already made, and requesting reimbursement for such expenses as well as a new advance of funds for new expenses.
   • On an ad hoc basis, in exceptional cases, by submitting all documentation supporting the payments made to the UNDP office. In this last scenario, reimbursement will be recorded in Atlas as an expense (in the corresponding account 70000, Activity, Donor, Fund, etc.) and not as an advance (account 16005 – OFA Government NEX).
Recipient of Advances or Reimbursements

5. NEX advances can be made to the implementing partner. The highest authority of the implementing partner must clearly designate project personnel authorized to make such requests. In most projects, a project director is designated and given the authority to request advances, payments, contracts, etc.

Periodicity of Advances

6. Advances are made for a three-month period or less depending on the needs of the programme or project, according to the envisaged activities agreed in the annual work plan. The frequency is agreed between the designated institution and the UNDP office at the outset of the project, and specified in the document. Detailed planning of expenses and close monitoring by UNDP are essential.

Purpose and Requirements of the Advances

7. 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.

8. Advances for national implementation projects shall only be made in local currency. Non-local currency advances, in consultation with the UNDP treasury, shall only be made where all payments will be in the same non-local currency.

9. The use of all advances for project expenses must comply with procurement and contracting procedures agreed in the project document. All payments made with advances must be issued by check or bank transfer in the name of the recipient. (Small amounts of less than $50 may be paid out of petty cash.)

Bank Accounts

10. To receive funds advanced by UNDP, the implementing partner should open a bank account used only for receiving UNDP advances and making project payments. The bank account should be opened under the name of the project, recorded in Atlas, and advances of funds done by EFT or bank transfer. The UNDP office should receive a copy of the account signatories.

11. Opening a separate bank account for the project will usually lower risk, but may also place an additional administrative burden on the implementing partner. Alternatively, the implementing partner may use an existing bank account under its name, but this option may only be used with the agreement of UNDP's programme officer, and must be approved by the head of operations or finance. The programme officer will consider the inherent risk involved, using the assurance mechanisms described in the Framework for Cash Transfers to Implementing Partners (part of HACT - POPP HACT chapter).

12. For control purposes, the implementing partner account should be managed with a double signature. 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, then two bank accounts should be opened, or one bank account with two separate controls of currency. At the finalization of the project, it is the responsibility of the implementing partner to close this/these 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. Where possible, UNDP should deposit advances for the government in central government bank
accounts, provided the government can meet UNDP reporting requirements. Separate UNDP bank accounts for national implementation are not permitted.

**Atlas Recording of Advances and Expenses**

13. **Advances** will be recorded in Atlas through an accounts payable voucher that reserves funds advanced to the project, affecting funds availability in the Atlas Commitments Control (KK) module. In the FACE form, after the column indicating the Activity, the second column should indicate account 16005 (OFA Government - NEX) and the donor and fund combination for each portion of the advance requested.

**Expenses**

Expenses are recognized only when the FACE forms are recorded in Atlas (see Templates & Forms).

For more detailed information on the recording process, go to OnDemand.

**Monitoring**

14. Close monitoring by UNDP should verify the correct use of advanced funds 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 the balance at the end of the period is too high, UNDP must determine what the problem is and, together with the implementing partner, take corrective actions.

**Reporting**

15. The following reports help monitor advances:

   a. **NEX Advances Ageing report** (UN Reports>Financial Management Reports>Expenditure Management Reports>NEX Advances Ageing Report): This provides the ageing status of outstanding balances in account 16005 – OFA – Government NEX (by operating unit for the selected month). Balances are displayed at the Project/Fund/Donor/Currency level. Use of this report allows the monitoring of balances outstanding between 1 and 3 months, 4 and 6 months, and more than 6 months; credit balances, which immediately signal an error, use of an incorrect currency or overexpenditure; and unauthorized use of US dollars.

   b. **Account Activity Analysis (AAA) report** (UN Reports>Financial Management Reports>Accounts Management Reports>AAA): Upon selecting account 16005, this report provides all movements in the account by Operating Unit/Project and or Fund for a specific accounting period. It does not capture GLJE with “Source” types PDE, AP or AR.

   c. **Global NEX Report:** This is compiled and forwarded to all offices by OFRM/Client Support Team on a quarterly basis.

Ongoing monitoring must encompass operational, financial and programmatic considerations.

16. UNDP policy requires each programme activity to be audited "at least once in its lifetime." A newer requirement is that a project be audited once in its lifecycle in the year following cumulative expenses reaching or exceeding $300,000. This criterion does not apply in the first year of activities. The audit becomes due in the following year when the cumulative expenditure has reached or exceeded the threshold.
Refer to:

- POPP Audit of NIM & NGO Implemented Projects, and
- OAI>NGO/NIM Audits for detailed policies and procedures.

**Rejection of Advance Requests or Expenses**

17. Based on the review/verification of the FACE report, the programme officer will either:

   a. Accept, sign and approve the FACE
   b. Request amendments from the implementing partner.
   c. Reject FACE, keeping a copy on file, and returning it to the implementing partner with reasons for rejection.

18. 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 appropriateness of expenses, advances should be rejected at any point up to the issuance and signature of the final Combined Delivery Report.

19. 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 documentation is missing
   - Inconsistencies exist with regards to the vendor or implementing partner approval
   - Funds go to the wrong recipient
   - The right recipient receives the incorrect amount of funds (including overpayments and underpayments)
   - Additional documentation is made available that leads to UNDP questioning the appropriateness of the payment
   - The recipient uses funds in an improper manner
   - Funds are not directed towards the attainment of expected project outputs.

20. UNDP identifies improper payments through both the review and approval of the FACE report submitted by the implementing partner, and ongoing project monitoring and assurance exercises.

   Improper payments may result from a lack of documentation, verification or administrative errors, and do not necessarily indicate fraud or other improper practices. If these administrative issues are subsequently rectified, rejected expenses may be later accepted by the programme officer. All efforts should be made to resolve contentious issues prior to finalization of FACE forms or the Combined Delivery Report. If issues cannot be resolved, the programme officer should:

   - Liaise with the implementing partner to resolve contentious issues for the next reporting period
   - Work with the implementing partner to build capacity to avert future problems
• Ensure rejected items are not resubmitted as part of future reporting, and are absorbed by the implementing partner

21. Where the implementing partner cannot absorb expenses rejected by UNDP, or where outstanding advances are unaccounted for, the office should exercise due diligence and pursue all avenues to ensure 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 action taken, including description, causes and responsibility of staff or others. It must obtain senior manager approval, and then contact the OFRM Client Support Team for further guidance.

22. The UNDP office can accept, request modification to or reject the advance amount requested or the expenses reported on the FACE form.
Flowchart

1. IP opens bank account to receive advances
2. IP sends list of authorized project personnel to request advances with samples of signatures
3. IP verifies if there are sufficient funds and FR/ACE is correct
   - NO
   - YES
4. UNDP CO records expenditures in Atlas and transfers requested advance to IP. Keeps original FR/ACE in file. Monitors balances of advances. UNDP periodically evaluates advance balances in local currency (unrealized gains/losses)
   - NO
   - YES
5. UNDP CO verifies the correctness of FR/ACE (expenditures, advance and/or reimbursement). Verifies if there are sufficient funds
6. IP makes disbursements according to AWP and keeps records of all transactions
   - NO
   - YES
7. IP needs more funds and/or it is the end of a quarter
   - NO
   - YES
8. IP submits certified FR/ACE to UNDP CO at least quarterly (one per currency) according to AWP activities

Flowchart