**Direct Payments**

1. For Partners (Implementing Partner [IP] or Responsible Party [RP]) who meet UNDP’s HACT micro assessment threshold, the Direct Payment Cash Transfer Modality (CTM) is selected when an Office has carried out the HACT micro assessment of the Partner’s financial management capacity, including accounting, procurement, reporting and internal controls, and determined that the principles do not contradict those of UNDP. For Partners below UNDP’s micro assessment threshold, Office may select Direct Payment Cash Transfer Modality if it’s the most appropriate modality taking into consideration any known risk factors. Refer to [Harmonized Approach to Cash Transfers (HACT)](https://popp.undp.org/node/1491) paragraph 32.
2. Direct Payment should not be confused with payments made under UNDP Country Support to NIM. In both cases, payments are made by UNDP from a UNDP bank account. In the case of Direct Payment for a government Partner, the government (Partner) assumes responsibility for the contracting process, performs recruitment or procurement, and signs the contract according to its own rules and regulations (whose principles should conform to those of UNDP). The request for Direct Payment must be submitted through the approved FACE form, requesting UNDP to make the payment directly to the supplier on behalf of the Partner. Complete supplier banking details approved by the Partner’s authorized signatory should be attached to the FACE form. FACE forms should be accompanied by a completed Itemised Cost Estimate (ICE) showing the actual expenditure for the reported period including price and quantities. Click [here](https://intranet.undp.org/unit/ofrm/hact/_layouts/15/WopiFrame.aspx?sourcedoc=/unit/ofrm/hact/UNDP%20HACT%20Itemized%20Cost%20Estimate%20ICE/UNDP%20Itemized%20Cost%20Estimate%20%28ICE%29%20Template.xlsx&action=default) for the link to UNDP’s ICE template. FACE forms including the ICE form should be submitted to UNDP no later than 15 days after the end of each quarter. Offices may agree on reasonable extension to this deadline after consultation with OFM CFRA ([cfra.kl@undp.org](mailto:cfra.kl@undp.org)) but any extension should take into account the need to have the expenditure recorded before the quarterly closure of financial ledgers in Quantum. Offices should ensure FACE forms are signed by designated officials as indicated in the annual work plan. Reported expenditure in the FACE form should be recorded in Quantum in the period they were incurred by the Partner. Offices should ensure timely reporting from Partners to enable timely and accurate reporting of expenditure in UNDP accounts. The Partner code (Quantum Responsible Party) in the Quantum Accounts Payable Distribution Line must be the Partner’s Responsible Party code and not code ‘001981’ (UNDP) since this is a payment on behalf of the Partner. Where a Partner requests UNDP to support in the implementation of some activities for the project, for example recruitment and procurement support, UNDP assumes responsibility for the contracting process according to its rules and regulations and the budget component for this support must recorded using UNDP Responsible Party code ‘001981’.
3. UNDP should not be considered a mere ‘administrator’ of funds of nationally implemented projects. Support services should assist the government in achieving clear development goals and foster capacities in national institutions.
4. Offices should ensure that costs of processing Direct Payment or providing support services are fully recovered by directly charging them to the project budget.
5. For Direct Payments, expenditures are recognized in the period they were incurred by the Partner as reported in the FACE form.
6. The expenditure recognition shall be in line with the POPP chapters on [Expense Management](https://popp.undp.org/taxonomy/term/111) such as [POs/Commitments](https://popp.undp.org/node/11376), [Accounts Payable](https://popp.undp.org/node/10361) and [Disbursing Funds](https://popp.undp.org/node/10666) in the POPP chapter on [Expense Management](https://popp.undp.org/taxonomy/term/111).Also see the UNDP [Internal Control Framework Operational Guide](https://popp.undp.org/node/266)– Transactions at the request of a Partner (government or NGO).

# Responsibility

1. Under the Direct Payment modality, the Partner is solely responsible for procurement;. In conducting partner capacity assessments and assurance activities, Office should ensure it has reasonable confidence that the Partner is conducting procurement to standards compatible with UNDP’s standards. Should that not be the case, the Partner Risk Rating should be adjusted to reflect the revised risk of the Partner and the appropriate cash transfer modality plus the decision to continue working with the Partner for the related task and/or project should be reviewed in line with the [HACT POPP](https://popp.undp.org/policy-page/harmonized-approach-cash-transfers-hact). The Partner’s technical, managerial, administrative, and financial capacities should be reassessed throughout the life of the project during Assurance Activities.
2. If the UNDP programme officer considers a greater level of oversight is necessary, and wishes to monitor project activities on a transactional basis, he/she should request the Partner to provide supporting documentation (i.e. copies of invoices, purchase orders, quotations and goods received notes) when reporting expenditures via FACE forms, otherwise verification of supporting documents should be performed during Assurance Activities (audits and spot checks) in line with [HACT POPP](https://popp.undp.org/policy-page/harmonized-approach-cash-transfers-hact). Nevertheless, care should be taken to ensure there is no confusion on where responsibility and accountability for procurement lies, i.e., with the Partner and not with UNDP.
3. Direct Payments for national implementation projects shall only be made in local currency. Requests by the Partner to effect Direct Payments in non-local currency to international suppliers where obligation is in non-local currency should be reviewed by the Office and approved by the Head of Office in accordance with UNDP Financial Regulations and Rules (FRR) before settlement.

Furthermore, 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 payment to international consultants, or suppliers, UNDP HQ Treasury approval is not required for the Office to process the Direct Payments in non-local currency. This provision is limited to the scope of such activities as specified in the agreement, contracts, or corresponding legally binding document, such that the contracts signed by the Partner comply with the principle of UNDP FRR and procurement rules that resulted to non-local currency obligations. All such cases should be approved by the Head of Office, and the Office should maintain relevant documents to support such rationale. The Head of Office is not authorized to pay in non-local currency where the obligations are in local currency.

The Office should submit to GSSC signed copies of relevant contracts, agreements, POs, workplans and other supporting documents prepared in non-local currency and approved by the Head of Office and specifying that disbursements are required to be made in non-local currency. In the absence of the above supporting documents, GSSC will require the Office to submit a waiver from HQ Treasury.

1. UNDP has a responsibility to accept appropriate requests for Direct Payment consistent with the annual work plan and UNDP’s Financial Regulations and Rules, and to reject requests that do not meet these requirements (improper requests). If new information questions the validity of a Direct Payment already made, UNDP should suspend further Direct Payment requests until the issue is satisfactorily resolved with the Partner.
2. Improper requests or payments may occur when:

* Payment is not consistent with the annual work plan or project budget, or is not within available funding ceilings;
* Requested supporting documentation is missing;
* Inconsistencies exist with regards to the supplier or Partner approval;
* There are irregularities in the procurement practice;
* 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 would lead to UNDP questioning the validity or appropriateness of the payment including suspected fraud;
* The Partner does not use the funds towards the attainment of expected project outputs or uses the funds in an improper manner including fraudulent payments.

1. If the Office identifies improper requests or payments through the review and approval of the FACE forms submitted by Partners or through ongoing project monitoring and Assurance Activities, further Direct Payments should be suspended until the issue is resolved with the Partner to the satisfaction of UNDP.
2. 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 Direct Payment should not be processed until the potential red flags are fully investigated and the transaction confirmed to be valid.
3. 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 supplier name;
* Requests from unknown persons or emails to change payment instructions and supplier 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;
* Duplicate invoices or invoice number which appears out of sequence with previously paid invoices of the same supplier;
* Inflated or deflated invoices 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 supplier;
* Payment requests by different suppliers 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 supplier address or contact details;
* Invoices that exceed approved purchase order amounts.

Offices should look out for 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. The UNDP Programme Officer should:
   * Seek adequate explanation from the Partner to the satisfaction of the Office and agree procedures that need to be put in place, including capacity building measures, to avert future issues;
   * Perform additional Assurance Activities to verify there are no more occurrences of invalid or unsupported payments;
   * Consider performing alternative procedures e.g., verification of assets, seek confirmation from 3rd parties who might have been party to the transaction etc;
   * 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 to the 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 disbursed. The Office should ensure rejected items are not resubmitted as part of future reporting and are absorbed by the Partner. If Assurance Activities consistently indicate the Partner is reporting invalid expenditures 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.
2. Where the Partner cannot absorb expenditures rejected by UNDP, the Office should exercise due diligence and pursue all avenues to ensure financial liability is not assumed by UNDP. In the event that the case cannot be favourably resolved, and the contentious amount is deemed irrecoverable, the Office should fully document all actions taken to recover the funds, including description, causes and responsibility and this should be signed off by the Head of Office and approved by the Regional Bureau (for country offices and regional hubs) who should assess the need for a write-off and ensure a request for write-off is submitted to OFM/FPMR/CFRA for assessment ([cfra.kl@undp.org](mailto:cfra.kl@undp.org)) in line with the POPPs on Write-Offs.
3. Upon review and approval of the FACE form, the FACE form will be processed as a Standard Invoice in Quantum.
4. Offices are responsible for regular project monitoring and Assurance Activities, including periodic monitoring visits and ‘spot checks’ of expenditures and results achieved, to ensure prompt detection of any deviations from the project work plan and budget. Ongoing monitoring and assurance actions must encompass operational and financial considerations, as well as programmatic ones.
5. Partner activities are subject to HACT Assurance Activities (spot checks and audits), in accordance with UNDP HACT guidelines. UNDP policy requires each programme activity to be audited "at least once in its lifetime in accordance with OAI guidelines and OAI’s annual audit Call Letter requirements.
6. The UNDP Programme Officer has an obligation to review national implementation audit reports and HACT Assurance Activities reports and ensure that the Partner takes corrective actions to address audit recommendations, particularly in cases where qualified audit opinions are issued by the auditors.

# Exclusion of UNDP Letterheads or Reference in a Contract

1. Under the Direct Payment Cash Transfer Modality, Partners cannot use UNDP letterheads in procurement or recruitment processes. Any form of co-signing of contracts by UNDP and the Partner is prohibited. Partners cannot refer to UNDP as a party in the contract or purchase order.

# Roles and Responsibilities

| **Responsible party** | **Responsibilities** | **Remarks** |
| --- | --- | --- |
| Partner project Director | Financial regulation 27.01: “…full responsibility and accountability for the effective use of UNDP resources and the delivery of outputs…” See overview section POPP [NIM Finances & NGO Implementation Finances](https://popp.undp.org/taxonomy/term/96)  Raise and submit FACE forms that are consistent with annual work plan and have it approved by an authorized official.  Ensure the partner maintains full and proper accounting records, including original copies of all supporting documentation for reported expenditures. Keep documents available for audit and spot check verification on request. |  |
| UNDP Programme Officer | Review signature on FACE form for conformity with the Partner’s authorized official record on file.  Check the FACE form against the available budget/approved annual work plan to ensure budget sufficiency and consistency with the activities in the AWP.  Attach supporting documents and submit payment request to GSSC in Quantum for payment processing or reject Partner payment request if it doesn’t meet the budget sufficiency and /or is not aligned with the approved AWP. | **Internal control—first approval** |
| GSSC Payments Team | Review the non-PO request in Quantum and request clarifications for missing information or reject the request if it requires amendment before resubmission. | **Internal control—second review of payment request and supporting documents** |
| Approving Manager | Review Quantum Payable module Invoice and supporting FACE form for consistency, supporting documents and proper authorization. Approve Quantum Payable module invoice in accordance with payment approval thresholds or reject it if the requirements are not met.  Take into consideration any factors that would prevent UNDP from making payments e.g., fraud red flags and seek adequate explanation as appropriate. | **Internal control—second approval** |
| GSSC Payment Team | Runs the PayCycle for approved payments and submit the payment files for upload into the banking platforms of the designated local banks in accordance with the established SOP and POPP guidelines on disbursements | **Internal control—third approval** |