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INTRODUCTION / BACKGROUND

“CARE is responsible for monitoring the activities of subrecipients as necessary to provide reasonable assurance that donor awards are used in compliance with laws, regulations and the provisions of grant and cooperative agreements, and that performance goals are achieved.”

- CARE USA’s Policy Statement on Subrecipient Monitoring

The level of projects CARE implements through subgrants is steadily increasing. With this increase comes the responsibility to effectively identify the partner organizations to work with, assess and monitor program activities to minimize risks, obtain reasonable assurance that funds are expended as intended, and that we are in compliance with applicable donor rules and regulations.

The purpose of this Manual is to provide guidance and tools that will help country offices and headquarters staff effectively and confidently carry out CARE’s responsibilities when making subgrants.

Many of the specific provisions apply to funding from the U.S. federal government, particularly the U.S. Agency for International Development (USAID). If donors (particularly non-U.S. donors) provide guidance that conflicts with the policies and procedures in this Manual, that guidance must be followed for subrecipient activities for that agreement. In the absence of specific guidance from donors that conflicts with this Manual, all subrecipient activity should be managed using the guidance in this Manual.

Covering the life cycle of a subagreement from pre-implementation stage to closeout, this Manual:

- Outlines the roles and responsibilities when CARE makes subgrants and how it translates to accountabilities of country offices and different departments in headquarters.
- Defines CARE’s interpretation of the U.S. federal regulations concerning subrecipient monitoring.
- Provides sample forms and useful reference materials that country offices can refer to when designing its monitoring plan and tools.
This Manual supersedes Section V and Appendix X of the CARE USA Grants Management and Compliance Manual issued in March 1994. A supplement to come in the near future will provide specific guidance on various other donors such as the AusAid, CIDA, DANIDA, DFID, EU and private restricted donors. Country offices can expect to hear follow-up communications in the next few months as CARE USA CHQ develops Quick Reference Guides (QRG) and training materials that country offices can use to train the staff involved in subrecipient management and monitoring activities.

We hope you find this Manual a useful companion in implementing CARE’s programs. It is a product of many hours of writing, research, working group meetings, shared materials from other partner organizations, and compilation of internal and public domain documents on subagreement management. This Manual will be updated periodically. Country offices will be informed of new donor rules and regulations affecting any part of this document through ALMISes, which will then be incorporated in the next edition.

Please feel free to contact the Policies and Procedures Development Unit (policies&procedures@care.org) if you have any question or comments on any part of this Manual.

30 June 2005
ACKNOWLEDGMENT

A Manual like this is a big project and it could not have been completed without the assistance of our colleagues who dedicated time and resources to prepare and review its contents.

The Policies and Procedures Development Unit would like to recognize the following U.S. government and non-governmental organizations that made available a great number of public domain materials which were incorporated into this Manual:

- DHHS (Department of Health and Human Services of)
- OMB (Office of Management and Budget)
- NED (National Endowment for Democracy)

We also would like to thank our partner organizations and different associations that provided excellent training tools and materials on subgrant management:

- Joint PVO Network Workshop on USAID Rules and Regulations - Members: ADRA, CARE, Catholic Relief Services, Merci Corps, Save the Children and World Vision
- Association of PVO Finance Managers’ Workshop on USAID Rules and Regulations
  Robert Lloyd – Facilitator/Trainer

Last but not the least, we would like to thank our headquarters colleagues and that of our country offices that shared their experiences and existing guidelines and materials on subgrant management. Although the individual contributors are too numerous to name, we would like to give special thanks to CARE Somalia / South Sudan – the Country Director, Gordon Molitor and the team involved in managing subgrant activities, Cyril Alaras of the Program Support Unit in Atlanta who was always there to provide his ‘constructive input’ on how to further improve the document, and David Sexton, CARE USA Controller, whose unfailing support has provided us with all possible materials and resources we need to produce this Manual.

Policies and Procedures Development Unit, CARE USA
30 June 2005
Chapter I
What’s in a Name?
Chapter I: What’s in a Name?

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: Page 1 of 3

What’s In a Name?

An award made by a U.S. federal agency to CARE is considered to be a direct funding and makes CARE a primary recipient to U.S. federal award. Upon accepting the funds, CARE assumes the responsibility for complying with requirements and conditions such as:

1. Operation of the program in accordance with applicable rules and regulations.

2. Maintenance of property and financial records in sufficient detail to clearly reflect the manner in which CARE has utilized the U.S. federal funds.

3. Selection of a qualified audit firm to audit the use of U.S. federal funds in accordance with applicable audit requirements, and

4. Resolution of any audit findings and questioned costs and the preparation of a corrective action plan.

During the project proposal stage, CARE may determine that other organizations can be of assistance in implementing the project or providing certain services. This may result in CARE providing a portion of the U.S. federal award to these organizations and when this happens, CARE can also be referred to as a pass-through entity.

CARE should secure prior approval from the funding U.S. federal agency before subgranting, transferring or contracting out any work under an award. Prior approval is considered secured when the funding agency has approved what CARE described in the project application as intent and scope of work to subgrant, transfer or contract out certain components of the work. Prior approval is expressed by the donor’s approval of the budget related to it at the time of signing the grant/cooperative agreement.

If the project proposal or originally approved budget did not reflect approval to subgrant, transfer or contract out certain components of the work under an award, CARE should seek the prior approval from the U.S. federal agency’s Agreement Officer and secure revision of budget and program plans during the implementation phase of the project.
Note: 22 CFR 226.25 (c) (8) is the basis for the prior approval requirement noted above. This provision does not apply to the purchase of supplies, materials, equipment and general support services.

**Subaward** is an award of financial assistance in the form of money, or property in lieu of money, made under an award by CARE to an eligible subrecipient or by CARE’s subrecipient to a lower tier subrecipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services nor does it include any form of assistance which is excluded from the definition of “award” under 22CFR226.2

**A subrecipient** is the operating entity (the legal entity, where possible) to which a subgrant is made and which is accountable to the primary recipient for the use of the funds provided. A subrecipient may also be a direct recipient of U.S. government grant or cooperative agreement under other agreements or a subrecipient of another pass-through entity at the same time.

A subrecipient may have some or all of the following characteristics:

1. The subrecipient’s performance is measured against meeting the stated goals and objectives of the program; there are performance requirements that must be met and reported.

2. The subrecipient is delegated responsibility for making relevant administrative and programmatic decisions.

3. The subrecipient is actively involved in the process for determining who is eligible to receive services.

4. The subrecipient is perceived to be an agent or extension of the primary recipient with regards to the specific U.S. federal grant.

5. The services provided by the subrecipient are on-going as opposed to occasional.

6. Subagreement states that the subrecipient is to comply with all applicable laws and regulations.

The above definition of subrecipient **excludes**:

**Beneficiaries** - The definition of a subrecipient does not include an individual who is a beneficiary of a U.S. federal government funded program.

**Vendors/Contractors** - The difference between a vendor and a subrecipient is significant for the purposes of A-133 audit. When CARE procures goods and services from a vendor with U.S. federal funds, it is the vendor’s
responsibility to meet the requirements of the procurement contract. When CARE subgrants to another entity, CARE is responsible for ensuring that the pass-through funds are utilized in accordance with applicable laws and regulations.

Please refer to Chapter III, Section B, “Award Phase: To Subgrant or Procure Under Grant?” for further discussion on when an entity is considered as a subrecipient or a vendor/contractor under an award.

**For-Profit Recipients** – OMB Circular A-133 does not require audits of for-profit entities. However, CARE is responsible for ensuring that expenditures from all U.S. federal government subagreements to for-profit entities are made in accordance with applicable laws and regulations.

Because subrecipient monitoring is, and should be, an ongoing process, subrecipient monitoring should occur throughout the year. This *Subgrant Management and Compliance Manual* demonstrates how to apply the most appropriate monitoring tools based on the outcome of our subrecipients’ risk assessment.
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Who is Responsible for What?

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A. CARE’s Overall Role as a Pass-Through Entity

CARE is a pass-through entity (a non-U.S. federal entity that provides U.S. federal award to a subrecipient to carry out a U.S. federal program) that has financial assistance relationships with a wide variety of partner organizations that range from very small two-employee community based foundations to very large comprehensive entities, such as:

- Local, regional and national government
- Community based organizations
- International and national U.S. based non-government organization
- International non-U.S. based non-government organization
- Universities
- For-profit entities

As a pass-through entity for U.S. federal funds, CARE is responsible for monitoring the activities of subrecipients to provide reasonable assurance that (1) U.S. federal awards are used in compliance with laws, regulations and the provisions of contracts or grant agreements; and (2) performance goals are achieved.

CARE has the responsibility for setting forth in writing the terms and conditions which the subrecipient is subject to. A system of control policies and procedures for monitoring subrecipients must be established. The monitoring system may consist of procedures such as the following:

1. Review grant applications submitted by subrecipients to determine that applications are approved by CARE management before any funds are awarded, are filed in a timely manner, and that each application contains a stipulation that the subrecipient must comply with applicable regulations.

2. Establish control policies and procedures to provide reasonable assurance that funds are only disbursed to subrecipients on an “as needed” basis.

3. Disburse funds to subrecipients only on the basis of approved, properly completed reports which have been submitted on a timely basis.

4. Bill and collect refunds due from subrecipients in a timely manner.
5. Establish control policies and procedures to provide reasonable assurance that subrecipients and those individuals or groups receiving services meet eligibility requirements.

6. Review financial and technical reports received from subrecipients on a timely basis and investigate all unusual items.

7. Review audit reports for compliance with applicable laws and regulations and to determine whether the appropriate reporting standards were followed.

8. Evaluate audit findings, issue appropriate management decisions, if necessary, and determine whether an acceptable plan for corrective action has been prepared and implemented by the subrecipient organization.

9. Review evidence of previously detected deficiencies and determine that corrective action has been taken.

The OMB Circular A-133 audit requirements and Section M of the OMB Circular A–133 Compliance Supplement outlines four key areas of accountability with which CARE, as a pass-through entity, is expected to comply:

- **Award Identification**
  CARE should identify the U.S. federal award information and applicable compliance requirements to the subrecipient at the time of the award.

- **During-the-Award Monitoring**
  CARE intends to conduct all monitoring activity in a positive, helpful manner. Effective monitoring should serve to identify areas of concern early on and then assist the subrecipient in solving problems and complying with all program requirements.

  To accomplish this objective, CARE should monitor the subrecipient’s use of U.S. federal funds through financial and program reports, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers U.S. federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.

- **Subrecipient Audits**
  1. A U.S. based subrecipient expending $500,000 or more in U.S. federal awards during the subrecipient’s fiscal year should meet the audit requirements of OMB Circular A-133. The required audits should be
completed within nine (9) months of the end of the subrecipient’s audit period.

2. Within six (6) months upon receipt of the subrecipient’s audit report, CARE should issue a management decision based on the audit findings applicable to the U.S. federal funds received by the subrecipient through CARE.

3. CARE must ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Note: In cases of continued inability or unwillingness on part of the subrecipient to have the required audits, CARE, as the pass-through entity shall take appropriate action by using sanctions.

- **Pass-Through Entity Impact**
  CARE must evaluate the impact of subrecipient activities in relation to CARE’s ability to comply with applicable U.S. federal regulations.

Needless to say, CARE must also monitor the activities of subrecipients not subject to OMB Circular A-133, using applicable techniques such as those discussed above.

*The importance of a proper relationship between CARE and its subrecipients cannot be over-emphasized. Failure to monitor risk areas could result in weaknesses going undetected. In the event a subrecipient expends U.S. federal funds in a manner that is not consistent with applicable rules and regulations which results in noncompliance and related questioned costs, CARE as a primary recipient is responsible for any related repayment of U.S. federal funds.*
B. Country Offices

As a primary recipient of U.S. federal funds, a CARE country office must provide reasonable assurance that:

- U.S. federal award information and compliance requirements are identified to subrecipients
- CARE is entering into the right type of agreement and that organizational risks are covered (subgrant vs. procurement under grant)
- Subrecipient has the capacity to manage second tier subagreements, as applicable
- Subrecipient activities are monitored
- Subrecipients obtain required audits and take appropriate corrective action on audit findings
- Subrecipient audit findings are resolved, and
- The impact of any subrecipient noncompliance on CARE is evaluated

These goals can be accomplished by applying the following:

1. Execute a pre-award assessment that enables the country office to calculate the risk involved in subgranting U.S. federal funds to the subrecipient.

2. Identify the right type of relationship and agreement with partner organization to achieve the project objectives.

Please refer to Chapter III, Section B.1 and B.2 for more information.

3. Determine the nature and extent of subrecipient monitoring requirements specific to the program’s applicable donor rules and regulations. This can be done by considering factors such as the size of awards, the percentage of the pass-through entity’s total program funds awarded to subrecipients, and the complexity of the compliance requirements.

4. Ensure training and communication channels so that both the relevant program and finance staff of the country office and the subrecipient organization are familiar with applicable donor requirements for managing the project.

5. Draft and review the subagreement carefully prior to sharing it with the subrecipient to ensure that applicable terms and conditions that must be included in the subagreement are adequately covered, clearly documented, and thoroughly communicated.

Complex and material subagreements require the country office to obtain CARE USA headquarters’ approval of the subagreement prior to sharing the draft with the subrecipient.
For further guidelines on what is considered as complex and material subagreement, please refer to Chapter III, Section B.8 and the Subagreement Approval Checklist.

6. Include the following stipulation in the subagreement:

   a. If the subagreement is in whole or in part U.S. federal funded and the subrecipient is a U.S. based NGO that expended $500,000 or more per year in **U.S. federal funds** during its fiscal year - the NGO must undergo an OMB Circular A-133 audit.

   b. If the subrecipient is a non-U.S. based NGO and expended $300,000 or more per year in **USAID** funds, the NGO must comply with the audit requirements per Guidelines for Financial Audits Contracted by Foreign Recipients.

If the country office does not fulfill its role in disclosing this information and as a consequence, the subrecipient is unaware that the subgrant is from the U.S. federal government and that an audit is required, the country office will be held responsible for making arrangements with the subrecipient for the proper audit.

*Failure to inform the subrecipient of the above will be regarded as a weakness in the country office’s internal control system for monitoring subrecipients.*

7. Require each subrecipient to permit CARE and independent auditors to have access to their records and financial statements to verify the subrecipient’s compliance with CARE’s and the donor’s monitoring and audit requirements under the OMB Circular A-133 or Guidelines for Financial Audits Contracted by Foreign Recipients.

The CARE country office should take the necessary sanctions in the event that the subrecipient is non-compliant.

8. Liaise with CARE USA headquarters’ and the country office’s external auditors and the external auditors of subrecipients where necessary.

9. Determine whether the subrecipient has met the audit requirements of their non-OMB Circular A-133 audits by:

   - Reviewing audit and other reports submitted by the subrecipient to the country office to identify questioned costs and other findings pertaining to the U.S. federal award, and to evaluate for completeness and adherence to reporting standards.
• Ensuring that corrective action on reported instances of noncompliance is taken within six (6) months after the receipt of the subrecipient audit report.

10. Notify CARE USA headquarters’ Internal Audit Department and Finance Department when there are material subrecipient audit findings that may necessitate adjustment of CARE’s records.

The country office may consult with CARE USA headquarters’ Finance Department and the Internal Audit Department at any stage of its review of the subrecipients’ compliance with the regulations and while resolving audit questioned costs reflected in the non-OMB Circular A-133 audit reports.

11. Inform CARE USA headquarters’ Finance Department – Consolidation and Reporting Unit of active subagreements. The report should be submitted on the second week of September and March of each year.

*Note: Requirement #11 may change once we finalize and implement the new subgrant accounting process.*
C. CARE USA Headquarters

C.1 Strategic Support

❖ Finance Department

CARE USA headquarters’ Finance Department has the overall responsibility for identifying all subrecipients that received U.S. federal awards through CARE and providing guidance and tools that will assist CARE and the subrecipients in complying with the requirements of OMB Circular A-133 and Guidelines for Financial Audits Contracted by Foreign Recipients.

More specifically, CARE USA headquarters’ Finance Department should provide support by:

1. Assisting country offices and subrecipients in the development of financial monitoring systems and overall compliance as needed and requested by country offices.

2. Providing the Internal Audit Department with a list of U.S. based subrecipients that are subject to OMB Circular A-133.

3. Helping country offices in assessing the validity of subrecipients’ non-OMB Circular A-133 audit findings and responding appropriately to auditors and donors.

4. Liaising with CARE’s external auditors and the external auditors of subrecipients where necessary and/or at the request of country offices. Country offices are asked to send copy of audit reports to CARE USA CHQ Finance Department for review prior to accepting any material findings of the reports.

The CARE USA RMU Director and Controller should approve subagreement over $1,000,000 prior to authorizing the Country Director to sign and share a copy of the subagreement with subrecipient.

❖ Policies and Procedures Development Manager

The Policies and Procedures Development Manager is responsible for:

1. Updating and making future changes to the contents of this Manual

2. Assisting the Program Department in ensuring completeness and timely updating of the financial and administration section of the CARE USA Subgrant Management and Compliance Manual.
3. Development of a series of training materials that can be presented personally or by others in variety of setting ranging from individual sessions to many different workshop type events.

C.2 Internal Audit Department

CARE USA Internal Audit Department assesses whether country offices understand and comply with requirements related to subrecipients by:

1. Assuring that for all U.S. based subrecipients subject to OMB Circular A-133:

   1.1 CARE receives a copy of the reporting package submitted by the subrecipient to the U.S. federal clearing house when the subrecipient’s summary of audit findings and questioned costs disclosed:

      • Audit findings relating to U.S. federal awards that CARE as the pass-through entity provided, or
      • The summary schedule of prior audit findings reported the status of any audit findings relating to U.S. federal awards that CARE provided.

   1.2 When the subrecipient is not required to submit a reporting package to CARE based on what is noted above, the subrecipient shall provide written notification to CARE that:

      • An audit of the subrecipient was conducted in accordance with OMB Circular A-133 part §__.320
      • The schedule of findings and questioned costs disclosed no audit findings relating to the U.S. federal award(s) that the CARE provided; and
      • The summary schedule of prior audit findings did not report on the status of any audit findings relating to the U.S. federal award(s) that CARE provided.

Note: The subrecipient has the option to submit to CARE a copy of the reporting package described under item 1.1 above to comply with this notification requirement.

CARE may also use the information in U.S. Federal Audit Clearing House (FAC) database available on the Internet at http://harvester.census.gov/sac as evidence to verify that the subrecipient had ‘no audit findings’ and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to CARE when there are no audit findings.
1.3 OMB Circular A-133 section §___320 (f) states that in response to a request by a U.S. federal agency or CARE as a pass-through entity, the subrecipient shall submit the copies of the reporting package described in paragraph (c) of OMB Circular A-133 section §___320 (c), and if requested, a copy of any management letters issued by the auditor.

CARE USA Internal Audit Department will request for the above-referenced documents from the U.S. based subrecipients, when deemed necessary.

2. Advising country offices in making management decisions on questioned costs noted in the non-OMB Circular A-133 audit reports of subrecipients.


C.3 Program Department

❖ Vice President for International Operations

The Vice President for International Operations ensures that CARE makes timely management decision to address questioned costs related to audit of U.S. federal funds that the subrecipients received through CARE.

❖ The Regional Management Unit (RMU)

The RMU provides country office oversight and ensures that the country office has a well-thought subgrant management and monitoring strategy that will meet the donor rules and regulations and CARE internal policies on subgrant monitoring.

The RMU Director and Controller should approve subagreement over $1,000,000 prior to authorizing the Country Director to sign and share the subagreement with subrecipient.
**Competitive Bids Unit**

The role of the Competitive Bids Unit is to assist country offices in understanding donor regulations affecting subrecipients and in developing sound subagreements in the following ways:

1. Designing the appropriate templates for subagreements, and updating the templates as necessary

2. Developing the Subagreement Approval Checklist

**C4. Legal Department / Grants & Contracts Compliance Officer**

The Grants and Contracts Compliance Officer is to be considered as the subject matter expert when it comes to regulations affecting CARE’s roles and responsibilities as a pass-through entity.

Specifically, this person is responsible for:

1. Researching, monitoring, interpreting and disseminating throughout CARE information on relevant U.S. government OMB circulars, Federal Acquisition Regulations (FAR) and USAID Grants and Cooperative Agreement administrative policies and regulations, essentially becoming **THE source** within CARE on these issues.

2. Analyzing and developing CARE’s feedback to the U.S. government on major changes in regulations with the objective of strategically influencing these decisions.

3. Communicating new applicable regulations and being the authority when it comes to resolving compliance issues within CARE.
D. Subrecipient

Subrecipients assume certain roles and responsibilities as a result of accepting U.S. federal financial assistance from CARE. They agree to establish and maintain accountability for the funds with an accounting and reporting system which identifies the funds by program or award, reflects how the assistance was utilized, and provides CARE with timely and accurately prepared reports.

In addition, subrecipients are required to establish effective internal control structure and policies and procedures that will help to ensure compliance with applicable requirements. Desirable controls would include:

1. Effective communication of compliance requirements to the subrecipient’s employees and assigning responsibility to specific employees

2. Monitoring operations on a regular basis for adherence with compliance requirements

3. Maintaining open and effective communication with primary recipient and cooperating with oversight efforts

4. Arranging proper and timely audit coverage, as applicable

5. Completing a corrective action plan, as required

6. Distributing the audit report to appropriate parties
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THE SUBGRANT IMPLEMENTATION CYCLE

PRE-AWARD PHASE
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2. Request for Application and subrecipient identification
3. Subrecipient selection - Pre-award assessment *
4. Review and approval

AWARD PHASE
5. Subagreement negotiation and finalization
6. Subagreement preparation and signing

IMPLEMENTATION AND MONITORING PHASE
7. Project implementation begins
8. Monitoring (Financial and programmatic)
9. Modification / Amendment

CLOSEOUT PHASE
10. Subagreement closeout

* Selection of major partners may be decided on prior to securing funding
** Modification / Amendment may happen anytime after the project implementation begins

Note: This chart was adopted from the PVO Networks training materials on subgranting
Another manual that the Program Department is putting together will cover most information under this phase.

The succeeding pages under this section will focus on subrecipient selection, pre-award risk assessments and tools that country offices can use in making its pre-award risk assessment.
CARE works with a wide variety of partner organizations, some of which lack sufficient financial control and management systems required to meet donor and audit requirements. CARE’s ability to assess potential subrecipients can be a major factor in a donor or auditor’s evaluation of CARE as a primary recipient. The process of selecting a potential subrecipient is therefore a critical part of a system for subagreement management.

A. Selection Procedures
The country office must assess a potential subrecipient’s management capacity and financial controls to protect CARE’s interests right from the beginning. The following are questions a donor or auditor may ask CARE regarding its procedures for selecting a subrecipient.

- How does CARE choose a subrecipient?
- What are the program criteria?
- How does CARE determine the capability of the entity to manage its program and achieve the objectives of the subagreement?
- How does CARE determine the capability of the entity to comply with donor standards for financial management?
- What documentation does CARE require from the entity? Does CARE expect written proposals and a review of their policies and procedures for travel, procurement, financial management, etc.?
- How does CARE determine the adequacy of an entity’s procurement and property management systems, and ability to conform to the standards and requirements for those systems covered in the grant?

B. Pre-Award Assessment
Individual country offices must establish criteria that define the necessary requirements and desired qualifications for the subrecipient. The following are recommended questions to ask in the pre-award assessment of potential subrecipients.
• Does the entity have acceptable financial and management systems and personnel capable of recording transactions and monitoring the use of funds?

• What are the current and past activities of the entity? Are they in line with CARE’s current activities, mission and vision?

• With whom has the entity been affiliated in the past? If it has received funds from organizations with which CARE is familiar, can such organization provide a positive reference for the entity? What were the procedures used by that organization to screen subrecipients?

• What is the reputation and standing of the entity and its key personnel in the community?

• Are entity’s staff, particularly management, reputable? Is it possible to perform a character/credit check on key personnel?

• Is the entity legally established in a manner appropriate for both our purposes and those of our donor?

• Is CARE satisfied that the entity does not support any kind of organization, establishments or person that CARE USA knows or has a reason to know advocates terrorism or engages in terrorist activity?

• Does the entity’s financial statements for the last three (3) years, preferably audited, include opinion qualifications? Do they indicate financial sustainability and good quality financial management?

Representatives of country offices’ Program Department (particularly the unit and technical staff responsible for managing subgrants), Finance Department and Procurement should participate in the assessment of potential subrecipients.

Note: This section uses the word “entity” when referring to “prospective subrecipients.”
A. Purpose and Benefits of Risk Assessment
Accurate risk assessment is critical to the success of a country office’s pre-award assessment effort. Assessing risk involves evaluating the effectiveness of an entity’s internal control system in preventing and detecting noncompliance with the U.S. federal guidelines and the internal guidelines of CARE. A risk assessment is used to determine the priority of subrecipients to be reviewed and the level of monitoring to be performed.

*Risk assessment should not be viewed as a one-time event.* Significant turnover in the subrecipient’s personnel, a change in the quality or timeliness of required reports, or information received from other sources may all necessitate a review to determine if a revised risk assessment is warranted.

In determining risk, the country office should evaluate items such as:

1. Size and age of the agency
2. Strength and sophistication of the agency’s internal controls
3. Strength of the agency’s control environment
4. Length of time the agency has been a subrecipient to the country office
5. Amount of CARE’s subgrant (in a year) as a percentage of the subrecipient’s total expected funding from all sources in a year
6. Total subgrant amount previously awarded by CARE to the agency
7. Total subgrant amount that CARE will be funding under the current subagreement
8. Subgrant amount that CARE will be funding under the current subagreement as a percentage of the total subgrant budget line item per grant agreement between CARE and the U.S. government
9. Complexity of the funding sources awarded
10. Financial viability and cash flow
11. Knowledge and familiarity of the agency with applicable donor regulations
12. Variety of complexity of the programs being funded
13. Results of CARE’s previous experience with the agency
14. Extent of CARE program staff involvement with the agency
15. Information available about the agency from other international NGOs, UN agencies and donors
16. Extent of ‘negative’ information about the agency from such organizations
17. Whether the agency will conduct its own procurement or CARE will make major procurement for the agency

If the country office has had a long and successful relationship with the subrecipient, the subrecipient has had clean audits and all reports have been filed accurately historically, the subrecipient would likely be classified as a low risk. If the subrecipient is new to the country office but has had successful relationships with other CARE country offices or headquarters and is a part of a large and successful organization such as another international NGO, the subrecipient may be evaluated initially as a medium risk. A small, start up non-profit agency operating a new program would likely be evaluated as a high risk, at least until some history was established.

The country office must always consider the complexity of the funding sources and programs being funded in determining the risk assessment. It is quite likely that the same subrecipient will have different risk assessment levels assigned for a more or less complex project.

The monitoring plans for each subrecipient should be tailored to correspond to the program that the subrecipient operates, the funding they receive and the subrecipient’s assessed level of risk. For each of the required compliance areas, this Manual suggests various procedures to be followed at each level of risk.

B. Monitoring Objectives Based on Level of Risk

1. Monitoring High and Medium Risk Recipients
   - Obtain reasonable assurance that the subrecipient is an “going concern.”
   - Test the reliability of existing control environment and internal controls.
   - Verify that program objectives are being met.
   - Test the reliability of the subrecipient’s financial and programmatic reports.
   - Test if costs and services are allowable and eligible.

2. Monitoring Low Risk Subrecipients
   - Assess internal and operational controls to determine if further monitoring is necessary.

C. Ranking Potential Subrecipients According to Risk Levels

1. High Risk
   The applicant cannot demonstrate the ability to comply with most grant terms and conditions. Weaknesses in the applicant’s systems may
materially affect the reliability of reporting or the ability to attain program objectives.

The following factors tend to indicate high risk:

A. Poor financial stability (i.e., insolvency or threat of insolvency).
B. Inexperience such as may occur in newly formed organizations or in those which have not previously received U.S. federal grants.
C. Serious deficiencies in program or business management systems (e.g., substantial failure to comply with the financial management standards or procurement standards).
D. A history of unsatisfactory performance, material violations of grant terms, or large cost disallowances on previous awards from the same or other U.S. federal program.
E. Lack of consistency on part of the subrecipient in complying with applicable local laws and regulations (e.g., registration with the relevant government departments, submission of annual returns, submission of statutory deductions for its staff).

CARE country offices should apply good judgment when deciding to work with subrecipients ranked as high risk. Subagreements with high risk organizations should start at a small scale, ideally with initial levels limited to under $10,000 a year.

All this said, we recognize that limiting the funding to $10,000 can be too restrictive in exceptional cases due to the nature of the program activities that the country office and subrecipient need to carry out. CARE USA will allow funding high risk subrecipients up to a maximum of $100,000 per subagreement provided that the performance based approach in subgranting will be used and that fund transfers to the subrecipient will be limited to a maximum of $10,000 at a time.

**Subgranting using a performance-based approach** identifies partners with capacity to deliver the proposed project based on performance. Subagreement is prepared with clear performance measures (or milestone) with funding link to each set project performance. The project is monitored based on the agreed milestone. This approach forces the subrecipient to perform and deliver the agreed result under a given milestone prior to receiving additional funding from CARE.

Significant monitoring and oversight is appropriate and must be factored into overall program management and resource planning.
2. **Medium Risk**
   - **Medium to High Risk**
     The applicant demonstrates some ability to comply with grant terms and conditions but the exceptions could materially affect the reliability of reporting or the ability to attain program activities.

     Medium to high risk status indicates that one or more site visits should be planned during program implementation. Technical assistance to address managerial and financial deficiencies might also be appropriate.

   - **Low to Medium Risk**
     The applicant demonstrates the ability to comply with award terms and conditions or any exceptions are not likely to materially affect the reliability of reporting or the ability to attain program activities.

     Low to medium risk status indicates that at least one site visit should be planned during program implementation to review the subrecipient's performance and compliance. Technical assistance to address managerial and financial deficiencies might also be appropriate.

3. **Low Risk**
   The applicant demonstrates the ability to comply with award terms and conditions with few exceptions. Low risk subrecipients may still be subjected to special award conditions at the discretion of the grants manager.

D. **Obtaining Information for Determining Risk Level of the Subrecipient**
   Every reasonable effort should be made to determine whether the information is already available from within CARE or another partner organization. Information may be available from several internal sources including:

1. Representation made by the recipient prior to award, as in the grant application, during pre-award reviews and site visits, or in the course of negotiating the grant.
2. CARE audit reports, and reports of the recipient’s own auditors.
3. Previous experience with the subrecipient, either in the same program or other programs.
4. When applicable, analysis of the recipient’s financial statements performed by the CARE pre-award assessment team.
When feasible, such sources of information should be addressed not only prior to award, but also at reasonable intervals over the life of the grant, since previously satisfactory conditions may degenerate over time.

If sufficient information cannot be obtained from within CARE or from another U.S. federal agency, the recipient may be directly requested to provide the information. In evaluating information obtained in this manner, consideration should be given to whether it is properly attested to or validated.

In many cases, it will be advantageous for CARE audit staff, finance and program office representatives to make a site visit to evaluate more fully the organization’s financial, administrative and programmatic capability, facilities, etc.

If matters other than business management competence (or related areas) are also to be covered in a survey, consideration should be given to assembling an ad-hoc team from program, audit and other professional staff to perform the assessment.

CARE USA will not provide support of any kind to a person or entity that CARE USA knows or has a reason to know advocates terrorism or engages in terrorist activity. CARE USA shall comply with all applicable laws and regulations that address terrorism and terrorist activity.

Country offices should follow CARE USA procedures to assure compliance with the CARE USA’s antiterrorism policy. Generally speaking, those procedures are centered on checking list of persons and entities designated as terrorist by the U.S. government. CARE USA has purchased software that will perform the list-checking function. Although most list checking will be done in Atlanta, the list checking software will also be used in country offices. The list-checking procedures will affect human resources, treasury and procurement staff, as well as staff involved with contracts and grants.

E. Minimizing Risk
CARE may take one of the following actions to minimize the risk after determining that a prospective recipient is a high-risk organization:

1. Not award the funding;
2. Award the funding but with Special Award Conditions
3. Award the funding but arrange for appropriate technical assistance to the recipient
4. Set a ceiling amount of subgrant amount for every subagreement

- Not Award the Funding
The subgrant should not be made if the nature and extent of the risk are so serious that poor performance by the recipient is probable. If the
proposed project is sufficiently meritorious and has otherwise been duly approved, a decision not to award the funding on the ground that the organization is high-risk implies a decision that the U.S. federal government’s interests cannot be adequately protected by options 2 and 3 above.

**Special Award Conditions**

It is CARE’s policy to use special awards condition as a means of protecting the donors’ interests and affecting positive change in the recipients’ performance or compliance, including the quality of their management systems. Special award conditions of a programmatic and/or administrative nature may be appropriate if an organization has a history of poor programmatic performance, is financially unstable, has inadequate management systems, or has not complied with the terms of previous CARE awards. If special conditions are included in an award, CARE will designate the recipient as “high risk/special award conditions”.

Special award conditions may include one or more of the following as appropriate for the specific grant or recipient. The potentially adverse impact of a particular special condition(s) on a recipient’s ability to carry out the program must be considered and be balanced with the need to protect CARE’s and the U.S. government’s interest.

- a. Use of a reimbursement payment method rather than advance funding.
- b. Use of the deductive method for accounting for program income.
- c. More frequent financial or progress reporting than otherwise required under the program.
- d. If a subgrant contains special conditions, the country office must ensure that the subrecipient is aware of those conditions and understands the action that is necessary to satisfy them. When feasible, this includes developing a corrective action plan with the affected subrecipient, monitoring improvement and assessing, at the conclusion of the corrective action period (generally no more than 2 years), whether the special award conditions can be removed.

CARE must maintain documentation of the corrective actions and efforts to assist the subrecipient in eliminating the deficiencies which resulted in the imposition of the special award conditions.

Once the special award conditions are satisfied, the country office is responsible for the removal of the conditions.

**Technical Assistance to High-Risk Subrecipients**

Technical assistance to the subrecipient should be considered when funding is to be awarded to a high-risk organization. The purpose of such
technical assistance is to raise the level of competence of the subrecipient organization so that it no longer needs to be treated as high-risk.

In deciding whether technical assistance is appropriate, the potential benefits of the technical assistance must be weighed against its financial cost, the intangible costs of CARE’s intrusion, and the risk that the technical assistance offered may not succeed.

The available methods of providing technical assistance vary. The range includes:

1. Tell the subrecipient what the problem is and require the subrecipient to fix it, getting its own technical assistance, if necessary.
2. Call to the attention of the subrecipient another subrecipient who has successfully solved the problem and can serve as a model; authorize and/or request the successful subrecipient, where permissible, to explain its solution and give assistance and training;
3. In exceptional cases, provide substantial direct technical assistance by CARE personnel.

- **Set a Ceiling Amount of Subgrant Amount for Every Subagreement**
  
  As noted earlier, subagreements with high risk organizations should start at a small scale, ideally with initial levels limited to under $10,000 a year.

  All this said, we recognize that limiting the funding to $10,000 can be too restrictive in exceptional cases due to the nature of the program activities that the country office and subrecipient need to carry out. CARE USA will allow funding high risk subrecipients up to a maximum of $100,000 per subagreement provided that the performance based approach in subgranting will be used and that fund transfers to the subrecipient will be limited to a maximum of $10,000 at a time.

**F. Basic vs. Expanded Risk Assessment**

The terminology may be new, but the concept is not. CARE headquarters recognizes that the risk CARE faces in working with subrecipients is closely related to the materiality of amount we are subgranting to each prospective subrecipient. The level of risk assessment to be performed and risk on part of CARE in subgranting $5,000 cannot be compared with the risk for subgranting $300,000.

“Basic” risk assessment does not involve visiting the potential subrecipient’s office to carry out the risk assessment. It is done by:
1. Asking potential subrecipient to respond to CARE-developed questionnaires
2. Obtaining information from potential subrecipient’s ‘references’
3. Interviewing CARE staff with knowledge of or experience working with the potential subrecipient
4. Obtaining a copy and reviewing the potential subrecipient’s:
   a. Written policy or procedures manual
   b. Description of accounting system
   c. Organizational charts
   d. Job descriptions or equivalent
   e. Independent auditor’s report
   f. Internal auditor reports

“Expanded” risk assessment requires carrying out the basic risk assessment steps and visiting the subrecipient’s office to evaluate internal controls by:
   1. Interviewing potential subrecipient’s personnel
   2. Observing the potential subrecipient’s operations, and
   3. Possibly testing the subrecipient’s most important internal controls

When should CARE to perform an “Expanded” pre-award risk assessment?
1. Before signing an agreement for a certain amount e.g., $100,000 with a local subrecipient
2. When prior independent and/or internal audit report describes significant internal control weaknesses, even if the potential subrecipient reports that it has corrected the weaknesses
The country office is expected to justify its rationale for selecting the criteria for conducting pre-assessment risks of potential subrecipients. The process should be adequately documented and satisfy future donor inquiries and audits.

CARE USA headquarters will not dictate the detailed content of the country office’s Risk Assessment Form nor the scoring system it will apply to determine whether the potential subrecipient is a high, medium or low risk organization. However, CARE USA headquarters expects the country office to evaluate the potential subrecipient based on the list presented under pages 28 to 35 of this Manual.

A country office that had been implementing programs with a subgranting component prior to issuance of this Manual should review its existing pre-award risk assessment documents to see if they meet the criteria set forth on pages 28 to 35. As additional reference materials, we are attaching sample Risk Assessment Forms under Appendix C.

The primary sources of these documents are as follows:
1. ADS 591sav_121701_cd26’s Recipient’s Control Environment and Risk Assessment Checklists
2. DHHS’ Risk Assessment Form and Risk Evaluation Matrix
3. National Endowment for Democracy (NED)’s Guidelines for Completing Risk Assessment of Potential Subrecipients and Accounting Questionnaire for Prospective Subrecipients

Softcopy and hardcopy versions of this Manual will be distributed to country offices. When needed, we will also provide the documents in Word format so country offices can simply copy and paste the most applicable item to include in the country office’s risk assessment document.

(Note: Items 1 and 2 are documents in the public domain and we have permission from NED to adapt whatever useful materials we can find from their Manual.)

Future updates to this Manual will summarize all the best practices under one document which will enable country offices to simply “click and drag” items that will be included in the risk assessment template for the country office.
There are three different types of subawards that CARE as a primary recipient of U.S. federal funds is likely to use when dealing with partner organizations:

1. subgrants to U.S. based organizations
2. subgrants to non-U.S. based organizations
3. purchase contracts under grants awarded to U.S. or non-U.S. based not-for-profit or for profit organizations

It is important to make a distinction between the three types noted above as different rules and regulations apply.

Only a financial assistance relationship causes the agency performing the service for CARE to be a subrecipient. A purchase of service relationship is with a vendor. The distinction is critical because the U.S. federal rules and regulations pertaining to funding do not extend to vendors; therefore, subrecipient monitoring is not necessary.

We need to identify all subrecipients in each country office. This is not as simple as it may appear since the relation between CARE and other agencies may constitute either a financial assistance or a purchase of services.

The format of the agreement does not determine the relationship. An established partner organization may be either subrecipients or vendors. The primary criteria that distinguish between a vendor and subrecipient are:

- The degree of autonomy of the agency performing the service
- Whether the performing agency provides the good or service to other entities (particularly non-government agencies)
- Whether the performing agency operates in a competitive environment, and
- Whether the services performed are central to the mission of the U.S. federal program.
OMB Circular A-133 offers the following characteristics for subrecipients and vendors:

<table>
<thead>
<tr>
<th>Subrecipient</th>
<th>Vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determines who is eligible to receive assistance for the program being administered.</td>
<td>Provides goods and services to many different purchasers and any willing buyer.</td>
</tr>
<tr>
<td></td>
<td>Operates in a competitive environment.</td>
</tr>
<tr>
<td>Has its performance measured against whether the objectives of the program were met.</td>
<td>Provides goods and services that are ancillary to the operation of the U.S. federal program.</td>
</tr>
<tr>
<td>Has responsibility for programmatic decision-making.</td>
<td>Provides goods and services within normal business operations.</td>
</tr>
<tr>
<td>Has responsibility for adherence to U.S. federal program compliance requirements.</td>
<td>Is not subject to compliance requirements of the U.S. federal program.</td>
</tr>
<tr>
<td>Uses U.S. federal funds to carry out a program for which CARE has responsibility</td>
<td>Provides goods and services for CARE to use in a U.S. federal funded program it operates.</td>
</tr>
</tbody>
</table>

**Use of judgment in making determination**

There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether the relationship is that of a subrecipient or vendor.

**For-profit subrecipient**

CARE as the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient’s compliance responsibility. Methods to ensure compliance for U.S. federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

**Compliance responsibility for vendors**

In most cases, CARE’S compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with applicable laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, CARE is responsible for ensuring compliance for vendor transactions when the contact clearly requires that the vendor is responsible
for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant / cooperative agreements.
It is very important to know the funding instrument used by our donor to
determine if CARE can further subgrant or contract/subcontract with another
entity.

The Grant Relationship between CARE and its partner organizations is
governed by the Public Law 95-224: Federal Grant and Cooperative Act.

Here are the rules:

1. When CARE is a primary recipient or a subrecipient to a
   grant/cooperative agreement from the U.S. federal government, CARE
   can subgrant or contract under the grant.

2. When CARE is a primary contractor or a subcontractor to procurement
   contract with the U.S. federal government, CARE can contract or
   subcontract, but NOT subgrant the funds.

Please see The Grant Relationship Chart on the next page that illustrates this
clearly.

Notes:

1. 22 CFR 226.25 states that unless described in the application and funded
   in the approved budget of the award, the subaward, transfer or contracting
   out of any work under an award requires prior approval of the Agreement
   Officer.

2. Another manual that CARE USA headquarters will be putting together will
   cover the detailed mechanism of subcontracting with other entities where
   CARE is the primary recipient or pass-through entity for a U.S. federal
   contract.
The Grant Relationship

U.S. Federal Government

Assistance
- Assist
- Stimulate
- Support

Procurement
- Buy
- Acquire
- Purchase
- Procure

Grantee
(Primary Recipient)

Contractor

Subrecipient

Contract

Subcontractor

Subrecipient

Contract

Subcontractor

Subrecipient

Contract

Subcontractor

Source: July 2004 Association of PVO Finance Managers Workshop on USAID Rules and Regulations
This Chart was based on Public Law 95-224: Federal Grant and Cooperative Act
A. ICR for CARE

Indirect Cost Recovery (ICR) rate is determined based on the indirect cost calculation that CARE USA prepares, that our external auditor audits and endorses, and that USAID, our cognizant agency, approves to substantiate CARE’s claim for reimbursement of indirect costs.

All costs incurred by the country offices are direct project costs. This includes expenses incurred by our subrecipients to effectively carry out the project component they are tasked to implement.

It is CARE USA’s policy to apply the approved Negotiated Indirect Cost Rate Agreement (NICRA) on all direct project costs whether the project calls for CARE directly implementing the activities or subgranting certain components of the program implementation to other organizations.

B. ICR for the Subrecipient

The U.S. federal cost principles that apply to CARE as a prime flow down to the subrecipients. In the same way CARE would apply its NICRA when CARE is a subrecipient instead of a prime, CARE’s subrecipient with an existing NICRA is also expected to apply the same rate in the subagreement budget.

Subrecipients or implementing partners that do not have approved NICRA must present an itemized overhead cost in the budget proposal. Decision to provide funding for their overhead cost or general and administrative expenses shall be at the discretion of CARE. Generally, general and administrative expenses must not exceed 10% of the total cost.
Budget is the financial expression of the project activity as approved during the award process. It may include the U.S. federal funding through CARE and NGO contribution or only U.S. federal funding share through CARE.

**A. Budget Negotiation and Approval**

CARE should provide the potential subrecipients (we will refer to as the “entity”) with detailed budget guidelines that have a budget template and clear explanation of what is expected to be included under each line item.

The finance and program staff of the entity should be involved in the preparation of budget and ensuring its reasonableness and accuracy.

The budget submission should be reviewed by CARE in accordance with the standards set forth in the guidelines. The following points should be considered when reviewing the proposed budget:

1. How does the entity determine the reasonableness of the amount reflected in the budget? Are the line item budgets consistent with the standard budget line items that CARE requires?

2. Does the entity consider alternative ways of implementing the activities?

3. Are there items considered to be restricted under the U.S. federal regulations?

4. Is the total proposed budget within the budget limit? If not, what is the justification for the higher funding request?

5. What is the entity’s contribution related to this subagreement? If the program will be better met by adding a cost sharing requirement or if CARE has an existing cost-sharing commitment as a primary recipient to the grant, it is appropriate for CARE to pass some, if not all, of the cost sharing requirements to the subrecipient.

6. Is the indirect cost presented in the budget supported by a recently approved NICRA with the entity’s cognizant U.S. federal agency? If yes, obtain a copy of the NICRA agreement.
Ensure that there is agreement between CARE and the entity on the amount of ICR rate and the base to be used when calculating ICR to be applied by the entity to the subgrant.

If there is no approved NICRA between the entity’s cognizant U.S. federal agency and the subrecipient, work with the entity to determine how CARE will allow the entity to recover indirect costs.

Any required revision in the proposed budget must be discussed with the entity and be put in writing.

B. Budget Flexibility
CARE should provide clear guidelines on budget line item flexibility.

The following are the common budget flexibility clauses in the subagreement:

- CARE restricts the transfer of funds amount among direct cost budget line items with aggregate amount of $100K or ten percent (10%) per line item – whichever is lower.

- The transfer of amounts budgeted for indirect costs to absorb the direct costs or vice versa requires prior approval by CARE.

- The transfer of funds allotted for training allowance (direct payment to trainees) to other budget categories is not allowed.

C. Budget Guidelines
As noted earlier, CARE should provide budget guidelines to grant applicants to assist prospective subrecipients in preparing their budget. A budget guideline is also one of the required attachments to the subagreement.

Please refer to the succeeding pages for the sample Budget Guidelines template.
Sample Budget Guidelines
CARE Project Name ______________
Basic Budget Guidelines for Large Grants Program

I. Overview

The (state the name of the U.S. federal funding agency, e.g., USAID) funds all CARE program activities under this subaward program. Since all federal funding are subject to U.S. government policies and guidelines, funds given by CARE to all subrecipients and/or implementing partners will also be subject to the same policies and guidelines.

II. Budget Plan

CARE advises all subrecipients/implementing partners to plan ahead and assess the nature of project to be implemented. Once the project's goal or objective is identified, it is worth looking into the components of the different line items that will be used to achieve the objective of the program.

There are two (2) main budget categories: Activity-based category and Cost-based category. For financial review purposes, only cost-based budget shall be used to analyze the different line items, but activity-based budget will also be required to summarize the project implementation plan.

The activity-based budget is focused more on the activity that is required in implementing the project with the corresponding cost associated in the performance of each objective. On the other hand, the cost-based budget is intended to reflect the different types of expenses required to meet the program objective.

Almost always, the budget review process involves cost analysis rather than activity analysis because costs can be measured and reflect values with accuracy.

III. Budget Line Items

When submitting the proposed budget, CARE recommends that each line item be in accordance with the cost accounting principles.

IV. CARE’s Major Line Items (MLI)

CARE has determined that the following line items will be used in implementing various projects in the field. The different line items shown below are adapted from United States Agency for International Development (USAID) signed agreement with CARE.
A) Personnel
B) Fringe Benefits
C) Consultants
D) Travel
E) Equipment
F) Supplies
G) Contractual
H) Other
I) Indirect Cost

CARE requires all subrecipients that each Major Line Item will be supported with a detailed line item or sub-line item (see attached budget format). **A budget narrative is required to justify and support all budget line elements and program activities.**

V. Budget Line Item Description

CARE recommends that subrecipients should follow the format below in order to expedite the processing of the budget review. The format identifies the line item’s unit cost, number of units, percentage of time that will be spent on the project (if applicable) and the total cost. All costs should be based on the organization’s policies but must be in compliance with the federal regulations.

A. **Personnel** - includes salaries and wages of personnel directly involved in the project. This does not include the cost of hiring a consultant or any other professional service. This line item should include estimated salaries of personnel on a yearly basis, the time or percentage time that will be spent on the project, the period of the project and the total cost for the life of the project.

B. **Fringe Benefits** – includes medical insurance, dental insurance and other fringe benefits and allowances of staff or personnel identified in item A above. In some cases, fringe benefit rate can also be used and applied with the approved U.S. government rate.

C. **Consultants**: refers to consultants to be hired directly related to the project. This will include all cost related to the consultancy (e.g. fee, travel, board and lodging).

D. **Travel** – includes international, regional and local (or in-country) travel. The purpose of the trip, travel dates and the estimated cost should be identified or presented in the proposed budget. This includes per diems, lodging, meals and/or incidental expenses. The basis for calculating travel expenses should be consistent with the entity’s approved travel policy (which CARE should have evaluated for reasonableness compared with the U.S. government travel policies).
All international travel should use American carrier in compliance with the Fly America Act. A travel proposal form needs to be completed for all budgeted flights. Please refer to page 52 for the Travel Proposal Form.

E. **Equipment** – includes computer equipment, printers, monitors, equipment repairs and maintenance. Vehicle may be included in this line item depending on the budget agreement and the organization’s policy, and provided that strict compliance to the buy America Act is observed.

F. **Supplies** – includes project materials, office supplies, general or miscellaneous supplies.

G. **Contractual** – includes subgrant/contract expenses. Trainings, workshops, conferences and seminars are sometimes budgeted in the contractual line item. A separate budget is required for all subgrant/contract. The same basic format is recommended to expedite the review process.

H. **Other** – includes other direct cost such as communication expenses, office rent, utilities, office repairs and maintenance, banks service fees, taxes, miscellaneous expenses and other direct cost chargeable to the project.

I. **Indirect Cost or Overhead Cost** – Subrecipients or implementing partners charging Negotiated Indirect Cost Rate Agreement (NICRA) as overhead must submit the approved certification issued by the U.S. federal government. If necessary, CARE may request for a copy of the Indirect Cost Recovery Rate calculation and supporting documents at the time of review.

Subrecipients or implementing partners that do not have approved NICRA **must present an itemized overhead cost** in the budget proposal. Decision to provide funding for their overhead cost or general and administrative expenses shall be at the discretion of CARE. Generally, general and administrative expenses must not exceed 10% of the total cost.

J. **Total Project Cost** – CARE recommends that all subrecipients and/or implementing partners must review the allocation of cost to the budget. As a general rule, the overall budget should show the following:
   a. **Direct project cost**: should not be less than 75% of the total project cost
   b. **Monitoring and Evaluation cost**: at least 10% must be allocated but not to exceed 15%.
c. **Overhead**: should not exceed 10% of the total project cost. However, organization can use the approved NICRA, if there is any.

**VI. Budget Format**

Depending on the project, some or all line items may or may not be applicable. In any case, selection of the line items will be at the discretion of the subrecipients and/or implementing partners. Illustrative samples of budget formats (Activity and Cost based) along with the budget notes/narratives can be found on pages 50 and 51. A detailed cost will be required and must be realistic, reasonable and verifiable. The cost being presented in the budget should be accompanied with a brief description or explanation.

**VII. Restricted Costs on the Budget**

As a general rule, all direct and indirect costs to the program must be in compliance with the U.S. government policies and guidelines. There are certain types of costs that are excluded outright from the proposed budget. The U.S. federal awarding agency usually indicates these costs in its grant agreement with the prime recipient of U.S. federal funds.

Procurement of the following **goods and services are also prohibited:**

- a) Surveillance equipment
- b) Commodities and services for support of police or other law enforcement activities
- c) Abortion equipment and services
- d) Luxury goods and gambling equipment
- e) Weather modification equipment
- f) Building construction/Alterations
- g) Funding for political parties

**Restricted Goods per the standard provision**: The recipient shall not procure any of the following goods and services without the prior approval from USAID.

- a) Agricultural commodities
- b) Motor vehicles
- c) Pharmaceuticals
- d) Pesticides
- e) Used equipment
- f) U. S. government-owned excess property or
- g) Fertilizer
VIII. Management Discretion on Proposed Budget

CARE reserves the right to amend, withdraw, delete, omit and reject some or all line items presented on the budget proposal. CARE will conduct further review on all proposed budget in the event of disputes on the line item presented in the proposed budget. All cost proposal will be subject to investigation and verification.

IX. Reference web site for USAID Regulations

CFR 226:  
http://www.access.gpo.gov/nara/cfr/waisidx_02/22cfr226_02.html

OMB Circulars: http://www.whitehouse.gov/omb/circulars/

Fly America Act:  
Sample: Activity-based budget

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<th># of Units</th>
<th>Unit Cost</th>
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### Sample: Cost-based budget

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**TOTAL**
Chapter III: The Subgrant Cycle  
Section B.5: Award Phase  

**Payment Terms and Conditions**

Effective Date: 1 July 2005  
Revision History: 1 July 2005  
Page: Page 1 of 3

Efficient payment terms and conditions are critical to ensuring that funds are made available to subrecipients as needed and that cash advances from the donor are drawn as close as possible to actual cash outlays by the subrecipient.

Below are the different payment mechanisms that CARE can adapt as a pass-through entity:

**A. Payment by Cash Advance**
Payment by cash advance is the most commonly used term of payment between CARE and subrecipients.

Cash advances to a subrecipient shall be limited to immediate cash requirements and the minimum amounts needed by the subrecipient in carrying out the purpose of the approved program or project.

Procedures for requesting cash advances should be as close as is administratively possible to actual cash outlays. The ideal scenario is to advance cash to subrecipients on a monthly basis.

All this said, we recognize that as we consider the materiality of monthly program expenses involved, the physical location of subrecipients we are working with, and the administrative burden to process fund transfers every month, requiring monthly fund transfer may not be practical to implement. If this is the case, the country office has the authority to transfer funds to the subrecipient up to the three (3) months cash requirements to implement the program.

At any given point of time, no further cash advance should be made unless seventy five (75%) percent of the outstanding cash advance had been liquidated.

Please refer to Attachments 2a&b – Cash and Expenditures Status Report on pages 58 and 59. This document combines the cash advance request and actual expenditures reporting of the subrecipient in one report.

**B. Payment by Cost Reimbursement**
This payment process requires the subrecipients to periodically submit financial reports with additional supporting documentation to be reimbursed for expenses already incurred.
Although this is CARE’s preferred method for paying subgrant expenses, CARE recognizes that most of our subrecipients do not have the cash flow to advance to implement projects. This reason makes this option the least favorable from subrecipient’s standpoint.

C. Cash on a Working Capital Advance
Under this procedure, CARE shall advance cash to the subrecipient to cover the estimated disbursement needs for an initial period generally geared to the subrecipient’s disbursing cycle, normally thirty (30) days. Thereafter, CARE shall reimburse the subrecipient for its actual cash disbursements.

D. Subgranting using a performance-based approach
This approach identifies partners with capacity to deliver the proposed project based on performance. Subagreement is prepared with clear performance measures (or milestone) with funding link to each set project performance. The project is monitored based on the agreed milestone. This approach forces the subrecipient to perform and deliver the agreed result under a given milestone prior to receiving additional funding from CARE.

Please remember that the ideal level of funding for high risk subrecipients is $10,000 or less. However, we also recognize that limiting the funding to $10,000 can be too restrictive in exceptional cases due to the nature of the program activities that the country office and subrecipient need to carry out. CARE USA will allow funding high risk subrecipients up to a maximum of $100,000 per subagreement provided that the performance based approach in subgranting will be used and that fund transfers to the subrecipient will be limited to a maximum of $10,000 at a time.

CARE requires withholding of at least (10%) percent of the final payment to subrecipients until the final program and financial reports are submitted and approved.

Payment terms may be used as a tool to effectively control/manage the program. The timing of releasing payment may be influenced by the subrecipient’s ability to submit the required program and financial reports. This concept is the basis for CARE USA’s policy that we just noted above where CARE requires withholding of at least ten (10%) percent of the final payment to subrecipients. It is the same concept that we apply whenever our country office decides to use the performance-based approach.

Determining the payment terms and conditions should be influenced by CARE’s risk assessment of the subrecipient. A high risk subrecipient warrants a more rigid payment terms. The payment terms and conditions per grant agreement between CARE and the donor may also be a contributing factor in determining the payment terms between CARE and the subrecipients.
How about the manner of transferring funds?

CARE prefers to wire transfer funds, although other methods such as issuance of check is also acceptable and widely used. Country offices should ensure that complete and accurate subrecipient’s bank information are obtained prior to starting the project.

For transfer of funds to an overseas account, the use of an intermediary bank may be necessary. This added layer of bank to deal with cost more in terms of bank charges and usually takes longer than fund transfers that do not have to deal with an intermediary bank. Be sure to factor this in timing the fund transfers.

Regardless of the payment terms and conditions that CARE and the subrecipient will agree on, CARE should periodically review its effectiveness during the life of the subgrant and as we prepare the closeout report for every subagreement.
The precise content and format of financial reports may vary from one subgrant to another. This information should be specified in the subagreement and must be consistent with CARE's and the donor's reporting and monitoring needs.

CARE should aim at maintaining the correct degree of accountability and avoid the creation of onerous, additional and redundant work for the subrecipient.

**A. Frequency of Reporting**
CARE will determine the frequency of financial reporting by considering the size and complexity of the program with the subrecipient. However, the report shall not be required more frequently than monthly or less frequently than quarterly.

CARE prefers to have the monthly financial reports from subrecipients as this frequency of reporting will improve the burn rate of project expenses reported to USAID. It will also improve the ability of CARE to immediately report back to the subrecipient any dispute regarding the expenses claimed.

A final report shall be required at the completion of the subagreement. Subrecipients shall submit the financial report no later than ten (10) days after the end of monthly reporting period, or twenty (20) days after the end of quarterly reporting period. Extensions of reporting due dates may be approved by CARE upon written request of the subrecipient.

**B. Actual vs. Budget Financial Information**
Financial reports should provide comparison of actual expenses with budget amount. When applicable, the subrecipient should also provide actual vs. budget (obligated cost matching amount) information for the NGO/community contributions.

The subagreement will clearly require the need for narrative explanation of actual vs. budget line item variances to accompany the financial report or when proposed budget line item movement will require formal amendment to the budget.

Please refer to *Attachments 2a&b* for the sample *Cash and Expenditures Status Report* on pages 58 and 59.
Attachment 2

Cash and Expenditures Status Report
### CASH AND EXPENDITURE STATUS REPORT

1. **Recipient Organization** (Name and complete address, including ZIP code)

   **Name:**
   **Street Address:**
   **City, State, Zip:**
   **Country:**

2. **CARE Personnel / Unit to which report is submitted**

   **Address:**
   **City, State, Zip, Country:**
   **From:**
   **To:**

3. **Recipient Organization Bank Account Information**

   **Bank / Branch Name:**
   **Account Number:**
   **Swift Code or Routing #:**

4. **CARE PN/FC/CBC**

5. **Final Report**

6. **Period Covered by this report (Day/Month/Year)**

7. **Grant Amount (USD)**

8. **Obligated Amount (USD)**

9. **Match Requirement**

10. **Funding/Grant Period (Day/Month/Year)**

11. **Period Covered by this report (Day/Month/Year)**

12. **Transactions:**

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<td>c. Interest Income on Cash Advances</td>
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<tr>
<td>d. Total Cash Available (Sum of Lines a, b and c)</td>
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<tr>
<td>e. Total cash Available (Sum of Lines a, b and c)</td>
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<tr>
<td>f. Expenses - by line item (see grant agreement)</td>
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<tr>
<td>1. Personnel</td>
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<td>2. Fringe Benefits</td>
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<td>4. Equipment</td>
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<td>5. Supplies</td>
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<tr>
<td>6. Contractual</td>
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<td>10.</td>
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<tr>
<td>i. Total Direct Costs (Sum of items e.1 thru e.10)</td>
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<tr>
<td>g. Indirect Costs</td>
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<tr>
<td>h. Total expenses (Sum of lines f and g)</td>
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<tr>
<td>Request for Advance/Payment</td>
<td></td>
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</tr>
<tr>
<td>i. Ending Cash Balance - Excess (Deficit) (Line d less line h)</td>
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<tr>
<td>a. Total Cash Request (Line j less line i)</td>
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<tr>
<td>Match</td>
<td></td>
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<tr>
<td>j. Recipient's Match (bottomline or by line item-see subagreement)</td>
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<tr>
<td>1. Personnel</td>
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<td></td>
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<tr>
<td>2. Delta Skymiles Travel</td>
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<td>3.</td>
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<td>5.</td>
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</tr>
<tr>
<td>m. Total cash Available (Sum of Lines i.1 thru i.5)</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

13. **Certification:**

   **Printed name and title of authorized certifying official**
   **Signature of authorized certifying official**

14. **Summary of Advances/Reimbursements (Actual and Planned):**

<table>
<thead>
<tr>
<th>#</th>
<th>Date</th>
<th>Amount</th>
<th>#</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>10th</td>
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<td>11th</td>
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<td>4th</td>
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<td>8th</td>
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<tr>
<td>9th</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

15. **Printed name and title of authorized certifying official**

16. **Signature of authorized certifying official**

17. **Date Report Submitted**

18. **TOTAL**

---

*Subgrant Management and Compliance Manual*

*Finance and Administration*
### CASH AND EXPENDITURE STATUS REPORT

**1. Recipient Organization** (Name and complete address, including ZIP code)
- Name: World Council on Peace
- Street Address: 54 Nyanga Street
- City, State, Zip: Nairobi, Kenya

**2. CARE Personnel / Unit to which report is submitted**
- John Smith, HIV/AIDS Unit
- 151 Ellis Street
- Atlanta, Georgia USA 30303-2440

**3. Recipient Organization Bank Account Information**
- Bank / Branch Name: Citibank, Nairobi Branch
- Swift Code or Routing #: AAA777
- Account Number: 123456789
- Payment Method: Wire Transfer

**4. CARE PNFC/CBC**
- 51 Nyanga Street
- Nairobi, Kenya

**5. Grant Amount (USD)**
- 500,000

**6. Obligated Amount (USD)**
- 200,000

**7. Match Requirement**
- 50,000

**8. Final Report**
- Yes

**9. Bank**
- Cash

**10. Funding/Grant Period (Day/Month/Year)**
- 1-Jul-05 to 30-Sep-05

**12. Transactions:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Previous Cumulative</th>
<th>This Period</th>
<th>Cumulative</th>
<th>Approved Budget</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Beginning Cash Balance</td>
<td>-</td>
<td>67,000</td>
<td>55,625</td>
<td>122,625</td>
<td>-</td>
</tr>
<tr>
<td>b. Cash Receipts</td>
<td>67,000</td>
<td>45,000</td>
<td>122,625</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>c. Interest Income on Cash Advances</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>d. Total Cash Available (Sum of Lines a, b and c)</td>
<td>67,000</td>
<td>45,000</td>
<td>122,625</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>e. Expenses - by line item (see grant agreement)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Personnel</td>
<td>25,000</td>
<td>5,000</td>
<td>30,000</td>
<td>200,000</td>
<td>170,000</td>
</tr>
<tr>
<td>2. Fringe Benefits</td>
<td>10,000</td>
<td>2,000</td>
<td>12,000</td>
<td>50,000</td>
<td>38,000</td>
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<tr>
<td>3. Travel</td>
<td>15,000</td>
<td>3,000</td>
<td>18,000</td>
<td>75,000</td>
<td>57,000</td>
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<tr>
<td>4. Equipment</td>
<td>6,000</td>
<td>2,000</td>
<td>8,000</td>
<td>20,000</td>
<td>12,000</td>
</tr>
<tr>
<td>5. Supplies</td>
<td>8,000</td>
<td>1,000</td>
<td>9,000</td>
<td>8,000</td>
<td>-</td>
</tr>
<tr>
<td>6. Contractual</td>
<td>3,500</td>
<td>-</td>
<td>3,500</td>
<td>81,783</td>
<td>78,283</td>
</tr>
<tr>
<td>7.</td>
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<td>8.</td>
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<td>9.</td>
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<tr>
<td>10.</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>t. Total Direct Costs (Sum of lines a thru e.10)</td>
<td>67,000</td>
<td>13,000</td>
<td>80,500</td>
<td>434,783</td>
<td>354,283</td>
</tr>
<tr>
<td>p. Indirect Costs</td>
<td>10,125</td>
<td>1,950</td>
<td>12,075</td>
<td>65,217</td>
<td>53,142</td>
</tr>
<tr>
<td>q. Total expenses (Sum of lines f and g)</td>
<td>77,125</td>
<td>14,950</td>
<td>92,075</td>
<td>500,000</td>
<td>407,425</td>
</tr>
<tr>
<td>r. Ending Cash Balance - Excess (Deficit) (Line d less line h)</td>
<td>(10,625)</td>
<td>30,050</td>
<td>30,050</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>s. Cash Request for Next Reporting Period</td>
<td>40,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t. Total Cash Request (Line j less line i)</td>
<td>9,950</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>u. Recipient's Match (bottomline by line item-see subagreement)</td>
<td>12,000</td>
<td>2,000</td>
<td>14,000</td>
<td>150,000</td>
<td>135,000</td>
</tr>
<tr>
<td>v. Delta Skymiles Travel</td>
<td>1,000</td>
<td>600</td>
<td>1,600</td>
<td>15,000</td>
<td>13,400</td>
</tr>
<tr>
<td>w.</td>
<td></td>
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<tr>
<td>x.</td>
<td></td>
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<td></td>
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<tr>
<td>y.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>z. Total match (Sum of lines I thru I.5)</td>
<td>13,000</td>
<td>2,600</td>
<td>15,600</td>
<td>165,000</td>
<td>149,400</td>
</tr>
</tbody>
</table>

**13. Certification:**
I hereby certify to the best of my knowledge and belief that:
- a. payment of sum claimed under the cited subagreement is proper and due and that appropriate refund to CARE will be made promptly in the event of non-performance in whole or in part of any of the terms of the subagreement.
- b. information in the financial report is correct and any supporting document as CARE USA may require, will be furnished by the subrecipient promptly upon request.
- c. all other requirements called for by the date of this certification have been met.

**Printed name and title of authorized certifying official**
- John Smith
- Telephone (or area code): (404) 681-2552
- Date Report Submitted: 30-Oct-05

**Date Report Submitted**
- 30-Oct-05

**14. Summary of Advances/Reimbursements (Actual and Planned)**

<table>
<thead>
<tr>
<th>#</th>
<th>Date</th>
<th>Amount</th>
<th>#</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>01-Jan-05</td>
<td>25,000</td>
<td>10th</td>
<td>01-Jan-06</td>
<td>67,000</td>
</tr>
<tr>
<td>2nd</td>
<td>01-Apr-05</td>
<td>42,000</td>
<td>11th</td>
<td>01-May-06</td>
<td>55,000</td>
</tr>
<tr>
<td>3rd</td>
<td>01-Jul-05</td>
<td>45,000</td>
<td>12th</td>
<td>01-Sep-05</td>
<td>45,000</td>
</tr>
<tr>
<td>4th</td>
<td>01-Oct-05</td>
<td>165,000</td>
<td>13th</td>
<td>01-Nov-05</td>
<td>60,000</td>
</tr>
<tr>
<td>5th</td>
<td>01-Dec-05</td>
<td>60,000</td>
<td>14th</td>
<td>01-Dec-06</td>
<td>60,000</td>
</tr>
<tr>
<td>6th</td>
<td>01-Jan-06</td>
<td>32,375</td>
<td>15th</td>
<td>01-Jan-07</td>
<td>32,375</td>
</tr>
<tr>
<td>7th</td>
<td>01-Feb-06</td>
<td>149,400</td>
<td>16th</td>
<td>01-Feb-07</td>
<td>149,400</td>
</tr>
<tr>
<td>8th</td>
<td>01-Mar-06</td>
<td>500,000</td>
<td>17th</td>
<td>01-Mar-07</td>
<td>500,000</td>
</tr>
<tr>
<td>9th</td>
<td>01-Apr-06</td>
<td>500,000</td>
<td>18th</td>
<td>01-Apr-07</td>
<td>500,000</td>
</tr>
</tbody>
</table>

**TOTAL**
- 500,000
Chapter III: The Subgrant Cycle  
Section B.7: Award Phase  
**Donor Rules and Regulations**

Effective Date: 1 July 2005  
Revision History: 1 July 2005  
Page: Page 1 of 1

The subagreement should clearly indicate the applicable rules and regulations that the subrecipient should comply with.

Whether required by the U.S. federal agency that provided the funds to CARE or as part of CARE’s internal monitoring plan, effective communication by CARE will play a key role in enabling the subrecipients to comply with the requirements.

The overabundance of rules and regulations associated with the management of U.S. federal grants is a source of regular and continuing confusion. Sorting out what is required by whom and when is made even more complicated by the fact that rules seem to be constantly changing, and/or subject to different interpretation (*source: The APVO Finance Managers’ Workshop on U.S. Rules and Regulations*).

Learning the regulations is a continuous process. It requires investment of time by CARE staff and the staff of the subrecipient to read the provisions, check relevant websites, consult colleagues within and outside CARE and attend training that provides updates on the subject.

This section of the Manual will not provide detailed information on all the applicable regulations, but is intended to serve as a guide in knowing which regulations apply to different subrecipients based on their legal entity and the amount of funding expended.
# USAID Subgrant Summary Chart

(General Rules)

<table>
<thead>
<tr>
<th></th>
<th><strong>U.S. NGOs only</strong></th>
<th><strong>Non-U.S. NGOs only</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>22 CFR 226</td>
<td>Required <a href="http://www.access.gpo.gov/nara/cfr/waisidx_03/22cfr226_03.html">http://www.access.gpo.gov/nara/cfr/waisidx_03/22cfr226_03.html</a></td>
</tr>
<tr>
<td>4</td>
<td>Audit requirements</td>
<td>- if the NGO spends $300,000 or more per year Guidelines for Financial Audits Contracted by Foreign Recipients (June 2003) <a href="http://www.usaid.gov/policy/ads/500/591maa.pdf">http://www.usaid.gov/policy/ads/500/591maa.pdf</a></td>
</tr>
</tbody>
</table>
STANDARD PROVISIONS

Standard provisions are a simplified accumulation of administrative requirements (22 CFR 226) and legislative requirements. These provisions are a direct result of ADS 303.

A. Mandatory and Required as Applicable Standard Provisions for U.S. Nongovernmental Recipients


- Mandatory Standard Provisions for U.S. Nongovernmental Recipients
  1. Applicability of 22 CFR 226
  2. Ineligible Countries
  3. Nondiscrimination
  4. Investment Promotion
  5. Nonliability
  6. Amendment
  7. Notices
  8. Subagreements
  9. OMB Approval Under the Paperwork Reduction Act
  10. USAID Eligibility Rules for Goods and Services

- Required as Applicable Standard Provisions for U.S. Nongovernmental Recipients

The following standard provisions are required to be used when applicable. When a standard provision is determined to be applicable in accordance with the applicability statement, the use of such standard provision is mandatory unless a deviation has been approved in accordance with ADS 303.5.3.

CARE will check off the standard provisions which are included and applicable in the subagreement.

1. Negotiated Indirect Cost Rates – Predetermined
2. Negotiated Indirect Cost Rates – Provisional (Nonprofits)
3. Negotiated Indirect Cost Rates – Provisional (For-profits)
4. Publications and Media Releases
   5. Participant Training
   6. Voluntary Population Training
   7. Protection of the Individual as a Research Subject
   8. Care of Laboratory Animals
   9. Title to and Care of Property (Cooperating Country Title)
   10. Public Notice
   11. Communication Products
   12. Cost Sharing
   13. Prohibition of Assistance to Drug Traffickers

B. Mandatory and Required as Applicable Standard Provisions for Non-U.S., Nongovernmental Recipients


- Mandatory Standard Provisions for Non-U.S. Nongovernmental Recipients

  1. Allowable Costs
  2. Accounting, Audit and Records
  3. Refunds
  4. Revision of Award Budget
  5. Termination and Suspension
  6. Disputes
  7. Debarment, Suspension and Other Responsibility Matters
  8. Investment Promotion
  9. Nonliability
  10. Amendment
  11. Notice
  12. Metric System of Measurement

- Required as Applicable Standard Provisions for Non-U.S. Nongovernmental Recipients

The following standard provisions are required to be used when applicable. When a standard provision is determined to be applicable in accordance with the applicability statement, the use of such standard provision is mandatory unless a deviation has been approved in accordance with ADS Chapter 303.5.3.
CARE will check off the standard provisions which are included and applicable in the subagreement. Only those standard provisions which have been checked off are incorporated within the subagreement.

1. Payment – Advance
2. Payment – Reimbursement
3. International Air Travel and Transportation
4. Ocean Shipment of Goods
5. Procurement of Goods and Services
6. USAID Eligibility Rules for Goods and Services
7. Subagreements
8. Local Procurement
9. Patent Rights
10. Publications and Media Releases
11. Nondiscrimination in Federally Assisted Programs
12. Regulations Governing Employees
13. Participant Training
15. Protection of the Individual as a Research Project
16. Negotiated Overhead Rates – Provisional
17. Title to and Use of Property (Recipient Title)
18. Title to and Care of Property (U.S. Government Title)
19. Title to and Care of Property (Cooperating Country Title)
20. Cost Sharing (Matching)
21. Public Notices
22. Program Income
23. Communication Products
24. Prohibition of Assistance to Drug Traffickers

There are more provisions listed under Standard Provisions for non-U.S. nongovernmental recipients. Can you tell why?

The answer can be found in Subgrant Summary Chart on page 61. 22 CFR 226 is only applicable to U.S. based subrecipients; it does not apply to non-U.S. based subrecipients. For non-U.S. based subrecipients, key administrative and legislative requirements are incorporated under this section.
OMB CIRCULARS
The following U.S. Office of Management and Budget (OMB) Circulars apply to CARE:

- A-110 for administrative requirements
- A-122 for cost principles
- A-133 for audit requirements

I. 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/a110.html

This Circular sets forth standards for obtaining consistency and uniformity among federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations.

On 30 May 1994, OMB required U.S. federal agencies to codify the provisions in their own regulations. The table below is the result of this requirement.

---

<table>
<thead>
<tr>
<th>OMB Circular A-110</th>
<th>Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education Hospitals and Other Non-Profit Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dep't of State</td>
<td>22 CFR145</td>
</tr>
</tbody>
</table>
• **22 CFR 226** – OMB Circular A-110 codification by USAID


22 CFR226 is applicable to U.S. organizations only (as prime recipient or subrecipient.)

Interim final rule is effective 21 February 1995.

http://www.access.gpo.gov/nara/cfr/waisidx_03/22cfr226_03.html

**II. OMB Circular A-122**

*Cost Principles for Non-Profit Organizations*


This Circular establishes principles for determining costs of grants, contracts and other agreements of the U.S. federal government with non-profit organizations.

Whether incurred by direct program implementation or through subawards, the cost principles outlined in this Circular apply.

The latest revision to the OMB Circular A-122 was made on 10 May 2004, under 69 Federal Register 25970 to 25995. Changes are effective 9 June 2004.

**The Cost Principles**

A. **Background**

The Office of Management and Budget (OMB) oversees and amends the cost principles in OMB Circulars A-21, A-87 and A-122. Changes are intended to further the objectives of Public Law 106–107. One of the actions taken by the agencies under the Act was to simplify the cost principles, making the description of similar cost items consistent across the Circulars where possible, and reducing the possibility of misinterpretation. This is done by clarifying existing policies rather than by adding restrictions or modifying current requirements.
The Cost Principles were officially revised on 10 May 2004. These final cost principles became effective on 9 June 2004.

OMB Circular A-122 is the Cost Principle that applies to CARE. This Cost Principle shall be used by all U.S. Federal agencies in determining the allowable costs for work performed by CARE under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement.

All subgrants are subject to those federal cost principles applicable to the particular organization concerned.

- If a subgrant is to a non-profit organization (whether U.S. based or non-U.S. based NGOs), this Circular shall apply

- If a subgrant is to a commercial organization, the cost principles applicable to commercial concerns shall apply

- If a subgrant is to a college or university, Circular A-21 shall apply

B. Website Link to the OMB Circular A-122

C. Practical Questions to Ask when Determining Cost Allowability*

To determine allowability of cost, it helps to ask practical questions (in order of priority), and know the answer to the following:

1. Is there an explicit statement in the OMB Circular A-122 about it?
2. If the answer is No to item (1), is there something like it in the OMB Circular A-122?
3. If the answer is No to items (1) and (2), how do other cost principles treat the matter (e.g., OMB Circular A-121, the FAR, for-profit cost principles?)
4. Will the cost, if incurred, pass the test of allowability? (Hint: please see OMB Circular A-122’s Attachment A: General Principles for the list of general criteria that must be met for cost to be allowable under a U.S. Federal award)

* Tips shared by Robert Lloyd during the July 2004 Association of PVO Finance Managers Workshop on US Rules and Regulations
D. List of Selected Items of Cost Contained in the OMB Circular A-122

Revisions to OMB Circular A-122, 69 FR 25970
May 10, 2004

Below is an updated listing of selected items of cost contained in the OMB Circular A-122, based on the changes contained in the Federal Register notice dated 10 May 2004 (69 FR 25970 – 25995). The primary changes are deletion of items, changes in language for consistency, and the inclusion of certain items that previously appeared in only one or two of the OMB cost principles.

The exhibit lists the selected items of cost along with a cursory description of its allowability. The numbers in parentheses refer to the cost item in the OMB Circular A-122, as revised. This table should be used in conjunction with the exhibit in Part 3 of the 2004 OMB Circular A-133 Compliance Supplement, as appropriate for the audit period.

The reader is strongly cautioned not to rely exclusively on the summary but to place primary reliance on the referenced circular text.

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<td>C. Unallowable</td>
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<td>(25.d) Lobbying-executive lobbying costs</td>
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<td>(8.k) Compensation for personal services—severance pay</td>
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<td>(15) Equipment and other capital expenditures</td>
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<td>(17) Fundraising and investment management costs</td>
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<td><strong>Allowable with Restrictions / Unallowable with Exceptions</strong></td>
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<td>(18) Gains and losses on depreciable assets</td>
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<td>(20) Housing and personal living expenses</td>
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### Selected Cost Items

**Allowable with Restrictions / Unallowable with Exceptions**

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III. OMB Circular A-133
Audits of States, Local Governments, and Non-Profit Organizations

http://www.whitehouse.gov/omb/circulars/a133/a133.html


The Circular provides specific policy, procedures and criteria which the Federal agencies, auditees, and auditors are required to follow.

The OMB Circular A-133 was first issued in March 1990. The revisions published in the Federal Register 27 June 2003, are effective for fiscal years that ended after 31 December 2003.

I. Background Information on the Single Audit Act Amendments of 1996 and the OMB Circular A-133


The single audit is the primary mechanism used by the U.S. federal agencies to ensure accountability for U.S. federal awards.

A. What the Single Audit is Intended to Do
The single audit is intended to provide a cost-effective audit of non-U.S. federal entities. Efficiencies can be considerable when an organization-wide audit or single audit is conducted instead of multiple audits of individual U.S. federal programs. The parties involved in the audit process know beforehand what is expected and what the products of that audit will be. Repeated exposures to a structured audit process also promote discipline in an auditee’s accounting practices.
The auditor provides an opinion as to whether the auditee’s financial statements are presented fairly, thus providing a tool to assess the financial condition of the auditee.

A risk-based approach assures audit coverage to high-dollar, high-risk U.S. federal programs and provides opportunities for the auditing of small-dollar, high-risk programs.

B. What the Single Audit is Not Intended to Do

Single audit reports are not intended to provide detailed audit coverage of all the U.S. federal awards or provide detailed financial information for individual awards. To do so would be cost-prohibitive.


The Circular provides specific policy, procedures, and criteria that the U.S. federal agencies, auditees, and the auditors are required to follow.

The Circular is organized by Subparts:

- **General:** The purpose of the Circular and definitions of terms used frequently in the single audit process.

- **Audits:** Specific information on audit requirements and other information related to the performance of the audit.

- **Auditees:** Specific information on the responsibilities of the auditees.

- **Federal Agencies and Pass-Through Entities:** Specific information on the responsibilities of U.S. federal agencies and pass-through entities.

- **Auditors:** Specific information on the responsibilities of the auditors.

CARE USA has one annual global audit that satisfies the Single Audit requirements. Pricewaterhouse Coopers is our current external auditor that carries out the audit. The audit fieldwork simultaneously takes place with their year-end financial audit of our books.
CARE complies with the Report Submission requirement which states that the audit shall be completed and the required data collection form and reporting package submitted within the earlier of thirty (30) days after receipt of the auditor’s report(s), or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by USAID - our cognizant or oversight agency for audit.

The following sections of CARE’s OMB Circular A-133 report are required reading materials for country offices that implement U.S. federal funded projects:

- Schedule of Findings and Questioned Costs
- Schedule of Prior Audit Findings

You may request for a copy of the latest OMB Circular A-133 report by writing to policies&procedures@care.org

**III. List of Useful Audit-Related Reference Materials**
(ALMISes and Website Links)

- Single Audit Act of 1996
  http://www.ignet.gov/single/saamend.html

- OMB Circular A-133
  http://www.whitehouse.gov/omb/circulars/a133/a133.html

- OMB Circular A-133 Compliance Supplement (March 2004)
  Part 3: Compliance Requirements

  Part 6: Internal Control

- Guidelines for Financial Audit Conducted by Foreign Recipients

- Generally Accepted Government Auditing Standards (GAGAS)

- ALMIS 5367 on A-133 Frequently Asked Questions, originally issued on 8 February 2002 (reissued under ALMIS 5709 to reflect the June 2003 amendment to OMB Circular A-133.)
You may request for a copy of ALMIS 5367 by writing to policies&procedures@care.org

- **ADS 303**


  ADS 303 contains the administrative regulations for grant management that are applied to USAID. ADS 303 derives its authority from the following four acts:
  - Foreign Assistance Act of 1961
  - Federal Grants and Cooperative Agreement Act of 1977
  - USAID 22 CFR 226

  ADS 303.5.13 Administration of Awards states that:

    - awards to U.S. organizations shall be subject to 22 CFR 226 and the Standard Provisions for U.S. Nongovernmental recipients;
    - awards to non-U.S. organizations shall be subject to the Standard Provisions for non-U.S. organizations.
When is CARE ready to sign and share the copy of subagreement?

Answer: When the Subagreement Preparation and Approval Checklists indicate that we are ready to do so.

The use of Subagreement Preparation and Approval Checklists is mandatory to ensure that:

- Appropriate subagreement review process within CARE are carried out, and
- Key elements of subgrant terms and conditions that should be present are considered and included in the draft subagreement before sharing them with the subrecipient.

It is important for the country office to have formal policies and procedures documenting the authorized signatory to the Subagreement Approval Checklist and the subagreement itself based on the result of the risk assessment made and the materiality of subgrant amount involved.

Consistent with the current grants and contracts approval process for CARE USA, the CARE USA RMU Director and Controller should jointly approve subagreement over $1,000,000 prior to authorizing the Country Director to sign and share the subagreement with subrecipient.

Please refer to Attachments 3 to 5 for the following:

Attachment 3 - Subagreement Preparation and Review Checklist (pages 80-84)
Attachment 4 - Subagreement Approval Checklist (pages 86-88)
Attachment 5 – Subagreement templates (pages 89-111)
Attachment 3

SUBAGREEMENT PREPARATION AND REVIEW CHECKLIST
# ATTACHMENT 3

## CARE USA

### SUBAGREEMENT PREPARATION AND REVIEW CHECKLIST

Name of Subrecipient: ______________

CARE Country Office: ______________

Subagreement Number: _______________

PN/FC : _______________

Project Name:

_________________________________________________________________

## I. Checklist of Provisions / Clauses in the Subagreement:

**Instruction:** Determine whether the subaward is a large grant or small grant.

**Subgrant size:**
- ☑ Small - $1 to $10,000
- ☑ Medium - $10,001 to $100,000
- ☑ Large – over $100,000

Review your draft subagreement and check “Yes” if provisions/clauses required (marked “R”) in your type of award are included in your draft. Check “No” if not, or “N/A” if the provision /clause are not applicable. If you have “No” answers against provisions/clauses that are required, please ensure that such exclusion is the intent of the country office. The subagreement file should have adequate documentation and justification for such decision to satisfy future audit and donor inquiries.

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### Section A Subagreement Information

- Do you have all the information required to complete Section A of the Subagreement? | R | R | R |

### Section B Subagreement Terms and Conditions

- B.1 Purpose of Subagreement | R | R | R |
- B.2 Period of Subagreement | R | R | R |
- B.3 Subgrant Amount and Payment |
- 3.1 Subgrant Amount | R | R | R |
- 3.2 Obligated Amount | R | R | R |
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<th>B.12 Closeout Process and On-Going Responsibility After Closeout</th>
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**Section C Attachments**

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<td>O</td>
<td>O</td>
<td>O</td>
<td>R</td>
</tr>
<tr>
<td>Att D Applicable U.S. Government Regulations and Provisions</td>
<td>R</td>
<td>R</td>
<td>R</td>
<td></td>
<td></td>
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<td>R</td>
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<tr>
<td>Att E Subrecipient Certification</td>
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<td>R</td>
<td>O</td>
<td>O</td>
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<td>R</td>
</tr>
</tbody>
</table>
II. Checklist of information /decisions required to prepare subagreement.
Instruction: To prepare the subagreement, gather the following information and ensure that negotiations and decisions on the terms and conditions of the subagreement have been finalized. The CARE - recommended subagreement template should be used when and where appropriate.

I. Obtain the following information about the Subrecipient:

1. Name:  
2. Street:  
3. City, State, Zip Code:  
4. Country:  
5. Bank Name:  
6. Branch:  
7. Bank Street:  
8. Bank City, State, Zip Code:  
9. Bank Country:  
10. Bank Account Number:  
11. Swift Code/Routing#:  
12. Preferred Method of Payment:  
13. Risk Level (check appropriate level) 
   - [ ] Low Risk  
   - [ ] Medium Risk  
   - [ ] High Risk

This information should be used to determine payment terms, monitoring, audit and other clauses that will be included in the subagreement to mitigate risks to CARE.

14. Accounting Basis (check subrecipient’s basis)  
   - [ ] Accrual  
   - [ ] Cash

This information should be used to determine appropriate disclosures and representations to donor on financial reporting.

II. Finalize negotiation and decide on Subagreement Terms and Conditions:

1. Total Estimated Amount  
   If the total estimated amount of the subagreement exceeds $1 million, approval from Regional Director and CARE USA Controller are required.

2. Initial Obligated Amount  
   The initial obligated amount should be proportionate to the amount obligated to CARE as prime recipient.

3. Cost Share Amount  
   Please refer to the Subgrant Management and Compliance Manual for instructions on Cost Share.
4. Effective Dates (mm/dd/yy):
Start Date:                                   End Date:

5. Payment Mechanism (select one payment mechanism that is most appropriate)

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Cost reimbursement</td>
<td>Expenditure reports will be submitted to CARE for reimbursement. These reimbursements shall be based on the amount actually disbursed by the Subrecipient.</td>
</tr>
<tr>
<td>b. Cash Advance</td>
<td>Cash advances to Subrecipients shall be limited to the minimum amount needed to meet current disbursement needs for a period not to exceed three months. Expenditure reports must be submitted to CARE to liquidate prior advances before any new advances can be made.</td>
</tr>
<tr>
<td>c. Cash on Working Capital Advance</td>
<td>Under this procedure, CARE shall advance cash to the Subrecipient to cover the estimated disbursement needs for an initial period generally geared to the Subrecipient's disbursing cycle, normally 30 days. Thereafter, CARE shall reimburse the subrecipient for its actual cash disbursements.</td>
</tr>
</tbody>
</table>

III. Finalize budget. (Please refer to Chapter III, section B.4 for specific guidelines.)

1. Budget line item restrictions
   Refer to Chapter III, section B.4 A for specific guidelines.

2. Compatibility of budget line items to CARE chart of accounts for subawards
   CARE Chart of Accounts for subawards requires the following line items: personnel, professional services, equipment, materials and supplies, travel, occupancy, miscellaneous, grants and subgrants, indirect cost recovery.

3. Major procurement budget line item
   Will it be more cost efficient if CARE procure the goods in behalf of the subrecipient?

4. Budget line item flexibility
   The following are the common budget flexibility clauses in the subagreement:
   - CARE restricts the transfer of funds amount among direct cost budget line items with aggregate amount of $100K or ten percent (10%) per line item, whichever is lower.
   - The transfer of amounts budgeted for indirect costs to absorb the direct costs or vice versa requires prior approval by CARE.
   - The transfer of funds allotted for training allowance (direct payment to trainees) to other budget categories is not allowed.

5. Budget provision for special audit requirements (Please see Chapter III, Section C1f of the Subgrant Management and Compliance Manual)
   a. Subrecipient is US-based
      CARE must ensure that our U.S. nonprofit Subrecipients expending $500,000 or more in U.S. federal awards during their fiscal year are audited in accordance with OMB Circular A-133.
   b. Subrecipient is non-US-based
      Non-U.S. based subrecipients (also known as foreign nonprofit organizations) that expend $300,000 or more in USAID awards during their fiscal year must have an annual audit conducted in accordance with the requirements detailed in the Guidelines for Financial Audits Contracted by Foreign Recipients.

6. Budget provision for performance bonds
   If the Subrecipient is considered high risk, consider if CARE will require Subrecipient to post a performance bond or provide another type of guarantee under the terms of this agreement. Consider covering the costs related to posting the bond/ maintaining the guarantee with the subaward funds.
7. Indirect Cost Recovery for the Subrecipient

The U.S. federal cost principles that apply to CARE as a prime flow down to the Subrecipients. In the same way CARE would apply its NICRA when CARE is a Subrecipient instead of a prime, CARE’s Subrecipient with an existing NICRA is also expected to apply the same rate in the subagreement budget. If the subrecipient does not have a NICRA with a cognizant U.S. federal agency, CARE as a primary recipient is responsible for approving indirect cost rates with Subrecipients.

8. Treatment of program income/ interest on advances

Please refer to Chapter III Section C1.h.10 of the Subgrant Management and Compliance Manual.

IV. Determine Program and Financial Reporting Requirements. Refer to Chapter III, section B.6 for specific guidelines.

1. Select frequency of program and financial reporting:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>Determine the frequency of financial reporting by considering the size and complexity of the program. The report shall not be required more frequently than monthly or less frequently than quarterly. Decision should be based on program and financial reporting requirements imposed by the donor to CARE. A final report shall be required at the completion of the subagreement. Subrecipients shall submit the financial report no later than ten (10) days after the end of monthly reporting period, or thirty (30) days after the end of quarterly reporting period. Extensions of reporting due dates may be approved by CARE upon written request of the subrecipient.</td>
</tr>
<tr>
<td>Quarterly</td>
<td></td>
</tr>
<tr>
<td>Semi-annually</td>
<td></td>
</tr>
<tr>
<td>Annually</td>
<td></td>
</tr>
<tr>
<td>Other, specify</td>
<td></td>
</tr>
</tbody>
</table>

2. Program and financial reporting formats

Review report formats in the subagreement template. If these formats are not sufficient, consider revising the report formats that will be included in the subagreement.


U.S. Federal regulations and provisions applicable to the subagreement

Please use template on Attachment 4 of the Subgrant Management and Compliance Manual and include in the subagreement the applicable rules and regulations.

Prepared by: _____________________________

Date: _____________________________
Attachment 4

SUBAGREEMENT APPROVAL CHECKLIST
ATTACHMENT 4

CARE USA
SUBAGREEMENT APPROVAL CHECKLIST

This checklist, along with the draft subagreement and Subagreement Preparation and Review Checklist, must be completed and submitted by the Country Director to the Regional Director and Controller for approval prior to signing of the subagreement with subrecipient when one or both of the following are met: (1) the subaward amount is $1 million or over, and (2) when subagreement contains clauses / provisions that require prior approval from Regional Director and Controller, as noted below.

<table>
<thead>
<tr>
<th>Country Office:</th>
<th>Subrecipient:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor:</td>
<td>Location:</td>
</tr>
<tr>
<td>PN/FC:</td>
<td>Subagreement Number:</td>
</tr>
<tr>
<td>Currency/Amount awarded to CARE:</td>
<td>Currency/Amount to be sub awarded:</td>
</tr>
<tr>
<td>U.S. Dollar Equivalent (if other currency):</td>
<td>U.S. Dollar Equivalent (if other currency):</td>
</tr>
<tr>
<td>ICR to CARE:</td>
<td>ICR/Overhead Cost to Subrecipient:</td>
</tr>
<tr>
<td>Amount of Cost Share Requirement:</td>
<td>Subrecipient’s Cost Share:</td>
</tr>
<tr>
<td>Subgrant size:</td>
<td>Risk Assessment Level (based on pre-award assessment):</td>
</tr>
<tr>
<td>✔️ Small - $1 to $10,000</td>
<td>✔️ Low Risk</td>
</tr>
<tr>
<td>✔️ Medium - $10,001 to $100,000</td>
<td>✔️ Medium Risk</td>
</tr>
<tr>
<td>✔️ Large – over $100,000</td>
<td>✔️ High Risk</td>
</tr>
</tbody>
</table>

1) Select indicator/s why this Subrecipient, in your pre-award risk assessment, is ranked as Medium to High Risk or High Risk:
✔️ Not Applicable. Subrecipient is Low Risk or Medium to Low Risk.
Subrecipient demonstrates some ability to comply with grant terms and conditions but the exceptions could materially affect the reliability of reporting or the ability to attain program activities.

Subrecipient cannot demonstrate the ability to comply with most grant terms and conditions.

Weaknesses in the Subrecipient’s systems

Poor financial stability (i.e. insolvency, or threat of insolvency)

Serious deficiencies in program or business management systems

History of unsatisfactory performance, material violations of grant terms, or large cost disallowances on previous awards

2) Justify Subrecipient selection despite the above indicators.

________________________________________________________________________

________________________________________________________________________

3) Explain any proposed exceptions to policy on the ICR rate calculation due to CARE.

________________________________________________________________________

________________________________________________________________________

4) Explain purpose of providing Subrecipient with a budget for Indirect Cost / Overhead despite its lack of Negotiated Indirect Cost Recovery Agreement (NICRA) with a cognizant U.S. federal agency.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

5) Indicate who pays for cost of special audits, if required in the subagreement.

________________________________________________________________________

6) List and explain any other subagreement provisions /clauses that require Regional Director and CARE/USA Controller permission before signing (if any).

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
7) List and explain any unusual subagreement provisions.


Country Director submitting this Checklist:

______________________________
Printed Name and Signature         Date

Approvals:

______________________________
CARE USA Regional Director          Date
Printed Name and Signature

______________________________
CARE USA Controller               Date
Printed Name and Signature
Attachment 5

SAMPLE SUBAGREEMENT TEMPLATE
SUBAGREEMENT

Between

CARE USA

Hereby called CARE
Of
151 Ellis Street
Atlanta, GA 30303-2440
USA

And

NAME OF PARTNER
Hereby called the Subrecipient
Of
ADDRESS OF PARTNER

Effective Date:
Completion Date:
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B.2  Period of Subagreement
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   3.2 Obligated Amount
   3.3 Incremental Funding
   3.4 Payment
   3.5 Budget
   3.6 Indirect Cost Rate, NICRA
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Attachment A  Statement of Work
Attachment B  Budget
Attachment C  Financial Report Format
Attachment E  Subrecipient Certification
Section A – Subagreement Information

1. Place of Performance:
2. Subagreement Number:
3. Type of Agreement: Subagreement
4. Subrecipient Name and Address:

5. CARE Contact:

6. Project Period:
   Effective Date:
   Completion Date:

7. Accounting Data:

8. Amount Obligated:

=================================================================================================
CARE Inc: Name of Subrecipient:

By: By:
Printed Name and Signature: Printed Name and Signature:

Title: Title:
Date: Date:

1. The Subrecipient has read and understands that this Subagreement is funded through CARE USA by the U.S. Agency for International Development, an Agency of the U.S. Federal Government (herein after referred to as "USAID"). The Subrecipient agrees to administer this Subagreement in accordance with the terms of this Subagreement and with all applicable laws, including without limitation U.S. Federal Government laws and regulations.
Section B − Subagreement Terms and Conditions

B.1 Purpose of Subagreement

The purpose of this agreement is to...[insert text from the grant or cooperative agreement]

CARE will lead, as the prime grantee, and participate in a partnership with Subrecipient’s name, hereunder referred to as Subrecipient, and other organizations, to accomplish the goals and objectives of Project Name as stated objectives of the program under the Scope of Work.

The primary contact for the Subrecipient during this effort will be the Project Name Project Director. The secondary contact will be the Position of Secondary Contact, Location.

B.2 Period of Subagreement

The effective date of this Subagreement is Start Date and the estimated completion date is End Date. Funds obligated hereunder are available for program expenditures for the estimated period beginning Start Date through End Date.

B.3 Amount of Subaward and Payment

B.3.1 Subaward Amount

The total estimated amount for the performance of the work required hereunder is US$AAAAA. Attachment 2 shows the overall budget for Subrecipient’s name.

B.3.2 Obligated Amount

CARE hereby makes available up to US$BBBBB for program expenditures during the period set forth in B.2 and as shown in the Budget in Attachment 2. CARE is not obligated to reimburse the Subrecipient for the expenditure of amounts in excess of the obligated amount.

B.3.3 Incremental Funding

Incremental funds up to the total Subgrant amount may be obligated according to the following:

i. Availability of funds: Availability of funding for this Subagreement is dependent on funding which the Prime Agreement (CARE) receives from USAID. In the event that USAID does not fully fund the Prime Agreement, then this Subagreement will be funded only up to the extent that USAID makes funds available to CARE.

ii. CARE may obligate additional funds subject to satisfactory progress of the project and CARE’s review of the Subrecipient’s quarterly performance and financial reports. Any increase in the obligated amount must be made in
writing and executed by both parties as an amendment to this Subagreement.

iii. **Delete this section if Subrecipient is not required to provide cost share.** If at the end of any one year (or funding period), the Subrecipient has expended an amount of non-federal funds (cost-sharing amount) less than the agreed upon percentage of total expenditure, the difference shall be applied to reduce the amount of incremental funding, if any, for the following year or funding period. If the award has expired or has been terminated, the difference shall be refunded to CARE.

### B.3.4 Payment

**If the subaward payment is cost reimbursement, insert the following:** Payment shall be made to the Subrecipient on a cost reimbursement basis. Cash and Expenditures Status Reports will be prepared and sent to CARE for reimbursement. These reimbursements shall be based on the amounts actually disbursed by the Subrecipient to carry out the activities in the Scope of Work.

**If subaward payment is on a cash advance basis insert the following:** The Initial payment will be made on a cash advance basis and shall be limited to the minimum amounts needed to meet current disbursement needs of X months (define period but it should not exceed 3 months) to cover program expenses for the specified period of the program. Cash and Expenditures Status Report will be prepared and sent to CARE to liquidate prior advances and request new cash advances. Cash advances to the Subrecipient shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the Subrecipient in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as administratively feasible to the actual disbursements to be made by the Subrecipient for direct program or project costs and the proportionate share of allowable indirect costs. The Subrecipient agrees to maintain cash advances in an interest bearing account, from which any income will be used for the purpose/s set forth in section B.1. and will be reported to CARE.

CARE will wire transfer the funds within X days Payment Timing of the receipt and approval of the Subrecipient’s Cash and Expenditures Status Report using the Subrecipient’s banking information as follows:

- **Bank Name/Branch:**
- **Bank Address:**
- **Account Title:**
- **Account Number:**
- **Transit/Routing/ABA Number:**
- **Reference:**

The Subrecipient shall notify CARE when ___% (normally 75%) of the funds obligated have been spent in any one funding period.
CARE will withhold final payment until the final Cash and Expenditures Status Report is accepted and CARE has verified that no disallowed costs are remaining.

B.3.5 Budget

See Attachment 2 for the Subagreement Budget. Revisions to this budget shall be made in accordance with the budget guidelines.

a. If the grant or cooperative agreement does not restrict budget flexibility, delete the following section. USAID restricts transfer of funds between the Project budget cost groupings that would exceed (cumulatively) the limitation (10%) set forth in 22 CFR 226.25 (f). Any transfer of funds in excess of the cumulative 10% must be requested and justified by the Subrecipient, in advance, and is subject to approval by USAID and CARE.

If grant or cooperative agreement includes cost sharing requirements insert the following: The Subrecipient agrees to provide cost sharing amount of US$CCCCC or X% of the total approved Subrecipient budget. In the event that the Subrecipient fails to provide the required amount or percentage, the Subrecipient agrees to reimburse CARE or CARE shall withhold funds to cover the deficit.

B.3.6 Indirect Costs Rate

Pending establishment of revised provisional or final indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional or predetermined rates and the appropriate bases:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
<th>Base</th>
<th>Type</th>
<th>Period</th>
</tr>
</thead>
</table>

Subrecipient shall inform CARE if its provisional or final ICR is revised and shall use the new rates in its financial report as appropriate. The Subrecipient further agrees that NICRA can be charged only up to the budgeted amount. Any excess to the budgeted amount will be subject to CARE & USAID approval.

B.4 Reporting and Evaluation

B.4.1 Monitoring and Reporting Program Performance

The Subrecipient shall submit quarterly progress reports to the CARE Project Director or its designee. This will include information on all Project Name activities that have been outlined under the Scope of Work for funding by USAID under this Subagreement. The report must also include the following: 1) explanation of quantifiable output of the programs or projects if appropriate and applicable, 2) reasons why established results were not achieved, if appropriate, and, 3) analysis and explanation of cost overruns or high unit costs. CARE must be notified immediately of developments that may have a significant impact on activities hereunder. Further notification must be given in case of problems, delays or adverse conditions, which may materially impair the
ability to meet the objectives hereunder. These notifications must include a statement of the action taken or contemplated, and any assistance needed to resolve the situation.

The format and timing for progress reports is yet to be determined. Once determined, they will be provided to CARE with adequate time for CARE to review the reports and satisfy U.S. government submission requirements.

B.4.2 Financial Reports

The Subrecipient shall submit an original and two (2) copies of Financial Status Report (Attachment C) to CARE on a quarterly basis on, Insert Date (for June to August), Insert Date (for September to November), Insert Date (for December to February), and Insert Date (for March to May) of each year and shall comply with 22CFR 226.52.

The Subrecipient’s quarterly financial report will follow the format as shown in Attachment 5. Financial reports will be analyzed on the basis of incurred expenses that are reasonable, allocable and allowable and in accordance with the terms and conditions of this agreement and applicable costs principles of the US Government of Management and Budget (OMB). The expense report must be signed and certified by an authorized representative of the Subrecipient.

Financial reports shall be sent to the following address and contact person: Name and address of contact person for financial reports

B.4.3 Final Report

Insert requirements stated in the grant or cooperative agreement. The Subrecipient shall submit the following final reports to CARE within sixty (60) days after the termination or expiration of this Subagreement:

1) Final Program Report that contains the Executive Summary of the Subrecipient’s accomplishments in achieving results and conclusions about areas in need of future assistance, an overall description of the Subrecipient’s activities and attainment of results by each activity indicated in the Scope of Work during the term hereof; and assessment of progress made towards accomplishing the Strategic Objectives and Results; significance of these activities; important research findings; comments and recommendations;

2) Final Cash and Expenditures Status Report
3) Property and Equipment Inventory Report
4) External Audit Report
5) Patent and Copyright Report

B.5 Substantial Involvement Understanding

CARE will:
1) Approve all changes in key personnel,
2) Approve all modifications to the approved Scope of Work, which describe the specific activities to be carried out under this project and progress reports;
3) Approve monitoring and evaluation plans;
4) Approve all short-term technical assistance and training activities outside the Scope of Work; and
5) Approve all budget revisions.

B.5.1 Key Personnel

Name of key personnel has been proposed by the Subrecipient to staff the position of the Name of Position and shall be based in Location. The scopes of work for the key personnel are attached hereto and incorporated by reference herein. The Subrecipient is the employer of any and all persons holding key positions, and shall assume all responsibility therefore, including without limitation discipline, hiring, termination and payment of all salaries, benefits and applicable insurance, social security and taxes.

The Name of Position will function within the management structure of PROJECT NAME, and will report to the PROJECT NAME Director or designee, and will observe the administrative arrangements established for the operation of Project Name. A position description for the Name of Position is attached and becomes part of this Subagreement, and the Budget provides the approved funds to the Subrecipient for filling the position. Scopes of work for the other Subrecipient staff partially funded (%) by this agreement are also attached and become part of this agreement.

The Subrecipient expressly recognizes and acknowledges its responsibility to oversee the activities of the key personnel and ensure that the objectives, outputs, outcomes and results connected with the activities supported by the Funded Positions are carried out in accordance with the Scope of Work, fulfilling CARE’s obligation to U.S. government. The Subrecipient will make every reasonable attempt to monitor the activities of the key personnel, including the preparation of performance reviews on at least an annual basis. In the event that any of the individuals staffing any of the funded positions is not performing at a level at which, in the reasonable assessment of CARE, the objectives, outputs, outcomes and results contained herein or in the Scope of Work may not be obtained, or may be in any way impeded, CARE shall promptly inform the Subrecipient in writing. Within 30 days after the date of CARE’s notice, the Subrecipient shall remedy the situation by taking all necessary or advisable steps, including, without limitation termination.

B.6 Special Subagreement Provision

B.6.1 Audit

The Subrecipient must conduct audits in accordance with OMB Circular A-133 (if US organization) or Guidelines for Financial Audits Contracted by Foreign Recipient (If non-U.S. organization). A copy of the annual audit report shall be provided to CARE.
B.6.2 Authorized Geographic Code

The authorized geographic code for procurement of goods and services under this Subaward is XXX. In addition, all procurement activities shall be in accordance with the Standard Provision entitled "AID Eligibility Rules for Goods and Services (Date)."

B.6.3 Compliance

Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such terms, covenants, or conditions, nor shall any specific waiver or relinquishment be deemed a blanket waiver or relinquishment of such right or power. No waiver shall be binding unless in writing and signed by the party granting the waiver.

B.6.4 Confidential Information

Either party may receive confidential information of the other party in connection with the performance of this Agreement. Neither party shall disclose confidential information of the other party to any person or other third-party or make use of such confidential information for its own purposes at any time without the owner's prior written consent. Confidential information means any information (written, oral or observed) relating to: (a) donors and potential donors; (b) personal profiles of beneficiaries; (c) personal profiles of employees; (d) business and strategic plans; (e) finances; or (f) a relationship with any governmental entity. Confidential information shall also include information specifically designated confidential by the owner or that the other party knows or reasonably should know is not generally known to the public. Notwithstanding the forgoing, confidential information shall not include any information that is generally known to the public or readily ascertainable from publicly available sources. Each party shall take steps necessary to enforce these obligations with respect to its employees.

B.6.5 Conflict of Interest

The Subrecipient shall maintain a written code or standards of conduct that shall govern the performance of its employees engaged in the awarding and administration of contracts, and receiving gifts. No employee, officer or agent of Subrecipient shall participate in the selection, award, or administration of a contract supported by CARE funds, that would create a real or apparent conflict of interest. Such conflict in situations includes, but are not limited to:

1) The employee, officer or agent, or any member of the employee’s immediate family, the employee’s partner or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest on the organization selected for an award.

2) The officers, employees, and agents of the Subrecipient shall neither solicit nor accept gratuities, favors or anything of monetary value from a
contractor or parties to Subagreements. However, Subrecipients may set reasonable standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct shall provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the Subrecipients.

B.6.6 Executive Order on Terrorist Financing

The Subrecipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to individuals and organizations associated with terrorism. It is the legal responsibility of the Subrecipient to ensure compliance with these Executive Orders and laws.

B.6.7 Indemnification

The Subrecipient assumes all liability for all loss, damage, cost and expense arising out of or in any way connected with the operation or performance of, or the failure to perform, any duty, obligation, or activity on the part of the Subrecipient, its subcontractor(s), agent(s), or employee(s) in connection with this Subagreement. The Subrecipient further agrees to defend, indemnify and hold harmless CARE and the officers, agents and employees of CARE and such entities from all loss, damage, cost and expense, including all reasonable attorneys' fees, arising from or in any way connected with the operation or performance of, or failure to perform, any duty, obligation, or activity on the part of the Subrecipient, its subcontractor(s), agent(s), or employee(s) in connection with this Subagreement.

B.6.8 Lower Tier Subrecipients

Placement of lower tier Subagreements with other organizations, firms, institutions or individuals, and the provisions of such lower tier Subagreements shall be subject to the prior written approval of CARE, if they will be funded under this Subagreement. Such Subrecipients shall be selected on a competitive basis to the maximum practicable extent, consistent with the obligations and requirements of this Subagreement.

B.6.9 Program Income

Insert requirements in the grant or cooperative agreement. If it is silent, insert the following: The program income earned by the subrecipient must be applied to reduce the subrecipient’s draw of funds from CARE. At CARE’s discretion, CARE may authorize the use of program income to increase the program budget or to provide matching funds. The authorization should always be expressed in writing through the subgrant agreement terms and conditions.

B.6.10 Prohibition on the promotion or advocacy of the legalization or practice of prostitution or sex trafficking

The U.S. Government is opposed to prostitution and related activities, which are inherently harmful and dehumanizing, and contribute to the phenomenon of
trafficking in persons. None of the funds made available under this Sub-Agreement may be used to promote or advocate the legalization or practice of prostitution or sex trafficking. Nothing in the preceding sentence shall be construed to preclude the provision to individuals of palliative care, treatment, or post-exposure pharmaceutical prophylaxis, and necessary pharmaceuticals and commodities, including test kits, condoms, and, when proven effective, microbicides.

Except as noted in the second sentence of this paragraph, if the Subrecipient or a Subrecipient at any tier is a foreign non-governmental organization or a public international organization, as a condition of entering into this Subagreement or any Subagreement, such foreign non-governmental organization or public international organization recipient/Subrecipient must have a policy explicitly opposing, in its activities outside of the United States, prostitution and sex trafficking. The following organizations are exempt from this paragraph: the Global Fund to Fight AIDS, Tuberculosis and Malaria, the World Health Organization, the International AIDS Vaccine Initiative and any United Nations agency. These exempt organizations must include this paragraph in any subawards they make to non-exempt foreign non-governmental organizations.

The following definitions apply for purposes of this provision:
1) Foreign non-governmental organization means an entity that is not organized under the laws of any State of the United States, the District of Columbia or the Commonwealth of Puerto Rico.

2) Sex trafficking means the recruitment, harboring, transportation, provision, or obtaining of a person for the purpose of a commercial sex act. 22 U.S.C. 7102(9).

The Subrecipient shall insert this provision, which is a standard provision, in all Subagreements. This provision includes express terms and conditions of the Subagreement and any violation of it shall be grounds for unilateral termination of the Subagreement by CARE prior to the end of its term.

B.6.11 Restriction in financing Faith-based Organization Activities

As per USAID policy, CARE program will not support activities with a significant religious or proselytizing purpose or content. CARE will finance programs that have secular purpose and which do not have the primary effect of advancing or inhibiting religion.

Faith-based organizations may use their own funds for religious or sectarian purposes but these should be separated from CARE financed activities.

B.6.12 Severability

If any provision of this Subagreement is determined by any court of competent jurisdiction to be invalid or unenforceable, the remainder of the Subagreement, other than those determined to be invalid or unenforceable, shall not be
affected. Each valid provision hereof shall be enforced to the fullest extent permitted by law.

B.6.13 Title to and Care of Property

Title to all property financed under this Sub-Award shall vest with the Subrecipient. The Subrecipient will be responsible for maintenance, protection, custody and care of equipment, materials and supplies for which it has custodial responsibility, including the establishment of reasonable controls to enforce such program. The Subrecipient will follow the requirements of 22 CFR 226 through 226.30.

Within 90 days after the completion of this award, the Subrecipient will submit an inventory schedule covering all the items of equipment, materials and supplies under the Subrecipient’s custody, or title to which has not been consumed in the performance of this award. The Subrecipient will also indicate what disposition has been made of such property.

B.7 Resolution of Conflicts / Disputes

Conflicts between any of the attachments of this Subagreement shall be resolved by applying the following descending order of precedence:

22 CFR 226  
Attachment 1 – Statement of Work

In the case of a disagreement arising between CARE and the Subrecipient regarding the implementation of any part of, or any other substantive question arising under or relating to this agreement, the parties shall use their best efforts to arrive at an agreeable resolution by mutual consultation.

Unresolved issues may, upon the option of either party and upon written notice to the other party, be referred to CARE for resolution agreeable to the concerned parties or for arbitration. Failure by the Subrecipient to define a dispute in writing within thirty (30) calendar days of receipt of a final decision shall result in such final decision being deemed binding upon the Subrecipient.

Arbitration shall be conducted in accordance with the Commercial Arbitration Rules then obtaining as defined by the American Arbitration Association. Arbitration shall take place in Atlanta, Georgia and the arbitration shall be held in English. In any such arbitration, there shall be three (3) arbitrators: one (1) appointed by each of the two parties to this Subagreement, and one (1) appointed by the American Arbitration Association, unless the latter is selected by agreement between the other two arbitrators.

If either party fails to appoint an arbitrator within thirty (30) calendar days after notice for arbitration has been given, then the American Arbitration Association shall make such appointment.
The dispute shall be submitted to the arbitrators in such manner they deem appropriate and the decisions of the majority of the arbitrators, rendered in writing, shall be final and conclusive and binding on the parties, and the judgment upon such decisions may be entered in any court having jurisdiction.

Each party shall pay its own expenses related to the arbitration, but the compensation and expenses of the arbitrators shall be borne in such manner as specified in the decision of the arbitrators. Such costs are not recoverable directly or indirectly through this Subagreement.

Notwithstanding the existence of any disagreement, dispute, or arbitration, the Subrecipient shall continue to perform its responsibilities under this Agreement.

All issues arising under or relating to this Subagreement shall be construed and interpreted in accordance with the laws of the State of Georgia, without regard to its conflict of law rules.

If a judicial proceeding is brought by either part to resolve a dispute that is subject to arbitration hereunder, or to challenge an arbitral award rendered hereunder, the defendant in that proceeding, if it prevails, shall be awarded its costs and reasonable attorney fees, including costs and fees on any subsequent appeal. If a party fails to comply with an arbitral award duly rendered hereunder, and forces the other party to seek enforcement of the award in a court of law, the plaintiff in that proceeding, if it prevails, shall be awarded its costs and reasonable attorney fees, including costs and fees on any subsequent appeal.

B.8 Assignment

The Subrecipient shall not assign, or transfer any of its rights or obligations under this Subagreement hereunder without prior written consent of CARE. Any attempt by the Subrecipient to assign or transfer any of its rights and obligations without the prior written consent of CARE shall be null and void and render this agreement subject to immediate termination by CARE without any obligation or liability attaching to CARE as a result of such termination.

B.9 Subagreement Amendments

Subrecipient is required to report any deviations from the budget and program plans, and obtain prior approval from CARE for budget and program plans revisions that affect this subagreement. Within thirty (30) working days from the date of receipt of the request for revisions, CARE shall review and notify the subrecipient whether the revisions have been approved. If the revision is still under consideration at the end of thirty working days, CARE shall inform the subrecipient in writing of the date when the decision will be made.

B.10 Termination and Suspension

1) CARE may terminate this award at any time, in whole or in part if the recipient materially fails to comply with the terms and conditions of this
Subgrant Management and Compliance Manual
Finance and Administration

Subagreement. CARE will notify the Subrecipient in a letter that will indicate the reason for termination, effective date and in case of partial termination, the portion to be terminated.

2) This Subagreement may be terminated at any time, in whole or in part, by the Subrecipient upon sending 30 days written notification to CARE with the following information: the reasons for the termination, the effective date, and, in the case of a partial termination, the portion to be terminated. However, if CARE determines in the case of partial termination that the reduced or modified portion of the Subaward will not accomplish the purposes for which the award was made, CARE may terminate the award in its entirety.

3) If at any time the U.S. government determines that continuation of all or part of the funding for a program should be suspended or terminated for any reason, then CARE may, following notice to the Subrecipient, immediately suspend or terminate the Subagreement in whole or in part and prohibit the Subrecipient from incurring additional obligations chargeable to the Subaward other than those costs specified in the notice during the period of suspension or termination. If a suspension is affected and the situation causing the suspension continues for 60 days or more, then CARE may terminate this Subaward in whole or in part immediately upon written notice to the Subrecipient and cancel any portion of this award which has not been disbursed or irrevocably committed to third parties.

4) Upon receipt of and in accordance with a termination notice as specified above, the Subrecipient shall take immediate action to minimize all expenditures and obligations financed by this Subaward and cancel such obligations whenever possible. Except as provided below, the Subrecipient shall not incur costs after the effective date of termination.

5) The Subrecipient shall, within 25 calendar days after the effective date of such termination, repay to CARE all unexpended program funds that are not otherwise obligated by a legally binding transaction applicable to this Subaward. Should the funds paid by CARE to the Subrecipient prior to the effective date of the termination of this Sub-Award be insufficient to cover the Subrecipient obligations in the legally binding transaction, the Subrecipient may submit to CARE, within 60 calendar days after the effective date of such termination, a written claim covering such obligation. CARE shall determine the amount to be paid to the Subrecipient in accordance with the applicable Cost Principles, and in accordance with the availability of USAID funds.

B.11 Refunds
1) Any unused funds during the course of the project that remain unused on the completion of project shall be returned to CARE upon demand or on/before presentation of the final report.

2) If at any time during the life of the Subagreement, or as a result of the audit, it is determined by CARE or the USAID that funds provided under this Subagreement have been expended for the purpose not in accordance with the terms and conditions of this Subagreement, Subrecipient shall refund such amount to CARE. Upon the written request for refund from CARE, Subrecipient shall promptly pay such required amount to CARE. In the event that a final audit has not been performed prior to the closeout of this grant, CARE retains the refund right until all claims which may result from the final audit have been resolved between CARE and PARTNER.

B.12 Closeout Process and On-going Responsibility After Closeout

1) Final program and financial reports should be finalized and submitted within the due date indicated in the subagreement and after all award activities have been terminated.

2) The subrecipient should promptly refund any balances of unobligated cash that CARE has advanced or paid and that is not authorized to be retained by the subrecipient for use in other projects.

3) CARE will make prompt payments to the subrecipient for allowable reimbursable costs under the subgrant being closed out.

4) All property should be retained, returned, sold or donated in accordance with the subagreement.

5) If an audit is required and the final audit has not been performed prior to the closeout of an award, CARE retains the right to recover an appropriate amount after fully considering the recommendations on disallowed costs resulting from the final audit.

6) The subrecipient should submit the Subrecipient Certification (equivalent to the Representation Letter that CARE provides to our external auditors) within thirty (30) days upon receipt of the Closeout letter from CARE.
1. NAME OF PROJECT Program Objective

Strategic Framework and Expected Results

Intermediate Result:

Sub-IR 1:
Sub-IR 2:
Sub-IR 3:

Expected Results and Illustrative Activities

Under Sub-IR 1,
Under Sub-IR 2,
Under Sub-IR 3,

SUB IR1
SUB IR 2:
SUB IR3:

The structure of the PROJECT as per the agreement between U.S. government and CARE is outlined below:

1. PROJECT COMPONENT
2. PROJECT COMPONENT
3. PROJECT COMPONENT
4. PROJECT COMPONENT

2. PROJECT Approach

3. Roles and Responsibilities

---

1 This outline was provided by USAID in the cooperative agreement signed by CARE. The Strategic Framework is subject to change with the approval of the USAID Agreement Officer. If a change occurs in the strategic framework and expected results, a modification to this amendment will be provided to the Subrecipient for acceptance.
Under the PROJECT NAME, CARE, as the Prime Recipient, is responsible for the following:

Under the PROJECT, the PARTNER, as a Subrecipient, is responsible for the following:

3.1  *Specific Outputs*

Without limiting the scope of the following, as the first annual work plan is yet to be approved, the Subrecipient will be responsible for:

a.

b.

c.

d.

**Responsibilities:**

**Areas of focus will include, but not be limited to:**

**Membership:**

e. Collaboration with U.S. government

Under the direction of CARE, the Subrecipient is required to work very closely with members of the USAID Team. In the event that the Subrecipient receives advice, requests, direction, or guidance which, in the Subrecipient's opinion, is in conflict with relevant Federal and USAID laws, regulations, policies, and guidance, or the terms and conditions of this subcontract; or if the Subrecipient finds itself receiving conflicting advice, requests, directions, or guidance from USAID personnel, the Subrecipient shall immediately refer the matter to CARE who shall refer the matter to the USAID Agreement Officer for resolution and a final decision.
## Budget Proposal

Name of Subrecipient: __________________
Name of Project: __________________

<table>
<thead>
<tr>
<th>Budget Description</th>
<th># of Units</th>
<th>Unit Cost</th>
<th>US $ Total</th>
<th>Requested from CARE</th>
<th>Match</th>
</tr>
</thead>
</table>

### Objective 1:

#### Activity 1:

- **A Personnel**
  - Expatriate
  - National
- **B Fringe Benefits**
  - Expatriate
  - National
- **C Consultants**
  - Expatriate
  - National
- **D Travel**
  - International
  - Domestic
  - Per diems
- **E Equipment**

#### Activity 2:

- **A Personnel**
  - Expatriate
  - National
- **B Fringe Benefits**
  - Expatriate
  - National
- **C Consultants**
  - Expatriate
  - National

**Subtotal-Activity 1**

**Subtotal-Activity 2**

**Subtotal-Objective 1**

### Objective 2:

#### Activity 1:

- **A Consultants**
  - Expatriate
  - National
- **B Travel**
  - International
  - Domestic
  - Per diems

**Subtotal-Activity 1**

**Subtotal-Objective 2**

**Total Direct Costs**

- **I Indirect Cost**

**Total Budget**
### CASH AND EXPENDITURE STATUS REPORT

**Recipient Organization** (Name and complete address, including ZIP code)

**Recipient Organization Bank Account Information**

**Approval Amount (USD)**

## 2. CARE Personnel / Unit to which report is submitted

- **Street Address:** 151 Ellis Street
- **City, State, Zip:** Atlanta, Georgia USA 30303-2440
- **Country:**

## 12. Transactions:

<table>
<thead>
<tr>
<th>Description</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>V</th>
</tr>
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<tbody>
<tr>
<td>Beginning Cash Balance</td>
<td></td>
<td></td>
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<tr>
<td>Cash Receipts</td>
<td></td>
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<tr>
<td>Total Cash Available (Sum of Lines a, b, and c)</td>
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<tr>
<td>Cash Expenditures - by line item (see grant agreement)</td>
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<td></td>
<td></td>
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<tr>
<td>Personnel</td>
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<tr>
<td>Fringe Benefits</td>
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<td>Travel</td>
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<td>Equipment</td>
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<td>Supplies</td>
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<tr>
<td>Contractual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Direct Costs (Sum of lines d thru f)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect Costs</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total expenses (Sum of lines f and g)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ending Cash Balance - Excess (Deficit) (Line d less line h)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Cash Request (Line i less line l)</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Recipient’s Match (bottomline or by line item - see subagreement)</td>
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<tr>
<td>Personnel</td>
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<tr>
<td>Delta SkyMiles Travel</td>
<td></td>
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<tr>
<td>Total Match (Sum of lines l thru r)</td>
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</table>

## 13. Certification:

I hereby certify to the best of my knowledge and belief that:

- a. Payment of sum claimed under the cited subagreement is proper and due and that appropriate refund to CARE will be made promptly in the event of non-performance in whole or in part of any of the terms of the subagreement.
- b. Information in the financial report is correct and any supporting document as CARE USA may require, will be furnished by the subrecipient promptly upon request.
- c. All other requirements called for by the date of this certification have been met.

**Print name and title of authorized certifying official**

**Signature of authorized certifying official**

**Date Report Submitted**

---

Subagreement No. 108

Following is the list of the attached US government rules and regulations governing this Subagreement:

<table>
<thead>
<tr>
<th>1) OMB Circular A-122</th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>2) OMB Circular A-133</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Guidelines for Financial audits Contracted by Foreign Recipients</td>
<td></td>
<td></td>
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<tr>
<td>4) 22 CFR 226</td>
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<td></td>
</tr>
<tr>
<td>5) Standard Provisions for U.S. NGOs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) Standard Provisions for Non-U.S. NGOs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The list of required or applicable standard provisions should be attached here.
SUBRECIPIENT CERTIFICATION

We are providing this letter in connection with the Subagreement Number _________ of CARE to (name of subrecipient) from ______ to ______. We confirm that we are responsible for the fair presentation in the Statement of Receipts and Disbursements in conformity with the generally accepted accounting principles.

Certain representations in this letter are described as being limited to those matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement:

1. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the Final Statement of Receipts and Disbursements.
2. There are no significant deficiencies, including material weaknesses, in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect (name of subrecipient’s) ability to record, process, summarize and report financial data.
3. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
4. We have no knowledge of any fraud or suspected fraud affecting the (name of subrecipient) involving:
   - Management
   - Employees who have significant roles in internal control over financial reporting, or
   - Others where fraud could have a material effect on the subagreement’s Statement of Receipts and Disbursements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting (name of subrecipient) received in communication from employees, former employees, analysts, regulators, short sellers, or others.
6. (name of subrecipient) has complied with all aspects of contractual agreements that would have a material effect on the Final Statement of Receipts and Disbursements in the event of noncompliance.
7. We are responsible for complying, and have complied, with the requirements of OMB Circular A-133 (for U.S. based NGO subject to OMB Circular A-133).
8. We are responsible for complying with the requirements of laws, regulations and the provisions of contracts and grant agreements related to each of the U.S. federal program we received directly or through CARE as a pass-through entity.
9. We are responsible for establishing and maintaining effective internal control over compliance for U.S. federal programs that provides reasonable assurance
that (name of subrecipient) is managing U.S. federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

10. We have complied, in all material respects, with the compliance requirements in connection with U.S. federal awards

11. We have identified and disclosed to you all amounts questioned any known noncompliance with the requirements of U.S. federal awards, including the results of other audits or program reviews.

12. We will provide CARE with our interpretation of any compliance requirements that have varying interpretations.

13. Expenses claimed were based on actual expenses incurred.

14. Cash advances requested for were based on the minimum amount needed for “immediate disbursing needs” and are paying those as close as is administratively feasible to the actual disbursements being made.

To the best of our knowledge and belief, no events have occurred subsequent to the Closeout Letter date and through the date of this letter that would require adjustment to or disclosure in the final financial reports we submitted to CARE.

______________________________
Chief Executive Officer

______________________________
Chief Financial Officer
THE SUBGRANT MONITORING CYCLE

1. Prepare monitoring plan
2. Monitor
3. Write the Monitoring Results Report
4. Notification to subrecipients
5. Corrective action plan
6. Closure of issues

- Monitoring tools and instruments
- Document with work papers
- Summarize findings
- Report on review and follow up of findings
- Monitor
- Notification to subrecipients
- Corrective action plan
- Closure of issues
- Prepare monitoring plan
Chapter III: The Subgrant Cycle
Section C.1a: Implementation and Monitoring Phase

**CARE’s Responsibility to Monitor Subrecipients**

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: Page 1 of 2

CARE has the responsibility to ensure that the subrecipient spends the awards in accordance with the donor’s applicable laws and regulations and CARE’s internal policies and procedures on subrecipient management. This statement is true when CARE, as a primary recipient of donor funds, awards part of the grant to a subrecipient.

Compliance with donor-imposed audit (e.g., program specific or single audit) is only one of the many subrecipient monitoring tools available. *Subrecipient monitoring should occur throughout the year or the project period and not rely solely on a once-a-year audit.*

Monitoring through “on going activities”, also known as “during-the-award monitoring” may take various forms. A fundamental monitoring tool is informing the subrecipient of the basic award information (e.g., Grant/Contract agreement number, title and number award name, name of institutional donor’s agency) and applicable compliance requirements.

Additional monitoring tools include the following:

1. Reviewing financial and performance reports submitted by the subrecipient

2. Performing site visits to the subrecipient to review financial and programmatic records and observe operations

3. Regular contact with the subrecipient and making appropriate inquiries concerning program activities

4. Arranging for agreed-upon procedures and engagements for certain aspects of subrecipient activities such as eligibility determination.

Donor laws and regulations may impose subrecipient monitoring requirements specific to a program. In addition, factors such as the size of awards, percentage of the pass-through entity’s total program funds awarded to subrecipients, the complexity of the compliance requirements, and risk of subrecipient non-
compliance as assessed by the pass-through entity may influence the nature and extent of monitoring procedures.

Program Complexity
Program with complex compliance requirements have a higher risk of non-compliance.

Percentage of Pass-Through Funding
The larger the percentage of program awards passed through, the greater need for CARE to monitor the subrecipient.

Amount of Awards
Larger dollar awards are of greater risk.

Subrecipient Risk
Subrecipients will be evaluated as high risk, medium risk or low risk to determine the need for closer monitoring. In general, new subrecipients would require closer monitoring. Existing subrecipients will be evaluated based on result of during the award monitoring and subrecipient audits. An existing subrecipient may warrant closer monitoring in cases such as (1) history of non-compliance as a primary recipient or subrecipient, (2) key personnel changes, and (3) new or substantially changed systems.
Listed below are nine (9) suggested monitoring techniques to be used by the country office to achieve monitoring objectives for high, medium and low risk subrecipients. These techniques are suggested for testing the core monitoring areas for compliance.

1. Physical inspection - Physical inspection refers to gathering physical evidence if required when testing high-risk subrecipients. This can be done by examining or inspecting new equipment, observing inventory, and determining staff/client ratio. Reviewing invoices or other supporting documentation may satisfy the same objective when testing medium or low risk subrecipients.

2. Confirmation – Confirmation refers to written requests made to a third party to confirm assertions made by the subrecipient. This may include confirming the account receivable balance or confirming that an individual received service from a particular program.

3. Tracing – Tracing is the examination of documents that support a recorded transaction and a verification of the recording of a document in the accounting records. Tracing helps to obtain evidence about recorded transactions. The country office may use tracing to verify a transaction such as an invoice through the accounting system to its ultimate recording in the accounting records, journal, and ledgers to the appropriate grant program. A country office may also use tracing to verify any unusual incidents and to verify the expenditures reported to CARE on the reliability of program results and achievements to supporting documentation.

4. Inquiry – Inquiry is the test used to obtain management and employees’ responses to questions about the operations of the subrecipient. The country office may use inquiries to get a better understanding of staffing patterns, level of supervision, service delivery, management controls, and operation of program as intended. Inquiries usually provide the basis for further testing to substantiate the responses to inquiries.
5. **Observation** – Observation is witnessing of physical activities by the country office such as taking physical inventory, touring facilities, and attending client staffing. The country office may also use this test to observe how a program is operated. Observation and inquiry should be used in testing monitoring areas when the country office could not review a document in any other manner. When the circumstances do not allow the review or test of documentation, the country office can make inquiry and observe the process to ensure that the intended controls are adequate or being implemented as intended. Inquiry of the process to gain an understanding of how it operates may be sufficient for a low risk subrecipient. However, the process may need to be observed in a high or medium risk subrecipient.

6. **Reperformance** – Reperformance refers to computations made by the country office to independently verify the integrity of transactions or balances. An example of this is determining eligibility and benefits for a program. The county office uses the data in the case record to compute eligibility and benefits and compares the results to the determination made by the subrecipient. This procedure of attempting to replicate the calculation made by the subrecipient is called reperformance.

7. **Reconciliation** – Reconciliation is the process of matching two independent sets of records. Reconciliation serves to provide assurance of completeness and existence. Reconciliation may be necessary to confirm grant revenues and receivables in a high or medium risk subrecipient before closing out a program year.

8. **Inspection** – Inspection is critical reading of a document to compare the information contained in the document with other known information. This includes review of contracts, leases, insurance policies, program guidelines, minutes of board meetings and other pertinent records. Inspection may be used in all monitoring activities regardless of the risk level.

9. **Analytical procedures** – Analytical procedures encompass a number of specific tests that a country office may use to test the reasonableness of data. A country office may use analytical procedures such as certain ratios or trends to determine any unusual conditions that indicate that further testing is warranted. Analytical procedures may be used to provide some level of assurance of low risk subrecipients and may be used to confirm and substantiate the reasonableness of data from high-risk subrecipients.

*Source: This section was adopted from DHHS Policies and Procedures on General Administration – Subrecipient Monitoring Manual.*
Successful monitoring will rely on the implementation of a variety of monitoring techniques which are fully documented. Adequate documentation includes the following as well as other formats resulting from the use of a specific technique.

A. **Monitoring Plan** – CARE requires each country office with subrecipients to develop and maintain a monitoring plan. One of the purposes of this manual is to assist country offices in developing a formal monitoring plan. The manual also lays out the minimum areas and required information that must be included in a monitoring plan. The monitoring plan should serve as the foundation for all monitoring activities.

B. **Monitoring Tool/Instrument** – The monitoring tool/instrument is the form(s) used to organize the review. The form is designed to gain factual information about the administration of the grant and to enable the country office to evaluate risk areas. The monitoring tool/instrument can be designed to accommodate both desk reviews and on-site monitoring or separate forms can be developed for each activity.

C. **Working Papers** – Working papers are the written record made during the monitoring review and contain the record from the beginning of the review until the report is written. They are important as they document the steps taken in the review process. This includes the monitoring instruments and detailed notations taken during a review. Well-structured working papers make it easier to transfer material written during the review to the monitoring report. Working papers should be neat, understandable, and restricted to the matters that are relevant. Writing should be kept simple with materials organized for supervisory review and audit.

D. **Summaries** – Summaries provide objective overview and put findings into perspective and can tie together other related areas.

E. **Monitoring Results Report** – A clear and accurate formal report of the results of the monitoring review should be written to present the compliance picture to management and the organization providing the funds. The report should contain
balancing statements to provide a complete assessment of the situation and an accurate statement of the conditions found compared to the requirements in law or regulations. For example, a monitoring report could note not only the conditions found during the monitoring review, but also those found by the auditor in the audit report.

F. **Report on Review and Follow-up of Audit Findings** – Monitoring includes a review of recent audit findings. The audit findings should be addressed with the subrecipient to verify that the corrective action was taken and any debt collected. Communication with the auditor could assist the country office in learning of any audit work underway that would be relevant to the compliance monitoring review.

G. **Notification** – Notification in written form to the subrecipient of the results of the monitoring which outlines any findings and associated corrective action required.

H. **Corrective Action Plans** – A corrective action plan outlines the steps the subrecipient proposes to take to address findings of noncompliance. Timely corrections of issues identified as a result of monitoring reviews could prevent findings or disallowed costs during the next audit.

I. **Closure Letter** – A closure letter formally accepts the subrecipient’s corrective action plan and indicates that CARE believes that the monitoring results’ noncompliance issues have been adequately addressed.

*Source: This section was adopted from DHHS Policies and Procedures on General Administration – Subrecipient Monitoring Manual.*
Accurate risk assessment is critical to the success of a country office’s monitoring effort. Most country offices that enter into financial assistance agreements have numerous subrecipients. Monitoring all subrecipients in an identical matter can result in:

- Overly burdensome and intrusive monitoring of subrecipients that are very unlikely to be out of compliance, or

- Insufficient monitoring of subrecipients that are likely to require additional assistance in achieving compliance in all areas.

Each approach can jeopardize services to our beneficiaries and risk the loss of U.S. federal funds.

Assessing risk involves evaluating the effectiveness of an entity’s internal control system in preventing and detecting noncompliance with the U.S. federal guidelines and the internal guidelines of CARE. A risk assessment is also used to determine the priority of subrecipients to be reviewed and the level of monitoring to be performed.

We cannot over-emphasize that risk assessment should not be viewed as a one-time event. Significant turnover in the subrecipient’s personnel, a change in the quality or timeliness of required reports, or information received from other sources may all necessitate a review to determine if a revised risk assessment is warranted.

The monitoring plans for each subrecipient should be tailored to correspond to the program that that subrecipient operates, the funding they received and the subrecipient’s assessed level of risk.
We first introduced the concept of “Basic and Expanded” risk assessment under the pre-award, subgrant cycle phase section of this Manual. The same concept is the foundation for what we are about to discuss about monitoring through “on-going activities”.

Whether we are applying basic or expanded monitoring techniques, country offices should focus its monitoring efforts in two key areas:

1. Project output/activity
2. Expenses and compliance

### A. Basic and Expanded Monitoring

#### Basic Monitoring

- Subrecipient to provide periodic report on:
  - Project output/activity of current period, and year-to-date (or since inception of subgrant)
  - Expenses of current period, and year to date (or inception of subgrant) by budget line item

- CO program staff
  - Evaluate in writing, reported project output/activity in relation to reported expenses
  - Sign and date evaluation
  - Provide written evaluation report to the subgrant management unit (if it exists) or CARE program management and finance personnel

- CO finance or internal audit staff
  - Review CARE program written evaluation report
  - If project output/activity is evaluated as inadequate compared to reported expenses, consider vouching reported expenses
- Compare reported expenses to budget (by line item and in total)
- Report significant variances to Project Manager and the CO Controller
- Ask subrecipient and/or CARE program staff for explanation of significant variances
- Project manager approves liquidation of advance and disbursement of funds to subrecipient

**Expanded Monitoring**

- Expanded project output monitoring
  Project manager performs in-person verification for all or a sample of reported project output.

- Expanded expenses and compliance monitoring
  Finance or internal audit staff vouches a sample or all reported expenses to original supporting documentation.

Below is a table that describes the required “level of effort” in monitoring based on the subrecipient’s risk level and materiality of subaward:

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Amount</th>
<th>Level of Monitoring and Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>$1</td>
<td>$10,000 1 Basic Monitoring: Comparison of expenditures to budget</td>
</tr>
<tr>
<td>$10,001 to $50,000</td>
<td>$50,000 1</td>
<td>Basic Monitoring: Comparison of expenditures to budget</td>
</tr>
<tr>
<td>$50,001 and over</td>
<td></td>
<td>Expanded project output monitoring: Applied for every $50,000 the subrecipient expends.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Basic Monitoring: Comparison of expenditures to budget and output to funds expended; testing to be done on a sampling basis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expanded project output monitoring: If very low risk subrecipient, applied for</td>
</tr>
<tr>
<td>Level</td>
<td>Range</td>
<td>Frequency</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Medium</td>
<td>$1 - $10,000</td>
<td>every $300,000</td>
</tr>
<tr>
<td></td>
<td>$10,001 - $50,000</td>
<td>$10,000</td>
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<tr>
<td></td>
<td>$50,001 and over</td>
<td>$50,000</td>
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<tr>
<td>High</td>
<td>$1 - $10,000</td>
<td>every $300,000</td>
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<tr>
<td></td>
<td>$10,001 - $50,000</td>
<td>$10,000</td>
</tr>
</tbody>
</table>


**Expanded project output monitoring:**
Applied for every $25,000 the subrecipient expends

<table>
<thead>
<tr>
<th>$50,001 and over</th>
<th>4</th>
</tr>
</thead>
</table>
| **Basic Monitoring:**
  Comparison of expenditures to budget and output to funds expended; testing to be done on a sampling basis. More samples will be tested.

**Expanded project output monitoring:**
As noted above, this is applicable to every $25,000 the subrecipient expends

If the subrecipient is not subject to OMB Circular A-133 or the Guidelines for Financial Audit Contracted by Foreign Recipient, a program specific audit is required if the subrecipient expends $500,000 or more of the subaward during their fiscal year.

Funding for subagreements with high risk organizations should start at a small scale, ideally with initial levels limited to *under $10,000 a year*.

Under exceptional cases, CARE USA will allow funding high risk subrecipients up to a maximum of $100,000 per subagreement provided that the performance based approach in subgranting will be used and that fund transfers to the subrecipient will be limited to a maximum of $10,000 at a time.

Expanded monitoring is particularly important for subagreements using performance-based approach.

**Legend:**
1 – Basic monitoring for subaward up to $10,000
2 – Basic monitoring plus expanded project output monitoring for $10,001 - $50,000 subaward
3 – Basic monitoring plus expanded project output monitoring for over $50,000 subaward
4 – High Risk Only: Basic monitoring plus expanded project output monitoring
CARE should have reasonable assurance that subrecipients spend the subgrant in accordance with applicable laws and regulations. One way to accomplish this is by requiring an external audit.

Many institutional donors require an external audit of subrecipients as a way of ensuring effective monitoring of material subagreements. Subrecipients should comply with the organization-wide or program specific audit requirements. CARE has the responsibility to ensure that there is sufficient budget to cover the audit cost, subrecipients are formally informed about the audit requirements, the audit takes place when it should be, and that questioned costs are resolved.

If the donor does not require subrecipients to be subject to an external audit, subrecipients classified under the medium-risk category that expended $500,000 or more per year should be subject to a program-specific audit. Funding for the audit should be secured from the donor and integrated in the subagreement budget.

I. General Criteria for Applicability of OMB Circular A-133

Section III.B.7 already provided the background information on what OMB Circular A-133 is.

Here are the two basic criteria that need to be met before the OMB Circular A-133 applies:
A. Based on Expenditure Level Threshold

Over the last decade, the expenditure level threshold that triggers the requirement for an entity to have a single audit increased from $25,000 to $500,000.

One of the highlights of the Single Audit Act Amendments of 1996 is the increase in expenditure level threshold (from $25,000 to $300,000) before a non-U.S. federal entity becomes subject to a single audit.

Seven years later, new revisions to OMB Circular A-133 increased the audit threshold from $300,000 to $500,000. The revisions published on 27 June 2003 are effective for fiscal years ended after 31 December 2003.

B. Based on the Legal Status/Nationality of the Entity

OMB Circular A-133 only applies to U.S. legal entities. Different audit requirements apply to non-U.S. legal entities.

Please refer to Section II below to learn more about the applicable audit requirements, as they relate to CARE’s subrecipients.

II. Compliance with OMB Circular A-133, as a Prime Recipient

USAID properly differentiates policies and audit requirements that must be applied to a U.S. based organization from those that are to be imposed on non-U.S. based organizations.

CARE’s subgrant monitoring policies also make this distinction.

A. The Subrecipient is a U.S. Based Entity

As a prime recipient, CARE must ensure that our U.S. nonprofit subrecipients expending $500,000 or more in U.S. federal awards during their fiscal year are audited in accordance with OMB Circular A-133 (ADS 591.3.1.1).

There are two important things that we would like to point out:
The threshold is based on the subrecipient’s expenditure during their fiscal year (not CARE’s or USAID’s own fiscal year.)

The $500,000 does not have to come entirely through CARE; it maybe a combination of direct funding from USAID, CARE and other U.S. and non-U.S. based pass-through entities such as Save the Children, World Vision and the local government where CARE operates.

**U.S. based subrecipient**

Expends < $500,000 a year

- Not Subject to OMB Circular A-133 audit *

Expends > $500,000 a year

- Subject to OMB Circular A-133 audit

* Note: Upon request, the subrecipient is required to make its records available for “review of audit” by appropriate officials. In some cases, CARE as a pass-through entity may obtain a limited scope audit of our subrecipients that expends less than the threshold expenditure level.

**B. The Subrecipient is a Non-U.S. Based Entity**

Non-U.S. based subrecipients (also known as foreign nonprofit organizations) that expend **$300,000** or more in **USAID awards** during their fiscal year must have an annual audit conducted in accordance with the requirements detailed in the **Guidelines for Financial Audits Contracted by Foreign Recipients** (ADS 591.3.2.1.)
Non-U.S. based subrecipient

Expends < $300,000 a year (U.S. federal funds)
- Not Subject to:
  - OMB Circular A-133 audit
  - Guidelines for Financial Audit Contracted by Foreign Recipients

Expends > $300,000 a year (USAID funds)
- Not Subject to:
  - OMB Circular A-133 audit
  - Guidelines for Financial Audit Contracted by Foreign Recipients

**Note**: The non-U.S. based subrecipient should either receive:

- **direct USAID funding**, or
- **direct USAID funding and USAID funding through one or more pass-through entity**

before they become subject to the Guidelines for Financial Audit Contracted by Foreign Recipient.

If the non-U.S. based subrecipient received USAID funding (*note: this excludes funding received through other U.S. federal agencies*) from CARE or multiple funds from U.S. prime recipients but no direct funding from USAID, the subrecipient is only subject to monitoring by the primary recipient in accordance with OMB Circular A-133 requirements.
As noted under Chapter II on "Who is Responsible for What?", the country office is primarily responsible for ensuring adequate follow up and closure of subrecipient monitoring issues and audit findings.

This is particularly true with audit findings related to non-U.S. based subrecipients of CARE. Unless the country office asks for headquarters’ assistance, the country office should be leading the effort of putting to closure all outstanding issues.

The case of ensuring compliance with OMB Circular A-133 is quite different. Most of these organizations operate in multiple locations and they have their headquarters in the United States. Coordination at subrecipients’ and CARE’s headquarters is necessary.

CARE USA Internal Audit Department has the overall responsibility to ensure that we obtain audit reports/package we need to receive and review from all U.S. based subrecipients subject to OMB Circular A-133. On the other hand, the Program Department’s Vice President for International Operations is responsible for ensuring that CARE makes a timely management decision to address any questioned costs related to audit of U.S. federal funds that the subrecipient received through CARE.

Below is a detailed picture of what and when reports are required from subrecipients, based on the audit findings reported in their OMB Circular A-133 report.

**Subrecipient’s Responsibilities**

Subrecipients are required to submit to CARE a copy of the reporting package submitted to the U.S. federal clearing house (as required under OMB Circular A-133 section §133.320(c) when the subrecipient’s summary of audit findings and questioned costs disclosed:
• Audit findings relating to U.S. federal awards that CARE as the pass-through entity provided, or
• The summary schedule of prior audit findings reported the status of any audit findings relating to U.S. federal awards that CARE provided.

When the subrecipient is not required to submit a reporting package to CARE based on what is noted above, the subrecipient shall provide written notification to CARE that:

• An audit of the subrecipient was conducted in accordance with OMB Circular A-133 part §___.320
• The schedule of findings and questioned costs disclosed no audit findings relating to the U.S. federal award(s) that the pass-through entity provided; and
• The summary schedule of prior audit findings did not report on the status of any audit findings relating to the US. federal award(s) that the pass-through entity provided.

Note: Instead of providing written notification to CARE, the subrecipient may submit a copy of the reporting package described above to comply with this notification requirement.

CARE may also use the information in U.S. Federal Audit Clearing House (FAC) database available on the Internet at http://harvester.census.gov/sac as evidence to verify that the subrecipient had ‘no audit findings’ and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to CARE when there are no audit findings.

OMB Circular A-133 section §___.320 (f) states that in response to request by a U.S. federal agency or CARE as a pass-through entity, the subrecipient shall submit the appropriate copies of the reporting package described in paragraph (c) of OMB Circular A-133 section §___.320 (c), and if requested, a copy of any management letters issued by the auditor.

The subrecipient is responsible for follow-up and corrective action on all audit findings. The corrective action plan should include the anticipated completion date of addressing each audit finding. If the subrecipient does not agree with the audit findings or believes corrective action is not required, the corrective action plan shall include an explanation and specific reasons.
1. When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
2. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
3. When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in CARE’s management decision as a pass-through entity, the summary schedule shall provide an explanation.
4. When the subrecipient believes the audit findings are no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule.

A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

- Two years have passed since the audit report in which the finding occurred was submitted to the U.S. federal clearinghouse;
- The U.S. federal agency or CARE as the pass-through entity is not currently following up with the subrecipient on the audit finding; and
- A management decision was not issued

**Pass-through entity responsibilities**

CARE as a pass-through entity shall perform the following:
1. Consider whether subrecipient audits necessitate adjustment of CARE’s own records.
2. Require each subrecipient to permit CARE and CARE’s auditors to have access to the records and financial statements, as necessary.

*Note: CARE’s or CARE designated auditor’s access to the subrecipient’s records pertaining to the subaward is a standard subagreement condition.*

**Management decision**

CARE as a pass-through entity shall be responsible for making the management decision for audit findings that relate to U.S. federal awards it makes to subrecipients.

The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected subrecipient action to repay disallowed costs, make financial adjustments, or take other action. If the subrecipient has not completed corrective action, a timetable for follow-up should
be given. Prior to issuing the management decision, CARE may request additional information or documentation from the subrecipient, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the subrecipient.

**Time requirements**

CARE shall make management decision within six (6) months of receipt of the audit report. Corrective action should be initiated within six (6) months after receipt of the audit report and proceed as rapidly as possible.
Chapter III: The Subgrant Cycle
Section C.1h: Implementation and Monitoring Phase

OMB Circular A-133 Compliance Supplement’s Required Areas of Compliance Monitoring

**Background**

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: Page 1 of 2

OMB Circular A-133 Compliance Supplement outlines fourteen (14) required areas of compliance monitoring for U.S. based subrecipients that expends $500,000 and above in U.S. federal funding during the year. The subrecipient’s risk level determines the type of monitoring performed in each of these areas. We identified the monitoring objectives and core areas for each risk level.

1. Activities Allowed or Unallowed
2. Allowable Costs / Cost Principles
3. Cash Management
4. Davis-Bacon Act
5. Eligibility
6. Equipment and Real Property Management
7. Matching, Level of Effort, Earmarking
8. Period of Availability of U.S. Federal Funds
9. Procurement and Suspension and Debarment
10. Program Income
11. Real Property Acquisition and Relocation Assistance
12. Reporting
13. Subrecipient Monitoring

Monitoring of a subrecipient classified as high or medium risk should include testing of a financial/program data and reporting. For high-risk subrecipients, the sample size should be larger than that of a medium-risk and the level of testing should be more intense.

It is important to note that although the Circular specifically requires application of the rules to U.S. based subrecipients that expends $500,000 and above in U.S. federal funding during the year, the country office should review and incorporate parts of this section to its “monitoring of on-going activities’ program”, as necessary.
Source: The materials presented under this Section were based on the OMB Circular A-133 Compliance Supplement. Most of the suggested monitoring procedures presented under each section were adopted from DHHS Policies and Procedures on General Administration – Subrecipient Monitoring Manual.
Each U.S. federal program has specific activities that are allowed or that may be unallowable. An example of a common unallowable activity is procurement of goods and services for personal use. Activities allowed or unallowed from each funding source are identified in the grant documents, allocation letters, contracts, and the U.S. federal regulations under the OMB Circular Cost Principles. The country office must be proactive in taking steps to ensure that their subrecipients are aware of all the financial limitations on the funds that they are receiving. The objective of monitoring activities allowed and unallowed is to provide reasonable assurance that U.S. federal funds were used only for intended purposes.

**Suggested Monitoring Procedures:**

*For subrecipients assessed as low risk:*

1. Review compliance supplements, contract, grant awards, allocation letters, funding authorization, etc. to identify the types of activities that are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program and the subrecipient.

2. Review the agency’s plan of work for the funding year, if available, to determine if services planned are within those allowable.

3. Review the internal control information to determine if the information indicates that procedures are in place to identify costs and expenditures that are not allowable from the U.S. federal funds.

4. Review the periodic progress reports to determine if activities reported are allowable and are consistent with the current year/contract.

5. Review expenditure reports/requests for funds to determine if funding is being requested / reported only for allowable purposes.
For subrecipients assessed as medium risk:
In addition to activities outlined above for low risk subrecipients:
1. Request a copy of the agency’s cash disbursements journal or general ledger to determine if all expenditure accounts charged to the program appear to relate to allowable activities.
2. Request copies of agency’s contracts with other entities, employees and individuals to determine if all services purchased are allowable.

For subrecipients assessed as high risk:
In addition to activities outlined above for low and medium risk subrecipients:
1. Observe program activities to determine that activities actually being performed are allowable.
2. Select a random sample of expenditures and trace back from the general ledger to determine if expenditures are for allowable purposes, properly documented, and properly coded in the accounting records.
All costs charged to U.S. federal funds must be reasonable and necessary for the operation and administration of the program(s) for which funding is received. Some funding sources limit the amount of funding available for administration. In that case, to be allowable, the cost must not only be reasonable and necessary but must be within the constraints of the funding source. Costs must be reduced by any applicable credits such as credit memoranda or refunds, and must be supported by appropriate documentation (invoices, purchase orders, etc.) Costs must also be treated consistently; one cost cannot be treated as direct if the same cost is treated as indirect. For example, the Executive Director’s salary cannot be charged to specific U.S. federal funding source one month and treated as indirect cost the next.

If subrecipient performs more than one service or receives funding from more than one funding source, an acceptable method of allocating costs must be in place. Different types of agencies are governed by different cost principles promulgated by the U.S. federal OMB:

- State, Local, and Indian Tribal Governments: Circular A-87
- Educational Institutions: Circular A-21
- Non-Profit Agencies: Circular A-122

For-profit agencies are governed by the cost principles outlined in the Federal Acquisition Regulation (FAR) and publicly-owned hospitals and other providers of medical care are governed by the regulations at 45 CFR part 74, appendix E. The cost principles for all agencies are fairly consistent, but there are differences between the various regulations. Subrecipients should be following the appropriate cost principles. All the cost principles outline various allowable and unallowable costs. Examples of common unallowable costs under most U.S. federal programs...
are the purchase of alcoholic beverages or the purchase of personal items for employees.

Indirect cost is a specific type of cost that allows an agency to recover a portion of its general administrative expenditures related to the administration of U.S. federal programs. To be an allowable expense, the indirect cost must be computed in accordance with the applicable federal cost principles. Some agencies such as international NGOs and universities are large enough to have indirect cost plans approved by a cognizant U.S. federal agency. Others, such as most small non-profit agencies may charge indirect cost if their plan has been prepared in accordance with the applicable cost principle and has been audited by a CPA firm. Indirect cost is not applicable to for-profit agencies since those expenses are covered in their profit margin.

**Suggested Monitoring Procedures:**

**For subrecipients assessed as low risk:**

1. Review compliance supplements, OMB Circulars, contracts and grant award documents to identify the types of costs that are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program and the subrecipient.
2. Review the internal control information to determine if the information indicates that procedures are in place to identify costs and expenditures that are not allowable from U.S. federal funds.
3. Ask the agency which U.S. federal cost principles govern its operation to determine if the agency is following the appropriate guidelines.
4. Review expenditure reports/requests for funds to determine if funding is being requested/reported only for allowable costs.
5. If the agency charges for indirect cost, request copies of the approval letter from the cognizant U.S. federal agency or ask the subrecipient if their rate has been determined in accordance with the applicable cost principles and has been audited by a CPA firm.

**For subrecipients assessed as medium risk:**

*In addition to activities outlined above for low risk subrecipients:*

1. Request a copy of agency's cash disbursements journal or general ledger to determine if all expenditure accounts charged to the program appear to relate to allowable expenditures.
2. Request a copy of the subrecipient's cost allocation plan to determine if the allocation bases appear to be reasonable.
3. Request a copy of the agency’s indirect cost plan, if it was not approved by a cognizant U.S. federal agency, to determine if it appears to have been prepared correctly.
4. Review the charges for indirect cost to determine if the indirect cost rate has been applied correctly.

For subrecipients assessed as high risk:

In addition to activities outlined above for low and medium risk subrecipients:
1. Select a random sample of expenditures over several months. Pull invoices from several categories of expenditures, including salaries.
2. Review to ensure that cost is allowable - no expenditures for personal items, loans to employees, etc.
3. Review to ensure that expenditures are properly supported by invoices, purchase orders, receiving slips, etc.
4. For payroll expenses, review to ensure that salaries agree with personnel records and that fringe benefits have been properly computed.
5. Review to ensure that invoices have received proper approval.
6. Review to ensure that credit memoranda and refunds have been deducted from invoices.
7. Review the actual cost allocation information for a month to determine if costs were allocated in accordance with the cost allocation plan.
8. Review the general ledger in comparison to the expenditure report submitted to the Division to ensure that expenditures reported equal actual expenditures.

Required Documentation:
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
Chapter III: The Subgrant Cycle
Section C.1h.03: Implementation and Monitoring Phase

OMB Circular A-133 Compliance Supplement Required Areas of Compliance Monitoring

**03 – Cash Management**

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: 1 of 1

Cash management refers to the internal control procedures that minimize the time elapsing between the drawdown of funds from the U.S. federal government to the transfer of funds to the subrecipient and the disbursement of those funds by the subrecipient to a payee. This compliance area is only applicable when the project advances funds to the subrecipient. Subrecipients that are funded on a reimbursement basis have used their own funds to pay for program cost in advance of funding received from the U.S. federal government through CARE. In this case, cash management compliance is not an issue.

Funds are authorized for advances only when the lack of an advance would cause an economic hardship for the subrecipient. Advances are limited to the amount estimated to be needed for cash expenditures during a month (or three months at a maximum). Advances for more than this period are approved only on an exception basis in documented cases of extreme hardship.

CARE charges the country office with the responsibility of reviewing the cash needs of subrecipients that receive advances every three months.

**Suggested Monitoring Procedures:**

Since the country office reviews the cash needs of subrecipients receiving advances at least every three months, there is very limited monitoring activity required for this compliance requirement. Only in cases where an advance in excess of three months has been requested is the country office required to monitor cash management. When such an advance is requested, CARE should also reassess the risk level assigned to the subrecipient, if the agency was not already assessed as a high risk. The advance in isolation does not necessarily dictate a change in risk status, but it should trigger a re-evaluation. In those cases:

**Required Documentation:**
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
Chapter III: The Subgrant Cycle
Section C.1h.04: Implementation and Monitoring Phase
OMB Circular A-133 Compliance Supplement Required Areas of Compliance Monitoring

04 - Davis-Bacon Act

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: Page 1 of 1

The Davis-Bacon Act is a U.S. federal law that requires all laborers and mechanics employed by contractors or subcontractors working on construction contracts in excess of $2,000 financed by U.S. federal funds to be paid wages not less than those established for the locality of the project by the U.S. Department of Labor. These requirements will not be applicable to most CARE subrecipients.

Suggested Monitoring Procedures:
Review the contract, grant award, funding authorization or other agreement with the subrecipient to determine if any construction is authorized using federal funds. If so, notify the subrecipient of the requirements of the Davis-Bacon Act.

For subrecipients assessed as low risk:
1. Inquire of the subrecipient to determine if they are aware of the requirements of the Davis-Bacon Act and if they are in compliance.
2. Inquire if the subrecipient is receiving payrolls certified as being in compliance with prevailing wage rates as determined by the U.S. Department of Labor (40 USC 276a to 276a-7).

For subrecipients assessed as medium or high risk:
In addition to the activity outlined above for low risk subrecipients:
1. Request a copy of a certified payroll and compare it to the prevailing wage rates for the locality.

Required Documentation:
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
The term eligibility relates to a set of criteria that qualifies an individual, family, or agency to participate in State and U.S. federal programs. Eligibility criteria are usually unique to a program; some programs may not have an eligibility criteria. U.S. federal laws, regulations, and the provisions of the contract/grant agreements pertaining to the program dictate eligibility criteria. Typically, eligibility criteria for individuals relate to income, household composition (e.g., children or older adults), specified risk factors, or diagnosed mental or physical impairments. Eligibility criteria for agencies typically relate to type of agency and primary mission. The objective of monitoring eligibility is to provide reasonable assurance that only eligible individuals and organizations receive program assistance, that subagreements are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible individuals, families or agencies were calculated in accordance with program requirements.

**Suggested Monitoring Procedures:**

*For subrecipients assessed as low risk:*

1. Review compliance supplements, OMB Circulars and grant award documents to identify the eligibility criteria that apply to the program and the subrecipient.
2. Review the internal control information to determine if the information indicates that procedures are in place to ensure accurate eligibility determination.
3. Ask the agency which eligibility criteria apply to its program(s) to determine if the agency is following the appropriate guidelines.
For subrecipients assessed as medium risk:
In addition to procedures outlined above for low risk subrecipients:
1. Request copies of the tool/instrument that the agency uses to determine eligibility of individuals, groups and agencies to determine if the appropriate areas are being covered to accurately determine eligibility.
2. Request copies of a sample of the documents obtained to provide independent third party verification of the information given on the application to determine if the appropriate types of verification are being obtained.
3. Request copies of the benefit/payment calculations for a sample of eligible individuals, groups and agencies to determine through reperformance if the appropriate benefit/payment has been calculated.

For subrecipients assessed as high risk:
In addition to procedures outlined above for low and medium risk subrecipients:

1. If the subrecipient performs eligibility determinations for individuals or families, select a random sample of individuals/families both receiving and denied benefits and review records and through reperformance obtain assurance that:
   A. The required eligibility was determined or denied accurately;
   B. The required documentation/verification was obtained and the documentation adequately supports or refutes the information provided by the applicant.
   C. If the program requires both initial and continuing eligibility, review to verify that procedures are in place to “flag” the individual’s files/case record to indicate the time period at which eligibility must be redetermined.
   D. Eligibility was redetermined accurately as required.
   E. Benefits paid to or on behalf of the individual were calculated correctly and in compliance with the requirements of the program.
   F. Benefits were discontinued when the period of eligibility expired.

2. In some programs, the subrecipient is required to use a quality control process to obtain assurances about eligibility. Review the quality control procedures established by the subrecipient and inspect a quality control sample used by the subrecipient to ascertain if the process is operating to effectively meet the objectives of the quality control procedure and is in compliance with applicable program requirements.

3. If the subrecipient is responsible for determining eligibility for a group of individuals or an area of service delivery, select a random sample of groups
or areas determined to be eligible (and those determined to be ineligible, if information is available) to obtain assurance that:
A. The population or area served was eligible.
B. The benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.

4. If the subrecipient has subrecipients of its own for which it is responsible for determining eligibility, select a random sample of the agency’s subrecipient files and review to determine if eligibility and amounts awarded were appropriate.
   A. If the determination of eligibility is based upon an approved application or plan, review the application or plan, along with any supporting documentation, to ascertain and identify the applicable eligibility requirements.
   B. Select a sample of awards to subrecipients and perform procedure to verify that the subrecipients were eligible and amounts awarded were within funding limits.

**Required Documentation:**
- Monitoring Tool/Instrument
- Working Papers
- Summaries
- Monitoring Results Report
The term equipment in this context refers to tangible non-expendable property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. Equipment may be purchased with U.S. federal funds only if specifically approved in the grant agreement or directly by the U.S. federal awarding agency. If equipment is purchased with U.S. federal funds, title to the equipment vests with the owning agency, but the equipment must be used exclusively in the U.S. federal program for which it was purchased or, if the purchasing agency is a university, hospital, or non-profit agency subject to the requirements of OMB Circular A-110, it may be used in other U.S. federal programs. When the equipment is disposed of or if it ceases to be used in a U.S. federal program, the U.S. federal government must be reimbursed an appropriate amount for the remaining useful life of the equipment.

Suggested Monitoring Procedures:

For subrecipients assessed as low risk:
1. Conduct a desk review of the subrecipient's budget to determine whether there is a provision for any equipment acquisition from U.S. federal funds.
2. Review expenditure reports to determine whether the program funds used to purchase the equipment were within the amount approved for such equipment.
3. Review the subrecipient's internal control information to determine if the information indicates that equipment is properly tagged and that a physical inventory is performed annually.

For subrecipients assessed as medium risk:
   In addition to the procedures outlined above for low risk subrecipients:
1. Request a copy of the subrecipient's cash disbursements journal or general ledger to determine if U.S. federal funds were used to purchase equipment.
2. Request a copy of the agency’s internal procedures for equipment purchase and disposition to determine if they adequately address U.S. federal requirements.

3. Request a copy of the most recently completed equipment physical inventory to document the process and to determine if assets appear to be adequately safeguarded. This can be inferred if the number of assets identified as "missing" or that were found in a location other than that on the fixed asset records is minimal.

For subrecipients assessed as high risk:

In addition to the procedures outlined above for low and medium risk subrecipients:

1. Review the subrecipient's fixed asset records to assure that the records include the following basic information: a description of the equipment, serial number, tag number, source of funding, who holds title to the equipment, acquisition date, acquisition cost, percentage of U.S. federal participation in cost, location, condition, disposition date (if applicable), and sales price (if applicable).

2. If the fixed asset records indicate that equipment purchased with U.S. federal funds has been sold, review the cash disbursements journal or general ledger to determine appropriate share of proceeds of the disposed equipment had been accounted and reported on.

3. Physically inspect any equipment acquired with U.S. federal funds to determine whether it is consistent with planned acquisitions.

4. Perform a spot inventory of a random sample of the assets on the agency's fixed asset records to determine if assets are appropriately safeguarded.

Required Documentation:
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
Many U.S. federal programs have matching, level of effort and earmarking requirements. The terms are defined as follows:

1. **Matching** – Matching, also known as cost sharing, requires the subrecipient to provide contributions of a specified amounts or percentage to match U.S. federal funds. Matching may be in the form of allowable cost incurred or in-kind contributions (including third-party in-kind contributions). Most match for programs in CARE is expressed as a percentage, e.g., for every $1 spent, the subrecipient must spend x% of matching funds. To be accepted and allowable, all matching contributions must be:

   - Verifiable in the subrecipient’s records;
   - Incurred or earned during the period of the award;
   - Not used to meet matching requirements of any other U.S. federal program (unless specifically allowed by U.S. federal regulations);
   - Necessary and reasonable for proper and efficient accomplishment of the program;
   - Allowable under the applicable cost principles; and
   - Non-U.S. federal funds (unless specifically authorized by U.S. federal regulation or the subrecipient’s contract/award)

In addition, in-kind contributions may only be recognized at their “fair market value” – the amount that a reasonable, prudent person would be willing to pay for the goods or services if they had to be purchased. For example:

- Volunteer services and donated personnel may be valued at rates consistent to those paid by the subrecipient to its employees or contractors performing similar functions.
- Donated supplies are valued at the retail price at the time of donation;
- Loaned space, for which the donor retains title, is valued at the prevailing rental rates for similar space.
2. **Level of Effort** – The term level of effort encompasses three separate types of requirements that may apply to the expenditure of U.S. federal funds. It includes requirements for:

- A specified level of service to be provided from period to period, e.g., a “baseline” number of clients;
- A specified level of expenditures, also known as Maintenance of Effort (MOE), from non-U.S. federal sources for specified activities to be maintained from period to period (the same criteria for allowability of matching funds generally apply to MOE expenditures); and
- U.S. federal funds having to be used to supplement and not replace non-U.S. federal funding of services.

3. **Earmarking** - Earmarking refers to requirements that specify the minimum and/or maximum amount or percentage of the program’s funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the type of participants covered.

Matching, level or effort and earmarking requirements that apply to each funding source are identified in grant documents, allocation letters, contracts, and U.S. federal regulations. Country offices must be especially proactive in taking steps to ensure that their subrecipients are aware of all of the level of effort and earmarking requirements that may apply to the funds that they are receiving. The objective of monitoring matching, level of effort and earmarking is to provide reasonable assurance that the U.S. federal funds were maximized and used only for intended purposes.

**Suggested Monitoring Procedures**

*For subrecipients assessed as low risk:*

1. Review compliance supplements, contract, grant awards, allocation letters, funding authorizations, etc. to identify if match, level of effort or earmarking requirements pertain to the program and the subrecipient.
2. Review the agency’s plan of work for the funding year, if available, to determine if service planned meet level of effort or earmarking requirements.
3. Review the agency’s budget for the funding year to determine if sufficient match or MOE is budgeted to meet U.S. federal requirements.
4. Review the internal control information to determine if the information indicates that procedures are in place to comply with matching, level of effort and earmarking requirements.
5. Review the periodic progress reports to determine if activity-based level of effort and earmarking requirements are being met.
6. Review expenditures reports/requests for funds to determine if matching and expenditure-based level of effort and earmarking requirements are being met.

For subrecipients assessed as medium risk:
   In addition to activities outlined above for low risk subrecipients:
1. Request a copy of the agency’s cash disbursement journal or general ledger to determine if expenditures are charged to accounts in a manner that match or financial earmarking requirements can be accurately documented and reported.
2. For activity-based level of service and earmarking, request copies of the agency’s attendance or census records, or other activity records that document that the appropriate number of services, events or clients with specific characteristics are being delivered.

For subrecipients assessed as high risk:
   In addition to activities outlined above for low and medium risk subrecipients:
1. Perform physical examination of the documentation for any in-kind match and determine if it is accurately documented. If the in-kind match is attributable to an individual’s work effort, review payroll documentation to gain assurance that the individual being used as a match is not paid from a U.S. federal funding source.
2. Select a random sample of expenditures and trace back from the general ledger to determine if expenditures reported as MOE are for allowable purposes, properly documented, and properly coded in the accounting records.
3. Select a random sample of expenditures and trace back from the general ledger to determine if expenditures are appropriately matched by non-U.S. federal funds.
4. Review the prior year financial statements in comparison to the current budget to gain assurance that new U.S. federal funding is not being used to supplant expenditures previously funded from another source.
5. Determine the case records of clients reported as meeting certain earmarking criteria to determine if the criteria are supported by the record.

**Required Documentation:**
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
Most U.S. federal funds are authorized for a specific period, e.g., awards may be for a single year or the grant may be a multi-year award. At the end of the award period, most U.S. federal funds allow a set of period to liquidate the obligations. This compliance activity is designed to provide reasonable assurance that program funds were used only during the authorized period.

**Suggested Monitoring Procedures:**

*For subrecipients assessed as low risk:*
1. Review compliance supplements, contract, grant awards, allocation letters, funding authorizations, etc. to identify the period of availability of the funding received by the subrecipient.
2. Review the internal control information to determine if the information indicates that the subrecipient has a procedure in place to adhere to period of availability limits.

*For subrecipients assessed as medium risk:*
   
   *In addition to the procedures for low risk subrecipients:*
   1. Review the subrecipient’s budget and expenditure reports to determine the likelihood that U.S. federal funds will be available following the period of availability.
   2. Review a copy of the agency’s internal procedure for encumbering obligations to gain assurance of the agency’s ability to accurately identify unliquidated obligations.

*For subrecipients assessed as high risk:*
   
   *In addition to the procedures for low and medium risk subrecipients:*
   1. Test a random sample of expenditures charged to the U.S. federal award after the end of the period of availability and verify that the obligations being liquidated were created within the period of availability and that the payment was made within the allowed liquidation period.
2. Test a sample of encumbrances that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.

3. Select a sample of adjustments to the U.S. federal funds and verify that these adjustments were for transactions that occurred during the period of availability.

**Required Documentation:**
- Monitoring Tool/Instrument
- Working Papers
- Summaries
- Monitoring Results Report
The purpose of this requirement related to procurement is to verify that subrecipients follow policies and procedures for procurement that are at least as stringent as those of the U.S. federal government. In addition, this requirement pertains to verifying that U.S. federal funds are not used to award funds to any subrecipient who have been suspended or debarred by the U.S. federal government. U.S. federal funds may not be used to purchase goods and services costing over $100,000 from a vendor that has been suspended from U.S. federal grant programs.

**Suggested Monitoring Procedures:**

*For subrecipients assessed as low risk:*
Review the internal control information to verify that the information indicates that all purchasing and procurement policies are in compliance with U.S. federal law and regulations.

*For subrecipients assessed as medium risk:*

1. Inquire of the subrecipient to verify that the agency requires certification statements from all of their subrecipients attesting that the subrecipient agency has not been suspended or debarred.
2. Request a copy of the subrecipient’s internal purchasing procedure to verify that the procedures are at least as stringent as CARE and that open competition is encouraged in procurement.

*For subrecipients assessed as high risk:*

1. Select a random sample of purchase orders or other procurement documents to determine compliance with U.S. federal laws and other applicable policies.
2. Review the subrecipient’s files on their subrecipients to verify that the required certification statements related to suspension and debarment are on file.
**Required Documentation:**
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
Chapter III: The Subgrant Cycle

Section C.1h.10 Implementation and Monitoring Phase

OMB Circular A-133 Compliance Supplement Required Areas of Compliance Monitoring

10 – Program Income

Effective Date: 1 July 2005

Revision History: 1 July 2005

Page: Page 1 of 2

Program Income refers to the gross income earned by the subrecipient agency on activities, services, or goods purchased with the U.S. federal funds that the subrecipient received through CARE.

In determining the use of program income of subrecipients, CARE usually applies the same program income clause per original funding agreement with the U.S. federal government.

When the funding agreement between CARE and the U.S. federal government silent about the use of program income, the program income earned by the subrecipient must be applied to reduce the subrecipient’s draw of funds from CARE. At CARE’s discretion, CARE may authorize the use of program income to increase the program budget or to provide matching funds. The authorization should always be expressed in writing through the subgrant agreement terms and conditions.

Suggested Monitoring Procedures:

The purpose of monitoring program income is to obtain reasonable assurance that program income is appropriately used.

For subrecipients assessed as low risk:

1. Review grant awards, funding authorization, contracts or other documents to determine if program income has been approved to be used to expand the program or as matching funds.
2. Review the internal control information to verify that the subrecipient has indicated that it has controls in place to track and expend program income appropriately.

For subrecipients assessed as medium risk:

In addition to the procedures outlined above for low risk subrecipients:
1. Review the subrecipient’s activity reports to determine if any activities appear to generate program income.
2. If the subrecipient has received approval to use program income to expand the program or as matching funds, verify through a comparison of prior year expenditure reports to current year activities that the program has been expanded or that matching has occurred as approved.
3. Review the subrecipient’s requests for funds and expenditure reports to determine if program income has been deducted from requests for funds.

For subrecipients assessed as high risk:

In addition to the procedures outlined above for low and medium risk

1. Review the receipts journal or general ledger to determine if receipts have been recorded that should be counted as program income. If this is the case, determine if they have been coded in a manner to allow them to be easily identified as such.
2. If the subrecipient has received approval to use program income to expand the program or as matching funds, verify through a comparison of prior year expenditure reports to current year activities that the program has been expanded or that matching has occurred as approved.

Required Documentation:
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) requires uniform and equitable treatment of persons displaced from their homes, businesses, or farms by programs fully or partially funded by U.S. federal funds. Qualified independent appraisers must appraise real property acquired through such programs. To assure acceptability, a review appraiser must examine all appraisals. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by U.S. federally funded projects. The regulations also cover the payment of moving-related expenses and reestablishment expenses incurred by the displaced businesses and farm operations.

CARE does not fund programs that acquire real property or that require the payment of relocation assistance. Therefore, no monitoring of this compliance area is required.
Through periodic reporting, subrecipients provide some assurance that the funds are being managed efficiently and effectively to accomplish the objectives for which the funds were provided. U.S. federal program requirements call for a variety of financial, performance and special reporting. The objective of monitoring reporting is to confirm that the subrecipients use prescribed standard reporting forms, include all financial/programmatic activity of the reporting period, reports are supported by underlying accounting or performance records and reports are a fair and reasonable representation of actual performance in accordance with program requirements.

Financial, performance and special reporting are specified in the OMB Circular A-133 Compliance Supplements. Reporting requirements are contained in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

**Suggested Monitoring Procedures:**

*For subrecipients assessed as low risk:*

1. Review applicable laws, regulations, and the provisions of grant or contract agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review instructions for completing the reports.
   a. For financial reports, inquire of the agency to determine the accounting basis used in reporting the data (e.g., cash or accrual)
   b. For performance and special reports, inquire of the agency to determine the criteria and methodology used in compiling and reporting the data.

2. Monitor the receipt of reports to ensure that required reports are received in the proper format on a timely basis.
For subrecipients assessed as medium risk:
In addition to the procedures outlined above for low risk subrecipients:
1. Select a sample of reports received. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences.
2. Compare current period reports to prior period reports. Look for internal consistency, e.g., are there unexplained wide variations in expenditures from month to month or in numbers of clients served.
3. Compare anticipated results to the data included in the reports.
4. Compare activity levels reported to expenditures. Do they appear to be consistent, in other words, if expenditures are high, was there a correspondingly high number of clients or service events reported?

For subrecipients assessed as high risk:
In addition to the procedures outlined above for low risk subrecipients:
1. Select a sample of each of the following report types:
   A. Financial reports
      a. Ascertain if the financial reports were prepared in accordance with the required accounting basis.
      b. Trace the amounts reported to the accounting records that support the expenditures and verify agreement to perform alternative procedures to validate the accuracy and completeness of the reports and that they agree with the accounting records.
      c. For any discrepancies noted in the financial reports, review subsequent reports to ascertain if the discrepancies were appropriately resolved.
   B. Performance and special reports
      a. Trace the data to records that accumulate and summarize data.
      b. Perform tests of underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.
   C. When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
   D. Test the mathematical accuracy of all reports and supporting worksheets.
   E. Test the selected reports for completeness.
a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, and reserve funds).
b. For performance and special reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.

**Required Documentation:**
Monitoring Tool/Instrument
Working Papers
Summaries
Monitoring Results Report
Chapter III: The Subgrant Cycle
Section C.1h.13: Implementation and Monitoring Phase

OMB Circular A-133 Compliance Supplement Required Areas of Compliance Monitoring

13 – Subrecipient Monitoring

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: Page 1 of 2

Just as CARE is responsible for monitoring subrecipients, CARE’s subrecipients that serve as pass-through entities to 2nd tier subrecipients are required to perform subrecipient monitoring. CARE’s intent to monitor this requirement is not to actually perform monitoring function for the subrecipient but to gain a reasonable assurance that the subrecipient is adequately performing its function.

Suggested Monitoring Procedures:

For subrecipients assessed as low risk:
1. Inquire of the subrecipient to determine if they have subrecipient relationship.
2. Review the subrecipient’s internal control information to determine if the data indicates that the agency performs subrecipient monitoring.
3. Review activity and financial reports to determine if subrecipient payments and activities are appropriately reported.

For subrecipients assessed as medium risk:
In addition to the procedures outlined above for low risk subrecipients:
1. Request a copy of the subrecipient’s subrecipient monitoring plan. Review to ensure that all applicable areas are addressed.
2. Request a copy of the documentation of subrecipient monitoring for a sample agency’s subrecipients. Review to determine if monitoring is occurring as planned and is adequately documented.

For subrecipients assessed as low risk:
In addition to the procedures outlined above for low and medium risk subrecipients:
1. Review a sample of subagreements from the agency to determine if it is accurately identifying financial assistance arrangements that necessitate subrecipient monitoring.
2. Review all subrecipient files of the agency to determine if documentation of subrecipient monitoring activity is occurring.
3. Participate with the agency in a monitoring event related to one of the agency’s subrecipients. Evaluate whether the procedures followed provide adequate assurance that the agency’s subrecipient is using U.S. federal funds in an approved manner.

**Required Documentation:**
- Monitoring Tool/Instrument
- Working Papers
- Summaries
- Monitoring Results Report
The specific requirements for Special Tests and Provisions are unique to each U.S. federal program, and are found in the laws, regulations and the provisions of grant and contract agreements pertaining to the program.

To develop the appropriate monitoring procedures, the country office should review the grant and contract agreements with the U.S. federal agency to identify the compliance requirements and develop the subgrant agreement monitoring procedures for Special Test and Provisions. The country office should also identify additional compliance requirements that are not based in law or regulation, e.g., actions that were agreed to as part of the audit resolution of prior audit findings, or in corrective action plans to remedy of issues identified as a result of monitoring reviews.

**Suggested Monitoring Provisions:**

Special tests and provisions will either relate to fiscal or programmatic issues, or both. The country office should identify monitoring procedures at the appropriate risk level using other fiscal or programmatic requirements as a guide.

**Required Documentation:**

- Monitoring Tool/Instrument
- Working Papers
- Summaries
- Monitoring Results Report
Chapter III: The Subgrant Cycle
Section C.2: Implementation and Monitoring Phase

**Amendment to Subagreements**

Effective Date: 1 July 2005
Revision History: 1 July 2005
Page: Page 1 of 2

Subrecipients are required to report any deviations from the budget and program plans, and obtain prior approval from CARE for budget and program plans revisions that affect the following area in the approved subagreement:

1. Change in scope or objectives of the project, even if there is no associated budget revision requiring prior written approvals.

2. No-cost extension of subagreement period

3. The need for additional funding.

4. CARE restricts the following when it comes to budget flexibility:
   - The transfer of funds amount among direct cost budget line items with aggregate amount of $100K or 10% per line item, whichever is lower.
   - The transfer of amounts budgeted for indirect costs to absorb in the direct costs or vice versa, if approval is required by CARE/U.S. federal agency.
   - The transfer of funds allotted for training allowance (direct payment to trainees) to other budget categories.

5. Changes of the key person specified in the application or award document.

6. The absence of more than three months or a 25% reduction in time devoted to the project by the approved Project Manager or principal project personnel in-charge.

7. Subgrant to 2nd tier subrecipients, transfer or contracting out of any work under the subgrant (unless described in the application and funded in the approved subagreement with CARE). *This provision does not apply to the purchase of supplies, materials, and equipment and general support services.*
8. When requesting for budget revision, the subrecipient is required to submit an analysis that contains the following information:
   • Budget description
   • Current approved budget
   • Proposed changes
   • Variance between current approved budget and proposed changes
   • Narrative justification for proposed budget amendment.

   The subrecipient is required to attach its latest financial report with every budget amendment request. This information will facilitate CARE’s review of the proposed amendment.

9. Within thirty (30) working days from the date of receipt of the request for budget revisions, CARE shall review and notify the subrecipient whether the budget revisions have been approved. If the revision is still under consideration at the end of thirty working days, CARE shall inform the subrecipient in writing of the date when the decision will be made.

Please refer to Attachment 6 – Sample Subagreement Modification Template as a guide in modifying/amending existing subagreement.
Attachment 6

Sample Subagreement Modification Template
**ATTACHMENT 6**

**CARE USA SAMPLE SUBAGREEMENT MODIFICATION TEMPLATE**

1) **Project Name:**

2) **Subrecipient Name and address:**

3) **Subagreement No.**

4) **Modification No**

5) **Subagreement Period:**

6) **Subagreement Title:**

7) **Subgrant Amount**

8) **Obligated Amount:**

9) **Modification:**
   a. **Funding Summary**

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</tr>
<tr>
<td>New/Current Total</td>
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</tr>
</tbody>
</table>

   b. **Description**

   (Indicate modifications that are not related to funding summary.)

10) **This subagreement modification is within the framework of USAID cooperative agreement no: __________ as amended. All terms and conditions of this subagreement remain unchanged, except for what is stated in section 9 above.**

11) **Subrecipient:**

    - [ ] ACCEPT
    - [ ] DOES NOT ACCEPT the modification under section 9 above.

12) **SUBRECIPIENT:**

    - **BY:**
    - (Printed Name and Signature)
    - **TITLE:**
    - **DATE:**

13) **CARE USA:**

    - **BY:**
    - (Printed Name and Signature)
    - **TITLE:**
    - **DATE:**
A. Before the Subagreement End Date

1. Approximately three (3) months before the subagreement expires, the CARE Program Officer managing the subgrant should assess where the subrecipient is in terms of accomplishing the program objectives and deliverables and verify expenditures status of the subgrant, i.e., how much has been spent and how much is remaining.

   Note: If the program implementation activities will permit, the country office should end subagreements three (3) months prior to the end date of the grant agreement between CARE and the U.S. government. This will give CARE sufficient time to work with the subrecipient on close-out related activities and focus on the summary/high level issues of closing-out the grant and preparing reports for the donor within ninety (90) days after the grant end date.

2. Confirm that the subagreement will not need any extensions or amendments.

3. Check the terms of the subagreement for information regarding the due date of final program and financial reports, any special closeout requirements, and whether project-related expenses that were arranged during the subagreement period can be incurred after the official end date.

When this is allowed, there is usually a specified period of time after the end date when expenses can still be recorded against the subgrant.

4. Alert the subrecipient by communicating about the impending closeout and resend the related procedures and calendar of activities, as needed.

B. After the Subagreement End Date

- Areas to Focus on During the Closeout Process
1. The Program Officer managing the subagreement should closely coordinate with the subrecipient to ensure timely submission of the final program and financial report due to CARE.

Final program and financial reports should be finalized and submitted within the due date indicated in the subagreement and after all award activities have been terminated.

2. CARE should ensure that the subrecipient promptly refunds any balances of unobligated cash that CARE has advanced or paid and that is not authorized to be retained by the subrecipient for use in other projects.

3. CARE will make prompt payments to a subrecipient for allowable reimbursable costs under the subgrant being closed out.

4. Disposition procedures for property acquired or furnished through the subaward differ from one subgrant to another. The terms of the subagreement should be checked for specific procedures, and all property should be retained, returned, sold or donated in accordance with the subagreement.

5. If an audit is required and the final audit has not been performed prior to the closeout of an award, CARE retains the right to recover an appropriate amount after fully considering the recommendations on disallowed costs resulting from the final audit.

6. To ensure that the necessary subgrant closeout procedures are followed, the country office is required to complete an internal document called the Subagreement Financial Closeout Checklist and Completion Statement and issue a Closeout Letter to the subrecipient. Please refer to Attachments 7 and 8 for the sample templates.

The subrecipient on the other hand should submit the Subrecipient Certification (equivalent to the Representation Letter that CARE provides to our external auditors) within thirty (30) days upon receipt of the Closeout letter from CARE. Please refer to Attachment 9 for the Subrecipient Certification Template.
Attachment 7

Subagreement Financial Closeout Checklist and Completion Statement
CARE
Subagreement Financial Closeout Checklist
And Completion Statement

(CARE must complete this Checklist within 45 days after the subagreement end date.)

<table>
<thead>
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<th>Project Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subrecipient Name</td>
<td>Subgrant Amount</td>
</tr>
<tr>
<td>Subagreement Start Date</td>
<td>Subagreement End Date</td>
</tr>
</tbody>
</table>

COMPLETION STATEMENT

The country office Program Officer managing and monitoring subrecipient recommends closeout of the subagreement based on satisfactory program final evaluation and/or final program and financial report received.

Based on the items contained below, we hereby determined that all required closeout subagreement administration actions have been fully and adequately accomplished.

A closeout letter to the subrecipient may now be issued stating how the relationship between CARE and subrecipient will be modified or ended in whole or in part as agreed to by both parties.

Printed Name & Signature

Date
<table>
<thead>
<tr>
<th>1. Required Final Reports</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Recommended Action / Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>1. Are the following final financial reports submitted on time, using acceptable format?</td>
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</tr>
<tr>
<td>a. Financial Report</td>
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<tr>
<td>Date received___________</td>
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<tr>
<td>b. Property &amp; Equipment Inventory</td>
<td></td>
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<tr>
<td>Date received___________</td>
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<tr>
<td>c. External Audit Report</td>
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<tr>
<td>Date received___________</td>
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<tr>
<td>d. Patent and Copyright Report</td>
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<tr>
<td>Date received___________</td>
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<tr>
<td>e. Subrecipient Certification signed by Chief Operating Officer and Chief Financial Officer of the subrecipient</td>
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<tr>
<td>Date received___________</td>
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<td>f. Others (please indicate)</td>
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<tr>
<td>Date received___________</td>
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</table>

<table>
<thead>
<tr>
<th>2. Budget vs. Actual Expenses</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Recommended Action / Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>1. Are direct cost charges acceptable and allowable?</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2. Are disallowed costs reversed or resolved?</td>
<td></td>
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<tr>
<td>3. Is the applied ICR rate approved?</td>
<td></td>
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<tr>
<td>4. Are expenses within the approved budget line items?</td>
<td></td>
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<tr>
<td>5. If there is budget line item restriction and a deviation, has the issue been resolved?</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Funding Payment</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Recommended Action / Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td>1. Are obligated funds in excess of actual spending de-obligated?</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2. Are excess advance payments to subrecipient recovered?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>3. If CARE owes subrecipient a final payment, has date of payment been determined?</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Specify date_________</td>
<td></td>
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</tbody>
</table>
4. Did the subrecipient earn any program income and/or interest on cash advances?

5. If answer to item 4 is yes, was the disposition and accounting of program income and/or interests in accordance with subagreement provisions?

<table>
<thead>
<tr>
<th>4. Applicable External Audit</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Recommended Action / Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the subrecipient a U.S. based NGO?</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>2. Is the subrecipient subject to OMB Circular A-133 audit?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. If answer to #1 and 2 are both <strong>YES</strong>, determine:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. End date of subrecipient’s calendar/fiscal year</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>b. When CARE can expect to receive OMB Circular A-133 audit report.</td>
<td></td>
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</tr>
<tr>
<td>4. If answer to #1 and 2 are both <strong>NO</strong>, determine:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Is the subrecipient subject to Guidelines for Financial Audit Contracted by Foreign Recipient?</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>b. Is the subrecipient subject to Program-Specific Audit as imposed by the subagreement?</td>
<td></td>
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</tr>
<tr>
<td>c. When can CARE expect to receive the audit report?</td>
<td></td>
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<tr>
<td>5. Are the audit findings properly addressed and resolved?</td>
<td></td>
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</tbody>
</table>

Note: All audit reports should be submitted to the country office’s Grant Manager and Controller.

Note: CARE retains the right to recover disallowed costs resulting from final audit, even if performed after subagreement closeout.
<table>
<thead>
<tr>
<th>5. Adjustments and Continuing Responsibilities After the Closeout of Subagreement</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Recommended Action / Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the subrecipient aware that the closeout of a subaward does not affect any of the following:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. The right of CARE to disallow costs and recover funds on the basis of a later audit or other review?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The obligation of the subrecipient to return any funds due as a result of later refunds, corrections or other transactions?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The obligation of the subrecipient to comply with applicable audit, property management requirements and records retention requirements of CARE?</td>
<td></td>
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</tr>
</tbody>
</table>
Attachment 8

Closeout Letter
To: Subrecipient’s Primary Contact Person  
Designation  
Name of Subrecipient  
Address

From: Name if Country Office Subgrant Manager  
Designation  
Name of Country Office

Subject: Closeout of CARE/USAID Subagreement Number ____________  
Project Name: _____________________________________

Date: __________________

Dear____________,

We are pleased to confirm that the following closeout reports and information had been submitted by (state name of the subrecipient) and accepted by CARE as of __________:

- Final external evaluation report (as applicable)
- Final programmatic report
- Final financial report
- Final inventory of all non-expendable supplies and materials
- All audit-questioned costs identified during the previous audit was cleared

Based on the above, CARE ______is presenting this Closeout Letter to inform you that (state name of the subrecipient) have successfully completed the requirements set forth under Section __ of the Subagreement Number __________ and that the final payment for this subagreement amounting to _____ will be released in the next fifteen (15) days.

The closeout of a subagreement does not affect any of the following:

- The right of CARE to disallow costs and recover funds on the basis of a later audit or other review.
- The obligation of (state name of the subrecipient) to return any funds due as a result of later refunds, corrections or other transactions
- Compliance with applicable audit requirements
- Compliance with property management requirements
- Records retention requirements of CARE

(Add a note here indicating whether the relationship between CARE and the subrecipient had been modified or ended in whole or in part as agreed on by both parties).

Please feel free to contact ____________ at (_____@care.org) if you have any questions or require additional information.

Sincerely,
Attachment 9

Subrecipient Certification
SUBRECIPIENT CERTIFICATION

We are providing this letter in connection with the Subagreement Number ________ of CARE to (name of subrecipient) from _____ to ______. We confirm that we are responsible for the fair presentation in the Statement of Receipts and Disbursements in conformity with the generally accepted accounting principles.

Certain representations in this letter are described as being limited to those matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement:

1. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the Final Statement of Receipts and Disbursements.
2. There are no significant deficiencies, including material weaknesses, in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect (name of subrecipient’s) ability to record, process, summarize and report financial data.
3. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
4. We have no knowledge of any fraud or suspected fraud affecting the (name of subrecipient) involving:
   • Management
   • Employees who have significant roles in internal control over financial reporting, or
   • Others where fraud could have a material effect on the subagreement’s Statement of Receipts and Disbursements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting (name of subrecipient) received in communication from employees, former employees, analysts, regulators, short sellers, or others.
6. (name of subrecipient) has complied with all aspects of contractual agreements that would have a material effect on the Final Statement of Receipts and Disbursements in the event of noncompliance.
7. We are responsible for complying, and have complied, with the requirements of OMB Circular A-133 (for U.S. based NGO subject to OMB Circular A-133).
8. We are responsible for complying with the requirements of laws, regulations and the provisions of contracts and grant agreements related to each of the U.S. federal program we received directly or through CARE as a pass-through entity.
9. We are responsible for establishing and maintaining effective internal control over compliance for U.S. federal programs that provides reasonable assurance that (name of subrecipient) is managing U.S. federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on its federal programs.
10. We have complied, in all material respects, with the compliance requirements in connection with U.S. federal awards.
11. We have identified and disclosed to you all amounts questioned any known noncompliance with the requirements of U.S. federal awards, including the results of other audits or program reviews.
12. We will provide CARE with our interpretation of any compliance requirements that have varying interpretations.
13. Expenses claimed were based on actual expenses incurred.
14. Cash advances requested for were based on the minimum amount needed for “immediate disbursing needs” and are paying those as close as is administratively feasible to the actual disbursements being made.

To the best of our knowledge and belief, no events have occurred subsequent to the Closeout Letter date and through the date of this letter that would require adjustment to or disclosure in the final financial reports we submitted to CARE.

__________________
Chief Executive Officer

__________________
Chief Financial Officer
The country office should ensure that the subrecipient is aware of potential subsequent adjustments and its continuing responsibilities after the closeout.

The closeout of a subagreement does not affect any of the following:

1. The right of CARE to disallow costs and recover funds on the basis of a later audit or other review.
2. The obligation of the recipient to return any funds due as a result of later refunds, corrections or other transactions
3. Compliance with applicable audit requirements
4. Compliance with property management requirements
5. Records retention requirements of CARE

After closeout of a subagreement, a relationship created between CARE and the subrecipient may be modified or ended in whole or in part as agreed on by both parties, provided that the responsibilities of the subrecipient referred to above are considered as continuing responsibilities of the subrecipient.
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The Financial System, Accounting Requirements and Records
Management/Retention

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C. Records Retention ............................................................... 184 - 185
D. Subagreement Files .............................................................. 186
This section will be completed after we finalize the model for subaward accounting changes that we are in the process of working on with the FSTS team.

Once we complete this phase, the FSTS team will take care of working out the following details:

1. Creation of new accounts
2. Writing of the new Crystal Reports
3. Documentation of the accounting process in a QRG (Quick Reference Guide)
4. Development of any automation tools that might be needed

The new accounting system for tracking and recording subgrant activities will be a vast improvement on the way things are captured in our financial system. Among other things, we expect to automate the generation and tracking of information we need to report on at the headquarters and country offices' level (e.g., who our subrecipients are that are subject to OMB Circular A-133 audit).
CARE should consistently demonstrate to our donors and auditors that good monitoring tools are in place to ensure reasonableness of the basis for approving subrecipient cash advances.

This brings us to the subject very often associated with advances to subrecipients – the Cost of Capital (CoC) charges.

The basic rationale for CoC transactions between CARE USA headquarters and the country offices is to compensate the country offices for assets held by CARE USA headquarters on their behalf (e.g., funds that secure liabilities such as severance accruals or country office donor funds receipts deposited with CARE USA headquarters’ account). Correspondingly, country offices are charged CoC for funds borrowed from CARE USA headquarters in their operations.

Advances to subrecipients can be included in the country office’s monthly “FRLC Drawdown Estimate Submission Form” when based on the minimum amount needed for “immediate disbursing needs” and are paying those as close as is administratively feasible to the actual disbursements being made by the subrecipients. The ability to include advances to subgrantees in the monthly FRLC drawdown minimizes the cost of capital charges to country offices.

**How CoC rates are calculated**

1. **Calculation Formula**
   The CoC concept in CARE USA can be traced to the July 1991 Tarrytown Financial Conference. In January 1992, the country office net asset was the basis for establishing CARE USA headquarters or country office liability. In 1998 when intracompany accounting was adapted and CARE USA went live on Scala, the calculation method was changed. This shifted to the balance sheet in account 1900 on CARE USA Headquarters’ books effective July 1998.

2. **Calculation Rate**
   The effective rate for CoC calculation had been set at 0.25% below the U.S. federal funds lending rate in the past. However, since the rate has dropped to
unexpectedly low levels at this time, the continued use of this rate formula would minimize the incentive to country offices for whom CARE USA headquarters is holding funds.

CARE USA headquarters have reevaluated the policy and determined that investment returns correspond to movements of the rate noted above in certain interest rate ranges, but neither fall as low as the current rates nor rise as high as the rate does in other economic circumstances. This is because a portion of CARE USA’s invested funds are in investment options that do not rise and fall consistent with movements in that rate. CARE USA have determined that the CoC rate will be based on a formula specific to ranges of the U.S. federal funds lending rate as follows:

<table>
<thead>
<tr>
<th>U.S. federal funds rates</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>below 2.75%</td>
<td>floor rate of 2.5%</td>
</tr>
<tr>
<td>2.76% to 6%</td>
<td>U.S. federal funds rate less 0.25%</td>
</tr>
<tr>
<td>6%+ to 9%</td>
<td>U.S. federal funds rate less 0.5%</td>
</tr>
<tr>
<td>above 9%</td>
<td>U.S. federal funds rate less 1%</td>
</tr>
</tbody>
</table>

References: ALMIS 5805, 29 March 2005 by David Sexton  
ALMIS 5632, 23 January 2002 by David Sexton
A. Records Retention Policy Applicable to CARE as a Pass-Through Entity

1. The U.S. Federal Government’s Records Retention Policy

Financial records, supporting documents, statistical records and all other records pertaining to an agreement must be kept for a period of three (3) years beyond the end of the agreement. This three year period will begin from the date that the final Financial Status Report (SF-269) is submitted to U.S. federal funding agency by CARE.

Final financial report is submitted by CARE USA headquarters’ Finance department directly to Washington, DC when the grant is on the Letter of Credit. The country office itself normally submits the final financial report to the local U.S. federal office (e.g., USAID) in case of single grant.

When agreements are renewed annually, the three (3)-year retention period will begin from the date of submission of the Final Financial Status Report. When a grant is an amendment to a previous grant, all financial records from the beginning of the original grant period must be kept throughout the three-year period following the end of the period of the final grant amendment.

If any claim, litigation or audit is started before the end of the three-year period, the records must be kept until all claims, litigations, or audit findings involving the records have been resolved. Records for non-expendable property purchased with U.S. government funds will be kept for three years after this property is disposed.

In summary, there is no standard record retention time for U.S. federal awards. When we read the regulation that says, “U.S. federal records require a three (3)-year record retention after we submit the final report”, it is referring three (3) years after the submission of the amended Financial Report with the final CARE NICRA rate. CARE can only prepare the final report after we receive USAID’s approval of our final Negotiated Indirect Cost Recovery (NICRA). The report we submit within ninety (90) days after the end of the grant period is really an “Interim Final Financial Report.”
2. CARE’s Internal Retention Policy as Applicable to Programs with Subaward Component

The country office should retain program and financial records such as the original subagreement, approved budget, financial reports and monitoring documentations for a period of three (3) years after submission of the final Financial Report (with final NICRA rate) relating to the grant agreement between CARE and the U.S. federal government agency that is the source of funds provided to the subrecipient.

*Records must be kept for a period longer that what had been stated above if local laws and regulations require CARE to keep them for a longer period.*

B. Records Retention Policy Applicable to Subrecipients

CARE should require subrecipients to retain program and financial records pertaining to the subaward for a period of **five (5) years** after CARE issues the Closeout Letter accepting the subrecipient’s final Program and Financial Report.

If any claim, litigation or audit is started before the end of the five-year period, the records must be kept until all claims, litigations, or audit findings involving the records have been resolved.
Country offices are required to maintain a file/folder (whether electronic or hardcopy) for every single subagreement.

Below is our recommendation on how to classify each document within the subagreement folder:

A. Pre-Award folder
   Project proposal
   Pre-award assessment documents

B. Original Subagreement and amendments folder (includes all related attachments)

C. Implementation and monitoring phase folder
   CARE’s monitoring documentation
   Subrecipient narrative reports
   Subrecipient financial reports
   Audit reports and related follow up

D. General correspondences

E. Closeout Folder
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   ▪ Certification Regarding Implementation of Executive Order 13224 Under AAPD 04-14 (Terrorist Financing) ...................... 193

C. Sample Monitoring and Risk Assessment Tools ....................... 194 - 247
Appendix A
Useful Website Links

Standard Provision for U.S. Based NGOs

Standard Provision for non-U.S. Based NGOs

22 CFR 226
http://www.access.gpo.gov/nara/cfr/waisidx_04/22cfr226_04.html

OMB Circular A-122

ADS 303

Audit-Related Reference Materials

- Single Audit Act of 1996
  http://www.ignet.gov/single/saamend.html

- OMB Circular A-133
  http://www.whitehouse.gov/omb/circulars/a133/a133.html

- OMB Circular A-133 Compliance Supplement (March 2004)
  Part 3: Compliance Requirements

  Part 6: Internal Control

- Guidelines for Financial Audit Conducted by Foreign Recipients

- Generally Accepted Government Auditing Standards (GAGAS)
Appendix B

Sample Forms / Templates
Letter Declining Subrecipient Funding

Date

Name of Organization
Address

Dear ______________,

We regret to inform you that the ____________ is unable to fund your proposal titled ______________________________. Despite the hard work from your team and many revisions of the proposal, we are not able to collaborate on this project due to ______________.

Thank you and your team for your dedication and willingness to work with us through multiple revisions. We hope you will be able to find other sources of funding for your ____________ activities. Please accept our apologies and we wish you the best of luck in your future endeavors.

Best regards,

Name
Designation

CC:
Letter of Agreement - Pre authorization

Date

Name
Name of Subrecipient Organization
Address

Reference: RFA No. ________
Letter of Agreement - Pre authorization
_______________ Program

Dear __________

CARE, Inc. is pleased to present this Letter of Agreement for your concurrence and signature. This letter represents authorization for ____________ to expend funds for _______________. This agreement will commence __________ and conclude at the inception of the signed subgrant between CARE and ____________ but no later than _____________. Upon receipt of this signed Letter of Agreement from ___________, CARE authorizes ____________ to expend up to $______ in costs associated with the start-up, communications, travel, applicable salaries and benefits and associated costs, related to this program. Please be aware that expenditure of these funds must be in agreement with your final approved budget amount and all applicable USAID regulations.

The recipient of this Letter of Agreement is ___________. The ____________ Administrator for this Letter of Agreement will be Mr./Ms. ____________. The CARE Administrator for this Letter of Agreement will be Mr./Ms. ____________. All requests for changes in this Letter of Agreement will be sent to the CARE Administrator.

By signing the letter, CARE, Inc. approves this Letter of Agreement. If you are in agreement with its terms, please sign this document. Please retain one copy for your records and return the original to the attention of the CARE Administrator.

If you have any questions, please contact _______________. We look forward to working with you on this program.

Sincerely,

David Sexton
Controller, CARE USA

ACCEPTANCE SIGNATURE

___________________________________      ___________________
Name       Date

Cc: CARE, Competitive Bids Unit
    CARE, Finance
Sample Letter – Approval of Subgrant Expense Reports and Request for Cash Advance

To: Finance Department

From: Name of Project Manager (or designate) for the Subagreement

Reference: Subagreement Number: ________________________
Subrecipient Name: ___________________________

I hereby approve the attached expenses report representing disbursements for the period __________ to __________ for the amount of (state amount in words and figures.)

The expenses contained in the report are in line with the purpose set forth in the subagreement and are within the approved budget. They are also within the expected burn rate based on the amount of work done by the subrecipient to date.

Please prepare the necessary accounting entry in Scala. Also, please process payment for the amount of (state amount in words and figures) which represents projected cash requirement of (state the name of subrecipient) for the next ___ month/s.

Signature of the Project Manager (or designate) ________________________
Date ____________________

For Finance Department Use Only:

Authorization Letter and Financial Report Received on: ________________________
By: Printed Name and Signature ____________________________________________

Recorded in Scala on: ________________________
Cash Advance Processed on: ________________________
(Closeout Required Certification)

CERTIFICATION
REGARDING TERRORIST FINANCING
Implementing Executive Order 13224
Under AAPD 04 – 14

As part of the requirement under this award per Section _____,
____________________________________________(herein called the
Subrecipient)

Name of the Organization

hereby certifies that we took all reasonable steps to ensure that we did not provide
material support or resources to any individual or entity that commits, attempts to
commit, advocates, facilitates or participates in terrorist acts, or has committed,
attempted to commit, facilitated or participated in terrorist acts.

Certified true and correct:

_______________________
Print Name

_______________________
Signature

_______________________
Position / Title

_______________________
Date
Appendix C

Sample Monitoring and Risk Assessment Tools
Sample Guidelines for Completing Risk Assessments of Subrecipients

Appendix C-1  Sample Risk Assessment Form
Appendix C-2  Sample Risk Evaluation Matrix
Appendix C-3  Sample Monitoring Tools / Instruments
Appendix C-4  Sample Internal Control Questionnaire
EXAMPLES OF RISK EVALUATION

RISK ASSESSMENT FORM

INFORMATION SUMMARY

Subrecipient Name  ________________________________________
Street Address  ________________________________________
City, State, Zip  ________________________________________
Telephone Number  ________________________________________
Contact Person
   Name & Designation ________________________________________

List each other entities that the agency received U.S. federal funds from. Indicate if a U.S. federal entity, U.S. based NGO or non-U.S. based NGO

<table>
<thead>
<tr>
<th>Agency</th>
<th>Program Name</th>
<th>Grant/Contract Amount</th>
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</thead>
<tbody>
<tr>
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</tbody>
</table>

RESULT OF RISK ASSESSMENT

TOTAL OVERALL SCORE _______

Evaluation Score Key: (from page 2)
   Low Risk  = < 25
   Medium Risk = 26 – 34
   High Risk  = 45 – 48

RISK ASSESSMENT
   High  __________
   Medium __________
   Low  __________

Type of Review to be Conducted:  Financial _____    Both   _____    Program _____    No Review   _____

Risk Assessment Performed by:
   Name & Designation ________________________________
   Date ____________________________________________

Page 1 of 2
RISK ASSESSMENT FORM

1. Size of staff for period being monitored
   Small (1-6) = 1
   Medium (7-12) = 2
   Large (13 or more) = 3
   TOTAL ---

2. Staff qualifications for funded programs
   Trained staff in key positions with one or more years experience = 2
   At least half of staff trained in key positions and some experience = 4
   Staff in key positions have little or no training or experience = 6
   TOTAL ---

3. Staff turnover
   No change in key positions = 2
   Either new or no staff in 1 or more key position = 4
   Either new or no agency administrator or financial officer = 6
   TOTAL ---

4. Program
   Agency has met program objectives outlined in contract/funding agreement = 2
   First year of funding for program (no basis for evaluation) = 4
   Program compliance history of past 2 yrs include weakness in fulfilling objectives = 6
   TOTAL ---

5. Financial
   No significant audit findings for past 2 years = 2
   Minor audit findings with pending corrective actions = 4
   Significant audit findings within past 2 yrs or audit findings not resolved = 6
   TOTAL ---

6. Reporting
   Program and financial reports are almost always submitted timely and accurately = 2
   Routine reports are frequently late and contain errors = 4
   Routine reports are not submitted or contain significant discrepancies = 6
   TOTAL ---

7. Complexity of Funding
   Funding is relatively simple in terms of allowable expenditures = 2
   Funding is moderately complex in terms of allowable expenditures = 4
   Funding is very complex in terms of allowable expenditures = 6
   TOTAL ---

8. Amount of Funding to Provider
   Less than $25,000 = 2
   $25,000 - $299,999 = 4
   $300,000 or more = 6
   TOTAL ---

9. Self Assessment
   Self assessment shows few or no internal control weaknesses = 1
   Self assessment shows several internal control weaknesses = 2
   Self assessment shows major internal control weaknesses = 3
   TOTAL ---

TOTAL OVERALL SCORE ---
# Risk Evaluation Matrix

**Subrecipient Name:** __________________________   **Date Completed:** ______

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Low Risk Description</th>
<th>Medium Risk Description</th>
<th>High Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Level</strong></td>
<td></td>
<td>Rank: 1</td>
<td>Rank: 2</td>
</tr>
</tbody>
</table>

## 1. Staffing

**Staff Qualifications**
- Staff in key positions is professionally trained and have one or more years experience in that position.
- At least half of staff in key positions are professionally trained for the position they hold and have some experience.
- Staff in key positions have little or no experience or training in program area being funded.

**Staff Turnover**
- No change in staff in key positions.
- Either new or no staff in 1 or more key positions.
- Either new or no agency administrator and/or financial officer.

## 2. History of Meeting Requirements

**Program**
- Agency has provided services and met program objectives specified in contract/funding agreement for past 2 years or more.
- First year of funding for program (no basis for evaluation).
- Program compliance history of the past 2 years includes weaknesses in service delivery/program objectives.

**Financial**
- No significant audit findings for the past 2 years.
- Minor audit findings with pending corrective action.
- Significant audit findings within past 2 years or audit findings not addressed and resolved in timely manner.

**Reporting**
- Program and financial reports are almost always submitted in timely and accurate manner.
- Routine reports are frequently late and contain some errors.
- Routine reports reflect significant discrepancies or omissions.

## 3. Complexity of Funding

**Funds Awarded**
- Funding is relatively simple in terms of allowable expenditures and documentation required.
- Funding is moderately complex in terms of allowable expenditures and documentation required.
- Funding is very complex in terms of allowable expenditures and documentation required.

## 4. Amount of Funding

<table>
<thead>
<tr>
<th>Amount</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $25,000</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>$25,000 - $299,999</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>$300,000 and over</td>
<td>6</td>
<td></td>
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</tbody>
</table>

## 5. Self Assessment

<table>
<thead>
<tr>
<th>Self Assessment</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self assessment shows few or no internal control weaknesses</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Self assessment shows several internal control weaknesses</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Self assessment shows major internal control weaknesses</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>
Evaluation Score Key:
Low Risk – 13 to 20
Medium Risk – 21 to 30
High Risk – 31 to 39

Completed by: ____________________________  Date: __________
## SAMPLE MONITORING TOOL/INSTRUMENTS

**Subrecipient:** ____________________________________________

**Contract #:** ____________________________________________

**Subagreement Period:** From: _______________ To: _______________

**Level of Risk Assessed:** Low ________ Medium ________ High ________

**Program(s) Monitored:** __________________________________________________

**On-Site:** _______________  **Desk Review:** _______________

**Monitor:** _________________________________________________

**Date:** _________________________________________________

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>W/P Reference</th>
<th>Comments</th>
</tr>
</thead>
</table>

### 1. Monitoring Overview

- Review work plan, etc.
- Review federal regulations
- Review monitoring plan
- Review prior year audits, monitoring efforts, progress reports, etc.
- Review internal control information
- g.

### 2. Activities Allowed/ Unallowed

- Review expenditure reports/requests for funds.
- Review progress report
- Desk audit cash disbursements journal/general ledger
- Desk audit agency contracts with others
- e.
- f.
- g.

### 3. Allowable Cost/ Cost Principles

- Does agency know which cost principles it must follow, list
- b. Does agency charge indirect cost? Approved by cognizant federal agency or audited by CPA?
<table>
<thead>
<tr>
<th>c. Desk audit cash disbursements journal/general ledger</th>
</tr>
</thead>
<tbody>
<tr>
<td>d. Does agency provide more than one service have more than one funding source? If so, review cost allocation plan.</td>
</tr>
<tr>
<td>e. Review charges for indirect cost.</td>
</tr>
<tr>
<td>f.</td>
</tr>
<tr>
<td>g.</td>
</tr>
<tr>
<td>h.</td>
</tr>
</tbody>
</table>

### 4. Cash Management
a. Review all documentation if agency has requested more than 60-day advance.

### 5. Davis-Bacon Act
a. Is subrecipient aware of requirements?
b. Is subrecipient receiving copies of certified payrolls?

### 6. Eligibility
a. Is agency aware of eligibility requirements?
b. Review copy of eligibility determination tool/document application.
c. Review copies of verification documentation.
d. Review copies of benefit/payment calculation
e. f.

### 7. Equipment / Real Property Management
a. Review expenditure accounts to determine if expenditures for equipment are within budget allowances.
b. Review agency’s internal policies for equipment acquisition, inventory and disposition.
c. Desk audit most recent physical equipment inventory results.
d. e.
8. Matching / Level of Effort/ Earmarking

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<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>a.</td>
<td>Review budget to determine if sufficient match.</td>
</tr>
<tr>
<td>b.</td>
<td>Review process reports to determine if activity-based level of effort/earmarking requirements met.</td>
</tr>
<tr>
<td>c.</td>
<td>Review expenditure reports for sufficient match.</td>
</tr>
<tr>
<td>d.</td>
<td>Desk audit cash disbursements journal/general ledger for match, MOE, fiscal earmarking.</td>
</tr>
<tr>
<td>e.</td>
<td>Desk audit activity records for appropriate levels of services.</td>
</tr>
<tr>
<td>f.</td>
<td></td>
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<tr>
<td>g.</td>
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<td>h.</td>
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9. Period of Availability

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>a.</td>
<td>Review budget &amp; expenditures reports to determine likelihood of funding availability at end of period.</td>
</tr>
<tr>
<td>b.</td>
<td>Review agency's internal procedures for encumbering funds.</td>
</tr>
<tr>
<td>c.</td>
<td></td>
</tr>
<tr>
<td>d.</td>
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</table>

10. Procurement / Suspension / Debarment

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>a.</td>
<td>Does agency has certification statements from all non-profit recipients?</td>
</tr>
<tr>
<td>b.</td>
<td>Desk audit copy of agency's internal purchasing procedures.</td>
</tr>
<tr>
<td>c.</td>
<td></td>
</tr>
<tr>
<td>d.</td>
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11. Program Income

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>a.</td>
<td>Review activity reports to see if any activities appear to generate program income.</td>
</tr>
<tr>
<td>b.</td>
<td>Review request for funds to see if program income deducted or reflected.</td>
</tr>
<tr>
<td>c.</td>
<td></td>
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<tr>
<td>d.</td>
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</table>

12. Reporting

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>a.</td>
<td>Are agency's reports filed timely</td>
</tr>
<tr>
<td>and in proper format?</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>---</td>
</tr>
<tr>
<td>b. Which basis of accounting does agency follow?</td>
<td></td>
</tr>
<tr>
<td>c. What is the methodology for generating program/activity reports?</td>
<td></td>
</tr>
<tr>
<td>d. Desk audit financial and programmatic reports.</td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td></td>
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<tr>
<td>f.</td>
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</table>

### 13. Subrecipient Monitoring

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>a. Review agency's subrecipient monitoring plan.</td>
<td></td>
</tr>
<tr>
<td>b. Review documentation of subrecipient monitoring activities.</td>
<td></td>
</tr>
</tbody>
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<tbody>
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<td>a.</td>
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<tr>
<td>b.</td>
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<td>c.</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td></td>
</tr>
</tbody>
</table>
INTERNAL CONTROL QUESTIONNAIRE

I. Agency Information

Name
Employer ID Number

Street Address
Telephone

City / State / Zip

Chief Executive Officer

Name
Title

Chief Financial Officer

Name
Title

Primary Contact for Program of Financial Assistance Received from CARE

Name
Title

Auditor:

Name of Firm
Telephone

Date of Last Completed Audit
Age of Agency: __________

How long has agency received funding from CARE? __________

How many programs or services are operated by the agency? __________

II. Self-Assessment

General Environment

1. Are there written policies and internal operating procedures that have been approved by the governing body or senior management?
2. Does the agency have a code of ethical conduct that has been made available to all employees?
3. Are procedures documented, kept current and readily available for daily use by all employees?
4. Are roles and responsibilities clearly defined in writing and communicated?
5. Does management understand the knowledge and skills required to accomplish key tasks?
6. Is management involved in and actively encourage training?
7. Does management use budgets or spending plans to review the agency’s financial performance?
8. Are periodic reports on the status of actual performance to budget prepared and reviewed by top management?
9. Are all accounting activities under the supervision of a knowledgeable accounting supervisor?
10. Does management actively follow-up on complaints from customers/clients/customers?
11. Has the agency established performance goals for key areas and programs and does it compare its actual performance with its goals and objectives no less frequently than annually?
12. Is there an organizational chart that clearly defines the lines of management authority and responsibility?
13. Has the management established a back-up plan for sudden or significant changes in personnel?
14. Does the agency have a formal, written records retention schedule that complies with CARE and U.S. federal requirements and timeframes?
15. If the agency used subrecipients, is a formal, written plan in place for monitoring subrecipients and is monitoring activity documented?
16. Are external audits performed on a routine, periodic basis?
Accounts Payable
1. Has a written policy been put in place to ensure that the best possible prices are obtained for goods and services purchased?
2. Are procedures in place to ensure that all purchase and procurements are in compliance with CARE and U.S. federal policies?
3. Have procedures been established to identify before payment costs and expenditures that are not allowable from CARE or U.S. federal funds?
4. Are procedures in place to ensure that goods and services have been received in satisfactory manner prior to payment being issued?
5. Is there adequate segregation of duties to ensure that different individuals order goods and services, attest to the satisfactory receipt of goods and services, issue payment, and balance bank statements?
6. Are bank statements and petty cash accounts balanced monthly?
7. If subsidiary expenditure journals are maintained, are they reconciled at least monthly with the general ledger?
8. Are payments made only on the basis of original invoices and are invoices cancelled when paid?
9. Is check signing limited to authorized personnel?
10. Are unused and voided checks adequately controlled?
11. Do knowledgeable personnel code invoices for payment?
12. Does the accounting system prevent obligation or expenditure of CARE or U.S. federal funds beyond the period of availability?

Personnel / Payroll
1. Are agency personnel policies regarding leave, fringe benefits, recruitment and separation in writing?
2. Do all supervisors have access to a copy of the personnel policy manual?
3. Is nepotism or conflict of interest in employment prohibited?
4. Is information on employment applications verified and references obtained?
5. Are appropriate time records for leave maintained and are they reconciled at least annually?
6. Is the performance of all employees formally evaluated on at least an annual basis?
7. If employees work on more than one program or are paid from more than one funding source, are appropriate personnel activity reports maintained and approved by a supervisor?
8. Is there adequate segregation of duties to ensure that different individuals process personnel action form, process and distribute the payroll, and record the payroll in the general ledger?
**Accounts Receivable / Cash Receipting**

1. Are procedures in place to ensure that billings are prepared and sent as soon as possible after the sale of goods or provision of services, not less frequently than monthly unless another interval is specified in a written contract?
2. Are remittance advices and billings maintained to support accounts receivable entries in the general ledger?
3. If subsidiary accounts receivable journals are maintained, are they reconciled at least monthly with the general ledger?
4. Are cash receipts properly and promptly documented, posted to accounts receivable records, and deposited?
5. Is there adequate segregation of duties to ensure that different individuals prepare billings, collect and deposit cash, and reconcile accounts receivable and cash receipts entries to the general ledger?
6. Do bank deposit slips have the official depository bank number preprinted on the document and are checks deposited noted on the deposit slip by maker and amount?
7. Are pre-numbered receipts issued for all cash currency receipts and are all numbered receipts accounted for?
8. Are the employees handling cash receipts adequately bonded?
9. If required by the nature of the funding source or the agreement with CARE, are receipts that represent Program Income properly identified, reported and used?

**Inventory / Fixed Assets**

1. Does the agency maintained supplies on-hand in excess of the amount needed in a normal month? (If no, skip questions 2-5)
2. If so, does the agency maintain a perpetual inventory system?
3. Are receipts to and withdrawals from inventory properly documented?
4. Is the value of supplies inventory recorded on the general ledger?
5. Is a physical count of the inventory taken at least annually and are inventory records updated accordingly?
6. Does the agency have equipment fixed asset capitalization policy requiring, at minimum, assets costing more than $5,000 to be capitalized?
7. Are fixed assets physically tagged upon receipt?
8. Is the value of fixed assets recorded in the general ledger?
9. Is a physical inventory of fixed assets taken at least annually and are fixed asset records updated accordingly?
Eligibility
1. Is there an up-to-date manual available to staff performing eligibility functions?
2. Are staff performing eligibility functions adequately trained?
3. Is the information provided by the client verified by an independent third party?
4. Are client records periodically updated and reviewed to determine continued eligibility?
5. Is there adequate segregation of duties to ensure that different people determine eligibility and compute benefit payments or authorize services?

Allowable Costs and Services
1. If the agency bills for indirect cost, has the indirect cost plan been approved by the cognizant U.S. federal agency or has it been prepared in accordance with the applicable OMB Circular and audited by a Certified Public Accountant?
2. If the agency performs more than one service or is funded by more than one funding source, does it have a formal, written plan on how costs are to be allocated between services / funding sources? (If N/A, skip questions 3 and 4)
3. Does the cost allocation plan appropriately allocate cost to all benefiting programs?
4. Are the allocation bases current and reasonable?
5. Are benefit payments to individuals or payments for services to third parties on behalf of individual clients matched or compared to eligibility systems to ensure eligibility of the client?
6. Are controls in place to prevent overpayments or unauthorized payments to individuals or third parties?

Other Controls
1. If the agency is required to provide matching funds or “in-kind” contributions, is match properly documented in the accounting records or do adequate records exist to support “in-kind” or volunteer contributions?
2. If the agency engages in Real Property acquisitions, are there policies in place to ensure compliance with all CARE and U.S. federal regulations, including the Uniform Relocation Act (URA)?
3. If the agency uses U.S. federal funds to enter into construction contracts of more than $2,000, are there controls in place to ensure that all workers under the contract are paid wages not less than prevailing wage rates for the locality?
III. Attestation

Self-Assessment Completed by:

________________________________________     __________________
Signature          Date

_______________________________________________________
Print Name and Title

I hereby certify that the information reported above is correct and true to the best of my knowledge and belief.

_______________________________________________   ____________
Signature: Chief Executive Officer or Primary CARE Contact Date

_______________________________________________________
Print Name and Title
| Appendix C-5 | Recipient Control Environment Assessment Checklist |
| Appendix C-6 | Suggested Approach – Non-U.S. Based Organizations Assessment Guide |
This document consists of two parts: (1) Recipient Control Environment Assessment Checklist, and (2) Non-U.S. Based Organizations Assessment Guide.

**RECIPIENT CONTROL ENVIRONMENT ASSESSMENT CHECKLIST**

**Control Environment:**

Control environment risk factors incorporate management’s attitude, awareness, and actions concerning an organization’s control environment. It is important that the individual performing the risk assessment obtain sufficient knowledge of the control environment to determine whether the collective effect of these factors establishes, enhances, or mitigates the effectiveness of the specific control techniques. In making this determination, the reviewer should consider the following factors and their effect on the organization’s internal controls. The specific conditions listed below may indicate the presence of control environment weaknesses.

A. Management’s Philosophy and Operating Style:

1. Management lacks concern about internal controls and the environment in which specific controls function.

2. Management demonstrates an aggressive approach to risk taking and accounting policies.

3. Management is slow to respond to crisis situations in both operating and financial areas.

4. Management uses unreliable and inaccurate information to make business decisions.

5. Unexpected reorganization or replacement of management staff or consultants occurs frequently.
6. There is a high turnover of management personnel.

7. Management is overly optimistic regarding performance of programs and activities, and financial estimates consistently prove to be significantly overstated or understated.

8. Management is not able to adapt to new or untraditional roles required to meet the changing needs of the organization.

9. Communication and feedback systems within the organization are inadequate.

10. The organization’s financial sustainability is questionable.

B. The Entity’s Organizational Structure:
   1. Organizational structure is inappropriate for the entity’s size and complexity.
   2. The structure inhibits segregation of duties for initiating and recording transactions and maintaining custody over assets.
   3. Delegation of responsibility and authority is inappropriate, and the number of supervisors is inadequate or supervisors are inaccessible.
   4. Inexperienced and/or incompetent accounting personnel are responsible for transaction processing.
   5. Policies and procedures are established at inappropriate level.
   6. A high degree of manual activity is required in capturing, processing, and summarizing data.
   7. Activities are dominated and controlled by a single person or a small group.
   8. The potential exists for official of the organization to obtain financial or other benefits on the basis of decisions made or actions taken in an official capacity.
   9. Organizational conflict of interest exists and is an accepted practice.
10. The organization is highly centralized with minimal review provided by top management.

11. The organization is highly decentralized with minimal review provided by branch managers or other sub-organization management.

12. The organization has many subrecipients or branches in many numerous geographical locations.

C. Methods of Assigning Authority and Responsibility:

1. The entity’s policies are inadequate regarding the assignment of responsibility and the delegation of authority for such matters as organizational goals and objectives, operating functions, and regulatory requirements.

2. Employee job descriptions do not adequately describe specific duties, responsibilities, reporting relationships, and constraints.

D. Methods of Assigning Authority and Responsibility:

1. Management is not sufficiently involved in reviewing the organization’s performance.

2. Management control methods are inadequate to investigate unusual or exceptional situations and to take appropriate and timely corrective action.

3. Management's follow-up action is not timely or inappropriate in response to communications from external parties, including complaints, notification of errors in transactions with parties, and notification of inappropriate employee behavior.

E. Human Resources Policies and Practices:

1. Human resources policies for hiring, retaining and rewarding capable people are inadequate.
2. Standards and procedures for hiring, promoting, transferring, retiring and terminating personnel are insufficient.

3. Training programs do not offer employees the opportunity to improve their performance, encourage their advancement, or provide a vehicle for addressing employee or organizational weaknesses relative to new laws, regulations, and policies.

4. Written job descriptions and reference manuals are inadequately maintained.

5. The channels of communication for employees reporting suspected improprieties are inappropriate.

6. Policies on employee supervision are inappropriate or obsolete.

7. Policies and procedures do not provide for employee empowerment nor do they encourage and support risk taking and initiatives for performance improvement.

F. Budget Control:

1. Little or no guidance material and instructions are available to provide direction to those preparing the budget.

2. The budget review, approval and revision process is not defined or understood.

3. Management demonstrates little concern for reliable budget information.

4. Management participation in directing and reviewing the budget process is inadequate or limited.

5. Management is not involved in determining when, how much, and for what purpose expenditures can be made.

6. Actual expenditures are not periodically compared to budgets.
G. Compliance with Laws and Regulations:

1. Management is unaware of applicable laws and regulations and potential problems.

2. A mechanism to inform management of the existence of illegal acts does not exist.

3. Management neglects to react to identified instances of noncompliance with laws and regulations.

4. Policies and procedures for complying with laws and regulations are weak or nonexistent.

5. Policies on such matters as acceptable business practices, conflicts of interest, and codes of conduct are weak or nonexistent.

6. The organization and/or its subrecipient are receiving USAID funding for the first time and are not familiar with our compliance requirements.

H. Changing Conditions

1. The mechanism for identifying and communicating events, activities, and conditions that affect operations or financial reporting objectives are insufficient.

2. Accounting and/or information systems are not modified in response to changing conditions.

3. Consideration is not given to designing new or alternative controls in response to changing conditions.

4. Management is unresponsive to changing conditions.
Risk Assessment Checklist:

Once the reviewer has developed a reasonable understanding of the organization's control environment, the following risk assessment checklist should be completed. The checklist details the specific control techniques that should be reviewed in order to determine the risk level for each recipient of USAID funds that expends less than $300,000 per fiscal year and is not required to have an annual audit. The checklist should be completed for each applicable recipient and updated on a periodic basis.

I. AUTHORIZATION

Authorization controls are designed to provide reasonable assurance that transactions, events from which they arise, and procedures under which they are processed are authorized in accordance with laws, regulations, and management policy. Typical authorization controls include:

1. Documented policies establish events or transactions that the organization is authorized to engage in by law, regulation, or management policy.
2. Documented policies and procedures exist for processing transactions in accordance with laws, regulations or management policy.
3. Master files include only authorized employees, customers, or suppliers.

II. APPROVAL

Approval controls are designed to provide reasonable assurance that appropriate individuals approve recorded transactions in accordance with management's general or specific criteria. Typical approval controls include:

1. Specific transactions are approved by persons having the authority to do so in accordance with established policies and procedures.
2. Transactions are compared with predetermined expectations, and exceptions are reviewed by someone authorized to approve them.
3. Transactions are compared with approved master files before approval or acceptance, and exceptions are reviewed by someone authorized to approve them.
4. Key records are matched before a transaction is approved (matching purchase order, receiving report, and vendor invoice before the invoice is approved for payment).

5. Prior to acceptance, changes to data in existing files are independently approved, evidenced by documentary approval of input before processing.

III. SEGREGATION OF DUTIES

Segregation of duties controls are designed to reduce the opportunities for someone to perpetrate and/or conceal errors or irregularities in the normal course of their duties. Typical segregation of duties controls include:

1. The individual responsible for the cash receipts function does not sign checks or reconcile the bank accounts, and is not responsible for non-cash accounting records such as accounts receivable, the general ledger, or the general journal.

2. The person receiving cash does not have the authority to sign checks and reconcile bank accounts and does not have access to accounting records other than cash receipts.

3. Different individuals are responsible for purchasing merchandise or services, receiving merchandise or services, and approving vouchers.

4. Different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts.

IV. DESIGN AND USE OF RECORDS

The purpose of controls over the design and use of records is to help provide reasonable assurance that transactions and events are properly recorded.

1. Pre-numbered forms are used to record all of an organization's transactions, and accountability is maintained for the sequence of all numbers used.

2. Receiving reports, inspection documents, etc., are matched with billing notices or other documents used to record delivered orders and related liabilities to provide assurance that only valid transactions are recorded.
3. Transaction documents, such as vendor invoices and shipping documents, are date stamped and tracked to ensure that they are recorded on a timely basis.

4. Source documents are canceled after processing to provide assurance that the same documents will not be reused and will not result in recording transactions more than once. Also, only original documents are used to process transactions.

**V. SAFEGUARDS OVER ACCESS TO AND USE OF ASSETS AND RECORDS**

Access controls are designed to protect assets and records against physical harm, loss, misuse, or unauthorized alteration. These controls restrict unauthorized access to assets and records. Typical access controls are:

1. Cash receipt totals are recorded before cash is transmitted for deposit.
2. Secured facilities are used when appropriate, and access to critical forms and equipment is limited to authorized personnel.
3. Access to programs and data files is restricted to authorized personnel.
4. Assets and records are protected against physical harm.
5. Incoming and outgoing assets are counted, inspected, and received or given up on the basis of proper authorization in accordance with established procedures.
6. Procedures are established to provide reasonable assurance that current files can be recovered in the event of a computer failure.
7. Access to critical forms and records is restricted.

**VI. INDEPENDENT CHECKS**

Controls in this category are designed to provide independent checks on the validity, accuracy, and completeness of processed data. The following procedures are typical of this category of controls:

1. Calculations, extensions, additions, and accounting classifications are independently reviewed.
2. Assets on hand are periodically inspected and counted, and the results are compared with asset records.
3. Subsidiary ledgers and records are reconciled to the general ledger.
4. The organization promptly follows-up on complaints from vendors, customers, employees, and others.
5. Management reviews performance reports.
6. Data from different sources are compared for accuracy and completeness (the cash journal entry is compared with the authenticated bank deposit slip).
7. Actual operating results are compared with approved budgets, and variances are explained.

VII. VALUATION OF RECORDED AMOUNTS

Controls in this category are designed to provide assurance that assets are valued at appropriate amounts. Typical valuation controls are:

1. Periodically, the condition and marketability of assets are evaluated (for example, accounts receivable are periodically evaluated for collectibility).
2. Recorded data are compared with information from an independent third party (for example, recorded cash is reconciled to bank statements).
3. Assessed values, such as independent appraisals of assets, are compared with the accounting records.

VIII. SUMMARIZATION OF ACCOUNTING DATA

Controls in this category are designed to provide assurance that transactions are accurately summarized and that any adjustments are valid. Typical controls in this category include:

1. The sources of summarized data are compared with the underlying subsidiary records and/or documents before the data are accepted for inclusion in summarized records and reports.
2. Procedures are followed to check the completeness and accuracy of data summarization, and exceptions are reviewed and resolved by authorized persons.

IX. ASSETS AND LIABILITIES

Controls in this category are designed to provide assurance that (1) the organization owns recorded assets, with the ownership supported by appropriate documentation; (2) the organization has the rights to its assets at a given date;
and (3) recorded liabilities reflect the organization's legal obligations at a given date. The following procedures are typical for this category of controls:

1. Policies and procedures are documented for initiating transactions and for identifying and monitoring those transactions and amounts requiring attention relative to ownership issues.

2. Policies and procedures are documented for initiating and monitoring transactions and amounts related to liabilities.

3. Significant transactions require the approval of senior management.

4. Reported results and balances are compared with plans and authorizations.

X. PRESENTATION AND DISCLOSURE

Controls in this category are designed to provide assurance that (1) accounts are properly classified and described in the financial statements; (2) the financial statements are prepared in accordance with applicable accounting principles; and (3) footnotes contain all information to be disclosed. The following procedures are typical of this category of controls:

1. Policies and procedures are documented for accumulating and disclosing financial information in the financial statements by appropriate personnel and in accordance with the terms of the agreement. Responsibility is assigned to specific individuals.

2. Policies and procedures are documented for preparing financial statements by authorized personnel having sufficient experience and expertise to ensure compliance with applicable accounting principles.

3. Policies and procedures are documented for properly classifying and describing financial information in the financial statements.

4. Reports are periodically substantiated and evaluated by supervisory personnel. Procedures have been implemented to detect errors and omissions and to evaluate recorded balances.
5. A written chart of accounts containing a description of each account is used. Journal entries are prepared, reviewed, compared with supporting details where necessary, and approved each accounting period.

6. Appropriate processing procedures are used, including control or batch totals; written cutoff and closing schedules are also used.

7. The same chart of accounts is used for both budgeting and reporting, and variances between actual and planned results are analyzed.
INTRODUCTION

This document provides a suggested approach for completing the Recipient Control Environment Assessment Checklist, as well as guidelines for using the results.

PERFORMING THE EVALUATION

Many of the elements addressed in the checklist may be evaluated as a part of pre-award surveys, desk reviews, or site visits.

PRE-AWARD SURVEY: Site visits by M/MPI and M/OP indicated that a number of Mission Controller offices are already using a pre-award survey that is very similar to the risk assessment checklist. Applicable components of the checklist should be addressed at this stage.

DESK REVIEWS: Most local recipients receive USAID funds on a reimbursable or periodic advance basis. Missions typically perform desk reviews of such requests, and, on occasion, verify actual costs for which the recipient is claiming to the recipient's books and records. These reviews provide not only a basis for reimbursing the recipient, but also provide valuable information about the control environment and risk assessment. For example, Risk Assessment Checklist, Part II, Approval, 4, states "Key records are matched before a transaction is approved (matching purchase order, receiving report, and vendor invoice before the invoice is approved for payment)." Requests for reimbursement or periodic advances which are not adequately supported are documented as an increased risk.

SITE VISITS: Visits to local recipients by qualified Mission financial personnel to complete the checklist are an integral part of the program. However, site visits by Activity Managers or other SO team members can also provide valuable information. For example, Risk Assessment Checklist, Part V, Safeguards Over Access To And Use Of Assets And Records, 4, states "Assets and records are
"Management reviews performance reports." Non-financial Mission personnel can determine whether these types of controls exist and can help the Controller's office maintain an up-to-date status on the recipient's control environment.

ELEMENTS OF THE CHECKLIST

The elements of the checklist are phrased so as to elicit a yes/no answer. Not applicable (N/A) is also a valid answer. For example, one control environment element states, "There is high turnover of management personnel". The Mission may not be familiar enough with the new recipient to determine whether the organization encountered high turnover of management personnel. Therefore, that element would be identified as N/A. As the organization matures and a history is developed, the response should be changed to yes or no. Each response, yes, no, or N/A, needs to be assessed individually and collectively. Individually, so as to provide a recommended course of action for material weaknesses. Collectively, so as to place individual weaknesses in perspective and to provide an overall assessment as it relates to the adequacy of the recipient's financial management and accounting system. The control environment sets the tone of the organization, influencing the control consciousness of its people. An understanding of the control environment serves as the framework for evaluating the overall internal controls of the organization. While much of the evaluation of the control environment is based on observation of the organization and its workings; to the extent possible, the control environment should be completed and referenced to the objective data reviewed.

DOCUMENTING THE REVIEW

The assessment checklist is the objective basis from which you will be determining the degree of oversight necessary to demonstrate proper accountability of funds provided to recipients. Proper documentation of the yes, no, and N/A responses is critical. As noted above, much of the risk assessment will be based on your pre-award surveys and interim reviews. The risk assessment should reference the workpaper(s) in the respective files which support the yes, no, or N/A. This is where the documentation should reside. The yes, no, N/A, and reference notations should be made in the right hand column of the checklist across from the specific element being evaluated.
**USING THE RESULTS**

In all likelihood, Missions have been informally collecting historical information concerning local recipients' financial management systems. Some of this information has been kept as cuff records, while some is in the form of Mission "institutional knowledge". Much of the information has been from prior audits and reviews of organizations such as:

- Past findings (material or immaterial),
- Timeliness of the actions taken to correct all recommendations, and
- Adequate tracking and timely final action on all audit recommendations.

In the past, such information has served as the basis for Mission requests for recipient audits or the determination to perform detailed reviews of expenditure documentation. The use of the checklist will now assist the Mission in formally documenting this information and developing a risk level for each recipient. Based on the risk level and the results of prior reviews and audits, the following, or comparable, actions should be considered:

<table>
<thead>
<tr>
<th>Overall Risk Level</th>
<th>Suggested Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>A full scope annual recipient audit until the risk is reduced</td>
</tr>
<tr>
<td>Medium</td>
<td>A full scope recipient audit on 30 percent of this category every three years and interim reviews as deemed necessary</td>
</tr>
<tr>
<td>Low</td>
<td>Interim reviews as deemed necessary</td>
</tr>
</tbody>
</table>

Based on the percentage of "no" answers to the checklist questions, a "suggested" determination of risk level would be as follows:

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Determination</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>70 percent to 100 percent of answers are NO</td>
</tr>
<tr>
<td>Medium</td>
<td>31 percent to 69 percent of answers are NO</td>
</tr>
<tr>
<td>Low</td>
<td>0 percent to 30 percent of answers are NO</td>
</tr>
</tbody>
</table>
It is important for Missions to recognize that local conditions, the recipient's familiarity with USAID requirements, and the type of program will all impact the determination of the risk level. As such, the above percentages should be used only as a guideline and adjusted by each Mission as appropriate.

Due to the increase of the audit requirement threshold to $300,000, Missions now have the sole oversight responsibility for recipients expending less than the threshold amount. With the limited amount of resources (personnel and dollars) available for such oversight, Missions are strongly encouraged to create and maintain a documented and supported plan for accountability of those funds. The Recipient Control Environment Assessment Checklist, used with the above or similar approach, should greatly assist the Missions in demonstrating that accountability.
NED
National Endowment for Democracy

C – 7 Sample Guidelines for Completing Risk Assessments of Subrecipients
GUIDELINES FOR COMPLETING RISK ASSESSMENTS OF xxx GRANTEES

SUMMARY

The audit strategy approved by OMB on March 9, 1994 requires XXX to rank organizations according to certain risk factors prior to issuing the first payment under the grant. These risk assessment worksheets have been developed to determine whether a grantee is low, medium or high risk. The level of risk determines which type of subgrant monitoring will be performed.

The audit strategy identifies four areas in which each grantee is to be evaluated. Accordingly, there are four separate worksheets as follows:

- Inherent Risk
- Control Risk
- Reporting Capabilities
- Prior Experience Administering XXX Grants.

Each worksheet describes various situations which may apply to the grantee, the environment in which the grantee works, their internal control structure, and prior reporting capabilities (for renewal grants). Reviewers are asked to select the description which most clearly matches the grantee.

For example, the Inherent Risk Worksheet evaluates factors external to the organization which may have an impact on the organization’s ability to complete the grant. Under the category Program Risk, a grantee whose program is relatively risk free will be given a numerical rating of 0. If the program is risky, a rating of 2 will be given. If the program is high risk and could be shut down by the government, a rating of 3 will be applied.

The Risk Ranking Summary Worksheet combines the totals of the four individual worksheets for an overall risk ranking total. The total is between 0 and 87. The range in which the total falls will indicate whether the grantee is low, medium or high risk. For example, a risk ranking of 23 is medium risk.

Depending upon the organization’s overall risk total, the auditor will recommend the type of grant monitoring to be performed. Grantee’s with low risk might be monitored by a review of their periodic financial and narrative reports known as standard procedures. Medium risk organizations may undergo an invoice verification review of first quarter expenses. High risk grantees may be required to submit two quarters of invoices for review.

The following sections provide further details on the four risk assessment worksheets and the Risk Ranking Summary Worksheet.
**RISK ASSESSMENT WORKSHEETS**

**Section I - Inherent Risk Worksheet**

Inherent Risk focuses on the type of program and conditions which could affect the grantee’s ability to complete the project. Components of inherent risk include:

- The political stability of the country in which grant funds will be maintained.
- The type of program being conducted and whether there is a likelihood that the organization could be shut down by the government.
- The stability of the organization and the extent to which inner turmoil may jeopardize program completion.
- XXX's prior experience with the organization, if any.
- Other external factors which could impact the organization's ability to successfully complete the grant.

**Assessing Inherent Risk**

Program Officers are responsible for assessing inherent risk. The Inherent Risk Worksheet contains seven categories of risk including Political Risk, Program Risk, and Management Turnover. Each category describes up to three situations which could apply to the organization. For example, under the category Political Risk, countries which are relatively stable will receive a rating of 0; those with high risk will receive a 2; and closed societies or hostile factions will receive a 3. The final section "Additional Considerations" allows space for the Program Officer to identify additional factors which may affect the grant.

Organization’s ranked as high risk could be new grantees working in a high risk program with significant management turnover. The maximum number of points for this worksheet is 20.

**Section II - Control Risk Worksheet**

Control Risk focuses on the grantee’s internal controls based upon their accounting questionnaire. Components of control risk include:

**Accounting System -** The accounting system relates to the organization's ability to record, summarize and report transactions and maintain accountability of assets and liabilities. Organizations with established accounting systems will be lower risk.

**Internal Control Procedures -** Internal controls are policies and procedures established to ensure that financial transactions are correctly approved; assets are maintained safely and
adequately controlled; and accounting records are complete and accurate, and maintained on a consistent basis. Organizations with good internal controls will be considered lower risk than those whose internal controls are weak.

Prior Audits - Organizations will be evaluated on whether they have regular audits. Depending upon the results of the review, organizations with regular audits are generally lower risk than unaudited organizations.

Subrecipient Monitoring - Certain organizations may be responsible for monitoring one or more subgrants. Organizations with experience in subgrant monitoring will be lower risk.

Assessing Control Risk

Internal Audit will complete the Control Risk Worksheet based upon the organization's accounting questionnaire. An organization with a high score probably has weak internal controls, is unfamiliar with OMB cost circulars and does not have regular audits. The maximum number of points for this worksheet is 30.

Section III - Reporting Capabilities Worksheet

Reporting Capabilities evaluate the grantee’s narrative and financial reporting in a prior grant. Grants staff will evaluate the quality of the organization's financial reports while Program staff evaluate the quality of their narrative reports. Financial reporting factors include content, compliance, responsiveness and timeliness. Narrative reporting factors include the quality of the evaluation report and whether copies of major products were received.

Assessing Reporting Capabilities

Grants staff assess financial reporting for a total of 19 points.

Program Officers evaluate narrative reports for a total of 6 points.

The Reporting Capabilities Worksheet cannot exceed 25 points.

Evaluations can only be performed of renewal grantees. First time grantees are assessed in the next section.
Section IV - Prior Experience Administering XXX Grants Worksheet

This section evaluates an organization's risk based upon its familiarity with XXX grant provisions. New grantees receiving their first XXX grant are considered higher risk than an organization which has had prior experience with XXX awards.

Organizations which have never received a XXX grant will receive 12 points indicating high risk. Organizations which were formerly subrecipients to a XXX grantee but are now direct XXX grantees will receive 6 points for medium risk. Organizations with prior experience administering XXX grants will receive 0 points for low risk. As noted above, renewal grantees are further assessed under Reporting Capabilities in Section III.

Risk Ranking Summary Worksheet

The auditor totals all of the worksheets in the Risk Ranking Summary Worksheet. This number determines the overall grantee risk. The range in which the number falls indicates whether the organization is low, medium, or high risk as follows:

<table>
<thead>
<tr>
<th>Risk Ranking</th>
<th>Level of Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 17</td>
<td>Low</td>
</tr>
<tr>
<td>18 - 27</td>
<td>Medium</td>
</tr>
<tr>
<td>28 - 87</td>
<td>High</td>
</tr>
</tbody>
</table>

The size of the grant must also be assessed as either low, medium, high or high + dollars as follows:

- Low = $1 to $24,999
- Medium = $25,000 to $49,999
- High = $50,000 to $99,999
- High + = $100,000 and over.

The auditor determines the type of monitoring to be performed based upon the risk ranking and the dollar size of the grant based upon the following chart:

<table>
<thead>
<tr>
<th>Risk Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grantee Risk</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Medium</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>High</td>
</tr>
</tbody>
</table>

**Legend**

Standard Procedures = Reviews of the grantee’s quarterly financial and narrative reports by Program and Grants staff.

Invoices = An invoice verification review of one quarter of the grant.

Two quarter invoices = An invoice verification review of two quarters of the grant.

Cash Ledger or General Ledger = A review of either the cash ledger or general ledger for one quarter of the grant.

External Audit = An audit performed by an external auditor. This may include: a) financial audits, b) A-133 audit and/or program audits of U.S. grantees expending over $500,000 in Federal funds in their fiscal year, or c) independent public accountant (IPA) audits of non-U.S. grantees.

On-site review = An on-site financial review performed by XXX Internal Audit staff.

All XXX grantees are monitored by standard procedures. Additional monitoring of discretionary grantees via invoice or on-site reviews is performed every other year for renewal grantees. For example, in year one, a grantee is monitored by an invoice review. In year two, the grantee is monitored by standard procedures. In year three, another invoice review is performed.

Because of the large grants provided to core institutes, cores will always be monitored by a desk review of their annual A-133 audit plus an annual subgrant monitoring review performed by the Internal Audit Manager.
SECTION I. INHERENT RISK WORKSHEET

Organization: ____________________________________________________________
Grant Number: ___________________________ Date: ______________________
Program Officer: ____________________________ Date: ______________________

This worksheet develops a risk ranking for an organization's inherent risk. Inherent risk evaluates the nature of the grant program and external conditions which could affect the organization's ability to complete its grant responsibilities. Considerations include the size of the proposed grant, the political climate in the country in which grant funds will be maintained, and the organization's stability and experience. Place a check mark next to the summary which best describes the organization. After rating all categories, add up the score and place the total on page 2 as the Total Risk Ranking for Inherent Risk.

1. Dollar Value of Proposed Grant - exposure due to the size of this proposed grant.

**Risk Level**  **Size of Proposed Grant**

___0  0 - $24,999
___1  $25,000 - $99,999
___2  Over $100,000

2. Political Risk - exposure due to the political climate of the country in which XXX grant funds will be maintained.

**Risk Level**  **Political Risk**

___0  Relatively stable
___1  Somewhat risky
___2  High risk
___3  Closed society/hostile factions.

3. Program Risk - exposure due to the type of program being administered.

**Risk Level**  **Program Risk**

___0  Program is relatively risk free; organization can operate openly.
___2  Program is risky; organization may be harassed by authorities or local factions.
___3  Program is high risk; program may be shut down by the government.

Risk Level  Management Turnover

___0  Not aware of any significant management turnover.
___1  Organization has had a history of changes in management or internal struggles.
___2  A key manager has recently been removed or resigned; or the organization elects new management every year and prior management is not available for consultation.

5. Organization's Experience - exposure due to the organization's lack of experience.

Risk Level  Organization's Experience

___0  Organization has a successful history of work in this program area.
___2  Organization is relatively new or is an offshoot of an experienced organization.
___3  Organization is new and inexperienced.

6. Prior Experience With the Organization - exposure due to Program staff lack of prior experience or knowledge of the organization.

Risk Level  Prior Experience with the Organization

___0  Organization/principal officer is well known to Program Staff.
___2  Limited experience with the organization/principal officer but has a good reputation.
___3  Limited familiarity with the organization/principal officer.

7. Additional Considerations - exposure due to other considerations the Program Officer is aware of.

Risk Level  Additional Considerations

___0  No additional considerations which may affect the grant.

Additional considerations (communication difficulties or satellite offices or activities) which may affect the grant are: (Please describe the situation and circle the appropriate ranking).

1 2 3 4

TOTAL RISK RANKING FOR INHERENT RISK

( Total should not exceed 20 points)
SECTION II. CONTROL RISK WORKSHEET

Organization: _____________________________________________________________

Grant Number: ____________________  Board Cycle: ____________________

This worksheet develops a risk ranking for an organization's control risk. Control risk evaluates the adequacy of an organization's internal controls. This section assesses accounting controls described in the organization's responses to the Accounting System and Financial Capabilities Questionnaire. Place a check mark next to the summary which best describes the organization. After rating all categories, add up the score and place the total on page 6 as the Total Risk Ranking for Control Risk.

1. Sources of Financial Support - exposure due to the organization's lack of experience with Federal or Endowment funding. (A.Q. pg. 2)

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Sources of Financial Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Other U.S. Federal funds.</td>
</tr>
<tr>
<td>___1</td>
<td>Endowment funds only (at the time of the submission of the questionnaire.)</td>
</tr>
</tbody>
</table>

2. Approval of Transactions - exposure due to the lack of proper approval of transactions. (A.Q. pg. 3).

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Approval of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Transactions are properly approved by a responsible organization official.</td>
</tr>
<tr>
<td>___2</td>
<td>Transactions are not approved by a responsible official, or there are no established procedures for securing prior approval of transactions.</td>
</tr>
</tbody>
</table>

3. Separation of Duties - exposure due to the lack of separation of duties. (A.Q. pg. 3).

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Separation of Duties</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Adequate separation of duties - approval, custody of assets, and recording of transactions are properly segregated.</td>
</tr>
<tr>
<td>___1</td>
<td>Due to size, segregation of duties is not possible. Based on organization's circumstances, current procedures are deemed adequate.</td>
</tr>
<tr>
<td>___2</td>
<td>Organization has weak system of segregation of duties.</td>
</tr>
</tbody>
</table>

5. Accounting System and Procedures - exposure due to a weak accounting system and undocumented accounting procedures. (A.Q. pg. 5).

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>OMB Circulars A-122 &amp; A-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Management is familiar with OMB Circulars A-122 and/or A-21.</td>
</tr>
<tr>
<td>___2</td>
<td>Management is unfamiliar with OMB Circulars A-122 and/or A-21.</td>
</tr>
</tbody>
</table>

6. Fund Control - Exposure due to the lack of adequate control of funds (A.Q. pg. 7)

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Fund Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Separate bank account can be established for XXX grant, or grants will be on a cost reimbursable basis.</td>
</tr>
<tr>
<td>___3</td>
<td>Separate bank account cannot be established; cash must be maintained outside of a bank. (Note - such grants should have a special condition to the grant agreement regarding cash management procedures.)</td>
</tr>
</tbody>
</table>

7. Supporting Documentation - exposure due to the lack of maintaining invoices, vouchers and timesheets. (A.Q. pg. 6).

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Supporting Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Invoices, vouchers and timesheets are maintained for all payments.</td>
</tr>
<tr>
<td>___1-2</td>
<td>Circumstances may preclude maintaining invoices, vouchers and timesheets. These circumstances, appear reasonable and should not pose a significant audit risk.</td>
</tr>
<tr>
<td>___3</td>
<td>Circumstances may preclude the maintenance of invoices. These circumstances may pose a significant audit risk. (See Additional Considerations on page 6).</td>
</tr>
</tbody>
</table>
8. Subrecipient Monitoring - exposure due to the organization's inability to properly monitor subrecipients. (A.Q. pg. 10).

**Risk Level   Subrecipient Monitoring**

___0 No subrecipient for this grant.
___1 Subrecipient monitoring procedures deemed above average.
___3-4 Subrecipient monitoring procedures deemed average.
___5 Subrecipient monitoring procedures deemed below average or organization has little or no prior experience monitoring subrecipients.

9. Audit Coverage - exposure due to the lack of prior audits. (A.Q. pg. 9).

**Risk Level   Audit Coverage**

___0 Organization has regular (or recent) Government Auditing Standards Audits performed by an external auditor.
___1 Organization has regular (or recent) generally accepted auditing standards (or equivalent) audits performed by an external auditor.
___2 Organization does not have regular GAAS or GAGAS audits performed by an external auditor.
___3 Organization has never had an external audit.

10. Monitoring Findings and Resolution - exposure due to unresolved prior findings.

Only answer one of the following three sections as appropriate:

10.a) First-time grantees who have submitted audits in conjunction with the Accounting Questionnaire.

**Risk Level   Audit Findings and Resolution**

___0 No findings identified in the audit.
___3 Material/significant findings which relate to the organization's ability to administer a XXX grant (i.e. deficiencies in reconciliation functions, subrecipient monitoring, compliance with Federal Grant requirements, etc.).

10.b) Organizations from whom monitoring of previous XXX grants have been received and reviewed but resolution has not yet been initiated.

**Risk Level   Monitoring Findings and Resolution**

___0 No prior monitoring findings.
___0 Non-material findings.
3 Material findings.

10.c) Organizations for whom resolution has been initiated. (Transfer information provided by the Grants staff member from Section III - C, "Reporting Capabilities Worksheet -Grants Staff Member Review").

Risk Level Monitoring Findings and Resolution

___0 Grantee has satisfactorily responded to findings and agrees to implement corrective action.
___1 Resolution process has been initiated and grantee is expected to initiate corrective action.
___3 Organization has ignored the resolution follow up letter, resists findings, or cannot justify the need to implement corrective action.

11. Additional Considerations - exposure due to other considerations Internal Audit is aware of.

Risk Level Additional Considerations

___0 No additional considerations which may affect internal controls.

Indicate any additional considerations which may affect the internal controls of the organization. Describe the situation and indicate an appropriate risk ranking.

TOTAL RISK RANKING FOR CONTROL RISK

==========  (Total should not exceed 30 points).
SECTION III - A. REPORTING CAPABILITIES WORKSHEET - Grants Staff Review

Organization: _______________________________________________________________
Grant Number: __________________________________
Most Recent Grant Number(s): _________________________________________________

This worksheet evaluates the quality of financial reports submitted by the grantee under its
most recent XXX grant. Grantees with prior XXX grants will be more familiar with financial and
narrative reporting requirements and would therefore be at less risk. For first time grantees,
insert N/A on the risk ranking line at the bottom of the page. After the Program Officer and
Grants staff perform their reviews, Internal Audit will add up the scores to determine the
overall risk ranking for the organization's reporting capabilities.

Grants Staff Review

Grants Staff will evaluate organizations using the following scale:

___ 0 Good
___ 1 Average
___ 2 Below Average

In the space provided, insert the number which describes the organization's reporting
capabilities as either good, average or below average. Insert any additional comments
concerning the grantee's reporting, add up the total and sign and date the worksheet. The
total score should not exceed 4 points.

Risk Ranking Categories

_____ Format: Financial reports are submitted in the correct format showing correct
reporting period, banking and interest information, correct budget and prior
expenditures.

_____ Timeliness: Financial reports are submitted within two weeks of the due date.

Additional comments:

________________________

RISK RANKING PER GRANTS STAFF REVIEW
========== (Not to exceed 4 points).

Grants Staff: ____________________________ Date: ___________________
SECTION III - B. REPORTING CAPABILITIES WORKSHEET - Program Officer Review

Organization: ____________________________________________________________

Grant Number: __________________________________________________________

This worksheet evaluates the quality of narrative reports submitted by the grantee under its most recent XXX grant. Grantees with prior XXX grants will be more familiar with financial and narrative reporting requirements and would therefore be at less risk. For first time grantees, insert N/A on the risk ranking line at the bottom of the page. After the Grants staff and Program Officer perform their reviews, Internal Audit will add up the scores to determine the overall risk ranking for the organization’s reporting capabilities.

Program Staff Review

Program Staff will evaluate organizations using the following scale:

___0 Good
___1 Average
___2 Below Average.

In the space provided, insert the number which describes the organization’s reporting capabilities as either good, average or below average. Insert any additional comments concerning the grantee’s reporting, add up the total (not to exceed 6 points) and sign and date the worksheet.

Risk Ranking Categories

_____ Progress: All narrative reports received (including final self-evaluation and 2 copies of each major product - books, journals, newspapers, etc.) contain comprehensive information on activities.

_____ Verification: Program Officer has been able to substantially verify information presented in narrative reports.

_____ Timeliness: Narrative reports are submitted within two weeks of the due date.

Additional comments:

__________________________

RISK RANKING PER PROGRAM OFFICER REVIEW

(Not to exceed 6 points).

Program Officer: ___________________________ Date: ___________________________
SECTION III - C. REPORTING CAPABILITIES WORKSHEET - Grants Staff Review

Organization: ______________________________________________________________
Grant Number: _____________________________________________________________
Most Recent Grant Number: ___________________________________________________

This worksheet evaluates the quality of financial reports submitted by the grantee under its most recent XXX grant. Grantees with prior XXX grants will be more familiar with financial and narrative reporting requirements and would therefore be at less risk. For first time grantees, insert N/A on the risk ranking line at the bottom of the page. After the Grants staff and Program Officer perform their reviews, Internal Audit will add up the scores to determine the overall risk ranking for the organization's reporting capabilities.

Grants Staff Review
Grants staff members will evaluate the organization's financial reports as follows:

<table>
<thead>
<tr>
<th></th>
<th>Good</th>
<th>Average</th>
<th>Below Average</th>
<th>Needs Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rate the grantee based upon your ability to judge these items from the information contained in financial/narrative reports and drawdown requests without reference to audit reports. Circle the appropriate number between 0 and 3 as described above. Insert any additional comments concerning the grantee's reporting capabilities, add up the total and sign and date the worksheet. The total score (excluding the response to Question 10c on the next page) should not exceed 15 points.

<table>
<thead>
<tr>
<th>Risk Ranking</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 1 2 3</td>
<td>Prior Approval: Grantee obtains prior approval before incurring/reporting costs in excess of flexibility limits.</td>
</tr>
<tr>
<td>0 1 2 3</td>
<td>Allowability: Grantee incurs/reports only allowable costs and budgeted line items. (Bank service charges are generally considered allowable even if non-budgeted).</td>
</tr>
<tr>
<td>0 1 2 3</td>
<td>Grant Period: Grantee reports include only costs incurred between the effective and expiration dates of the Grant Agreement.</td>
</tr>
<tr>
<td>0 1 2 3</td>
<td>Cash Management: Grantee requests advances of funds (drawdowns) commensurate with cash on hand and anticipated needs for the next period.</td>
</tr>
<tr>
<td>0 1 2 3</td>
<td>Follow Up: Grantee responds promptly to requests for additional reporting information, clarification, or revised reports.</td>
</tr>
</tbody>
</table>
Additional comments:

**RISK RANKING PER GRANTS STAFF REVIEW**

(Not to exceed 15 points).

Check if Grants staff has initiated resolution of the grantee's prior audit. If so, complete the following information concerning the status of audit follow up. Internal Audit will transfer the risk ranking to the Control Risk Worksheet.

10.c) Resolution of Previous Findings - exposure due to prior unresolved findings in audits, invoice verification, or other monitoring mechanisms.

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Resolving Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>___0</td>
<td>Grantee has satisfactorily responded to findings and agrees to implement corrective action.</td>
</tr>
<tr>
<td>___1</td>
<td>Resolution process has been initiated and grantee is expected to initiate corrective action.</td>
</tr>
<tr>
<td>___3</td>
<td>Organization has ignored the follow up letter, resists findings, or cannot justify the need to implement corrective action.</td>
</tr>
</tbody>
</table>

Grants Staff: ____________________________ Date: ______________
## SECTION IV. PRIOR EXPERIENCE ADMINISTERING XXX GRANTS - Grants Staff Review

Grantee Name: ____________________________

Current Grant Number: __________________ Date: __________

Most Recent Grant Number: __________________

This worksheet develops a risk ranking for an organization's prior experience administering XXX grants. Organizations who have had prior XXX grants are assumed to be more familiar with grant provisions and reporting requirements and therefore are at lower risk. Insert a check mark next to the statement which describes the organization. Transfer the number to the bottom of the page as the Total Risk Ranking for Prior Experience Administering XXX Grants.

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Prior Experience With XXX Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>____ 0</td>
<td>This organization has had a prior XXX grant.</td>
</tr>
<tr>
<td>____ 6</td>
<td>This organization was a prior XXX subrecipient but will now be a direct grantee.</td>
</tr>
<tr>
<td>____ 12</td>
<td>This organization is receiving a XXX grant for the first time.</td>
</tr>
</tbody>
</table>

### RISK RANKING FOR PRIOR EXPERIENCE ADMINISTERING XXX GRANTS

= ========== (Total should not exceed 12 points)
RISK RANKING SUMMARY WORKSHEET

Organization:

Grant Number & Amount:
Date: ______________

Board Cycle: _________

This worksheet is used to develop the final risk ranking for the organization. Transfer the worksheet totals from the four detailed worksheets onto this summary worksheet. Worksheet totals should not exceed those indicated below:

<table>
<thead>
<tr>
<th>Risk Ranking</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>_____</td>
<td>0 to 20. Inherent Risk - the likelihood that external factors could preclude the organization from successfully completing the project.</td>
</tr>
<tr>
<td>_____</td>
<td>0 to 30. Control Risk - the likelihood that the organization's system of internal controls could lead to errors or noncompliance.</td>
</tr>
<tr>
<td>_____</td>
<td>0 to 25. Reporting Capability - the quality of the organization's prior financial and narrative reports. Insert 0 if N/A has been inserted in the total column of the detailed worksheet.</td>
</tr>
<tr>
<td>_____</td>
<td>0 to 12. Prior Experience Administering XXX Grants - first time organizations receive 12; subrecipients who will now be direct grantees receive 6; repeat grantees receive 0.</td>
</tr>
</tbody>
</table>

TOTAL RISK RANKING
(Total should not exceed 87 points)

Based upon the above total, place a check mark next to the risk model's assessment of the organization.

| ______ | 0 to 17 | Low Risk |
| ______ | 18 to 27 | Medium Risk |
| ______ | 28 to 87 | High Risk |

Based upon the organization's total risk ranking and the amount of Federal funds the organization is expecting to receive in its fiscal year, place a check mark on the next page for the type of organization and the monitoring to be performed. No grant will be given to any organization deemed to have unacceptable risk.
TYPE OF ORGANIZATION

_____ Core Institute
_____ U.S. Grantee spending over $500,000 per year in XXX and other Federal funds.
_____ U.S. Grantee spending less than $500,000 per year in XXX and other Federal funds.
_____ Foreign Grantee.

MONITORING TO BE PERFORMED

_____ Review the organization’s annual _____________ (A-133, program, financial) audit report for ______ and submit findings for resolution to the Director, Grants Management.

_____ Internal Audit will perform an invoice verification review of the ______ quarter of the grant. Findings will be submitted for resolution to the Director, Grants Management.

_____ Cash ledger or general ledger for _________________ quarter.

_____ Contract an independent public accountant (IPA) to perform an agreed upon procedures audit. Review audit report and submit findings for resolution to the Director, Grants Management.

_____ Internal Audit will perform an on-site financial review of the organization, develop a report and submit findings for resolution to the Director, Grants Management.

_____ Standard Procedures: The Endowment will perform a thorough review of the grantee’s quarterly financial and narrative reports.

Internal Audit Manager Concurrence: ______________________ Date: ____________

_____ Monitoring History:

<table>
<thead>
<tr>
<th>Grand Number</th>
<th>Grant Amount</th>
<th>Monitoring</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

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RISK RANKING SUMMARY WORKSHEET - Grants Worksheet

Grantee:  
Grant #:  
Board Cycle:  

SECTION III - C. REPORTING CAPABILITIES WORKSHEET
Circle the correct risk ranking (0 = Good, 1 = Average, 2 = Below Average, 3 = Needs Improvement).

<table>
<thead>
<tr>
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</table>

Additional Comments:

__________________________
__________________________

--------------- REPORTING CAPABILITIES RISK RANKING PER GRANTS STAFF
(Not to exceed 15 points.)

☐ Check if Grants staff has initiated resolution of the grantee’s prior audit/Invoice review. If so, complete the following information concerning the status of follow up. Internal Audit will transfer the risk ranking to the Control Risk Worksheet.

Resolution of Previous Findings - exposure due to prior unresolved findings.

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Organization has ignored the follow up letter, resists findings, or cannot justify the need to implement corrective action.

SECTION IV. PRIOR EXPERIENCE ADMINISTERING XXX GRANTS

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Prior experience With XXX Grants</th>
</tr>
</thead>
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<tr>
<td>0</td>
<td>This organization has had a prior XXX grant.</td>
</tr>
<tr>
<td>6</td>
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----------------------- RISK RANKING FOR PRIOR EXPERIENCE ADMINISTERING XXX GRANTS
(Total should not exceed 12 points.)

Grants Staff: ____________________________ Date: ______________
Chapter VI

Glossary
Beneficiary
The definition of a subrecipient does not include an individual who is a beneficiary of a U.S. federal government funded program.

Capacity Building
An explicit outside intervention to improve an organization’s performance in relation to its mission, context and resources, including support in personnel development, financial systems, strategic planning, management, etc. (See Institutional Strengthening)

Cognizant Agency
Cognizant Agency is the U.S. federal agency which, on behalf of all U.S. federal agencies, is responsible for implementing the requirements of the Single Audit Act which include: reviewing, negotiating, and approving cost allocation plans, indirect cost rate and similar rates; receiving and approving non-federal audit reports; conducting federal audits as necessary; and resolving cross-cutting audit findings. USAID is CARE’s cognizant agency.

For-Profit Recipients
OMB Circular A-133 does not require audits of for-profit entities. However, CARE is responsible for ensuring that expenditures from all U.S. federal government subagreements to for-profit entities are made in accordance with applicable laws and regulations.

Pass-Through Entity
During the project proposal stage, CARE may determine that other organizations can be of assistance in implementing the project or providing certain services. This may result in CARE providing a portion of the U.S. federal award to these organizations and when this happens, CARE can also be referred to as a pass-through entity.

Primary Recipient
An award made by a U.S. federal agency to CARE is considered to be a direct funding and makes CARE a primary recipient to U.S. federal award. Upon accepting the funds, CARE assumes the responsibility for complying with requirements and conditions such as:

1. Operation of the program in accordance with applicable rules and regulations.
2. Maintenance of property and financial records in sufficient detail to clearly reflect the manner in which CARE has utilized the U.S. federal funds.

3. Selection of a qualified audit firm to audit the use of U.S. federal funds in accordance with applicable audit requirements, and

4. Resolution of any audit findings and questioned costs and the preparation of a corrective action plan.

Subaward

Subaward is an award of financial assistance in the form of money, or property in lieu of money, made under an award by CARE to an eligible subrecipient or by CARE’s subrecipient to a lower tier subrecipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services nor does it include any form of assistance which is excluded from the definition of “award” under 22CFR226.2

Subcontract

Subcontract exists when two organizations sign a contract for which the sub-contracting organization pays for services provided by the subcontracted organization. The services provided help the subcontracting organization to meet its own objectives. As such it is best described as a fee for service relationship. In this relationship, it is assumed that the subcontracted organization already possesses some of the necessary qualities and skills to carry out the task for which it has been sub-contracted.

Subrecipient

A subrecipient is the operating (the legal entity, where possible) to which a subgrant is made and which is accountable to the primary recipient for the use of the funds provided. A subrecipient may also be a direct recipient of U.S. government grant or cooperative agreement under other agreements or a subrecipient of another pass-through entity at the same time.

Subrecipient Certification

A Subrecipient Certification is the equivalent of the Representation Letter that CARE’s external auditors require to submit at the end of each audit. The certification affirms the subrecipient management’s understanding of their primary responsibility for ensuring compliance with the subagreement terms and conditions, as well as good internal control and use of due diligence in carrying out the project.

Vendors/Contractors

Vendors/Contractors - The difference between a vendor and a subrecipient is significant for the purposes of A-133 audit. When CARE procures goods and services from a vendor with U.S. federal funds, it is the vendor’s responsibility to meet the requirements of the procurement contract. When
CARE subgrants to another entity, CARE is responsible for ensuring that the pass-through funds are utilized in accordance with applicable laws and regulations.
Chapter VII

Other Donor Supplementary Information

Note: We are in the process of gathering information from different donors and CARE International Members.