



Subgrant Management and Compliance Manual
Finance and Administration



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FREEHEARTS AFRICA REACH OUT FOUNDATION (FAROF) CAC/IT/NO 61548

No 6 Rahama Road, Narayi High cost, Kaduna state, Nigeria

Acronyms

FAROF	Freehearts Africa Reach Out Foundation
USAID	United States Agency for International Devepoment
USA	United State of America
DFID	Department for International Development
EU	European Union
QRG	Quick Reference Guide
FAR	Federal Acquisition Regulation
NGO	Non-Governmental Organization
UN	United Nation
NED	National Endowment for Democracy
ICR	Indirect Cost Recovery
NICRA	Negotiated Indirect Cost Rate Agreement
MLI	Major Line Items
USG	United State Government
OMB	Office of Management & Budget
MOE	Maintenance Of Effort
URA	Uniform Relocation Assistance

Table of Contents

Acronyms	1
1.0. INTRODUCTION / BACKGROUND	2
2.0. CHAPTER I: WHAT’S AN AWARD?	5
3.0. CHAPTER II: WHO IS RESPONSIBLE FOR WHAT?	8
3.1. FAROF’s Overall Role as a Pass-Through Entity	8
3.1.1. Grants & Contracts Compliance Officer	11
3.2. Sub-recipient	12
4.0. Chapter III: The Sub-grant Cycle	12
4.1. Selection Procedures	14
4.2. Pre-Award Assessment	15
4.3. Risk Assessment	16
4.4. Award Phase	23
4.5. Standard Provisions	38
4.6. ATTACHMENT E – Sub-Recipient Certification	48
4.7. The Sub-grant Monitoring Cycle	50
4.7.1. Implementation and Monitoring Phase	52
4.7.2. Management decision	56
4.7.3. Cost Principles	58
4.7.4. Cash Management	60
4.7.5. Eligibility	61
4.7.6. Equipment	63

4.7.7. Matching, Level of Effort and Earmarking	64
4.7.8. Award Period	66
4.7.9. Procurement	67
4.7.10. Program Income	68
4.7.11. Real Property Acquisition and Relocation Assistance	69
4.7.12. Reporting	69
4.7.13. Sub-recipient Monitoring	71
4.7.14. Special Tests and Provisions	72
4.7.15. Sub-recipient Certification	75
4.7.16. Adjustment and Continuing Responsibilities of Sub-recipient after Closeout	77
5.0. Chapter IV: The Financial System, Accounting Requirements and Records Management	
Retention.....	78
Appendices	80

1.0. INTRODUCTION / BACKGROUND

“**FREEHEARTS AFRICA REACH OUT FOUNDATION** is responsible for monitoring the activities of sub-recipients 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.”

- FAROF’s Policy Statement on Sub-recipient Monitoring

The level of projects FAROF 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 staff effectively and confidently carry out FAROF’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 sub-recipient activities for that agreement. In the absence of specific guidance from donors that conflicts with this Manual, all sub-recipient activity should be managed using the guidance in this Manual.

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

- Outlines the roles and responsibilities when FAROF makes subgrants and how it translates to accountabilities of FAROF
- Defines FAROF’s interpretation of the U.S. federal regulations concerning subrecipient monitoring.
- Provides sample forms and useful reference materials FAROF can refer to when designing its monitoring plan and tools.

This Manual is currently the FAROF USA Grants Management and Compliance Manual. A supplement to come in the near future will provide specific guidance on various other donors such as CIDA, DFID, EU and private restricted donors. Staff can expect to hear follow-up communications as soon as possible as FAROF develops Quick Reference Guides (QRG) and training materials that FAROF can use to train the staff involved in subrecipient management and monitoring activities.

We hope you find this Manual a useful companion in implementing FAROF’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. Staff will be informed of

new donor rules and regulations affecting any part of this document, which will then be incorporated in the next edition.

Please feel free to contact the management www.farof.org if you have any question or comments on any part of this Manual.

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2.0. CHAPTER I: WHAT'S AN AWARD?

An award made by a U.S. federal agency or any other Donors to FAROF is considered to be a direct funding and makes FAROF a primary recipient to such funding/award. Upon accepting the funds, FAROF 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 FAROF has utilized the funds.
3. Selection of a qualified audit firm to audit the use of 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, FAROF may determine that other organizations can be of assistance in implementing the project or providing certain services. This may result in FAROF providing a portion of the **award** to these organizations and when this happens, FAROF can also be referred to as a pass-through entity.

FAROF will secure prior approval from the funding agency before sub granting, transferring or contracting out any work under an award. Prior approval is considered secured when the funding agency has approved what FAROF 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, FAROF 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 FAROF to an eligible subrecipient or by FAROF'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. Sub agreement states that the subrecipient is to comply with all applicable laws and regulations.

The above definition of subrecipient excludes:

Beneficiaries - The definition of a sub-recipient 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 sub-recipient is significant for the purposes of A-133 audit. When FAROF 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 FAROF subgrants to another entity, FAROF 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 sub-recipient or a vendor/contractor under an award.

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

Because sub-recipient monitoring is, and will be, an ongoing process, sub-recipient monitoring will 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 sub-recipients' risk assessment.

3.0. CHAPTER II: WHO IS RESPONSIBLE FOR WHAT?

3.1.FAROF's Overall Role as a Pass-Through Entity

FAROF 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, FAROF 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.

FAROF 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 FAROF 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 FAROF, as a pass-through entity, is expected to comply:

Award Identification During-the Award Monitoring Subrecipients Audit, and Pass-Through Entity Impact.

- Award Identification FAROF will identify the U.S. federal award information and applicable compliance requirements to the subrecipient at the time of the award.
- During-the-Award Monitoring FAROF will conduct all monitoring activity in a positive, helpful manner. Effective monitoring will 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, FAROF will 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
 - A U.S. based subrecipient expending \$500,000 or more in U.S. federal awards during the subrecipient's fiscal year will 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.
 - Within six (6) months upon receipt of the subrecipient's audit report, FAROF will issue a management decision based on the audit findings applicable to the U.S. federal funds received by the subrecipient through FAROF.
 - FAROF 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, FAROF, as the pass-through entity shall take appropriate action by using sanctions.
- Pass-Through Entity Impact. FAROF must evaluate the impact of subrecipient activities in relation to FAROF's ability to comply with applicable U.S. federal regulations.

Needless to say, FAROF 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 FAROF 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, FAROF as a primary recipient is responsible for any related repayment of U.S. federal funds.

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

- U.S. federal award information and compliance requirements are identified to subrecipients
- FAROF 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 sub agreements, 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 FAROF is evaluated

These goals can be accomplished by applying the following:

1. Execute a pre-award assessment that enables the FAROF to calculate the risk involved in sub granting 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 FAROF and the subrecipient organization are familiar with applicable donor requirements for managing the project.
5. Draft and review the sub agreement fully prior to sharing it with the subrecipient to ensure that applicable terms and conditions that must be included in the sub agreement are adequately covered, clearly documented, and thoroughly communicated.
6. Include the following stipulation in the sub agreement:

a. If the sub agreement 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 FAROF 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, FAROF 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 organization's internal control system for monitoring subrecipients.

7. Require each subrecipient to permit FAROF and independent auditors to have access to their records and financial statements to verify the subrecipient's compliance with FAROF's and the donor's monitoring and audit requirements under the OMB Circular A-133 or Guidelines for Financial Audits Contracted by Foreign Recipients. FAROF will take the necessary sanctions in the event that the subrecipient is non-compliant.

8. Liaise with 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 FAROF 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 Finance Department when there are material subrecipient audit findings that may necessitate adjustment of FAROF's records.

The organization will consult with the Finance 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.

3.1.1. 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 FAROF's roles and responsibilities as a pass-through entity.

Specifically, this person is responsible for:

1. Researching, monitoring, interpreting and disseminating throughout FAROF 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 FAROF on these issues.

2. Analyzing and developing FAROF'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 FAROF.

3.2.Subrecipient

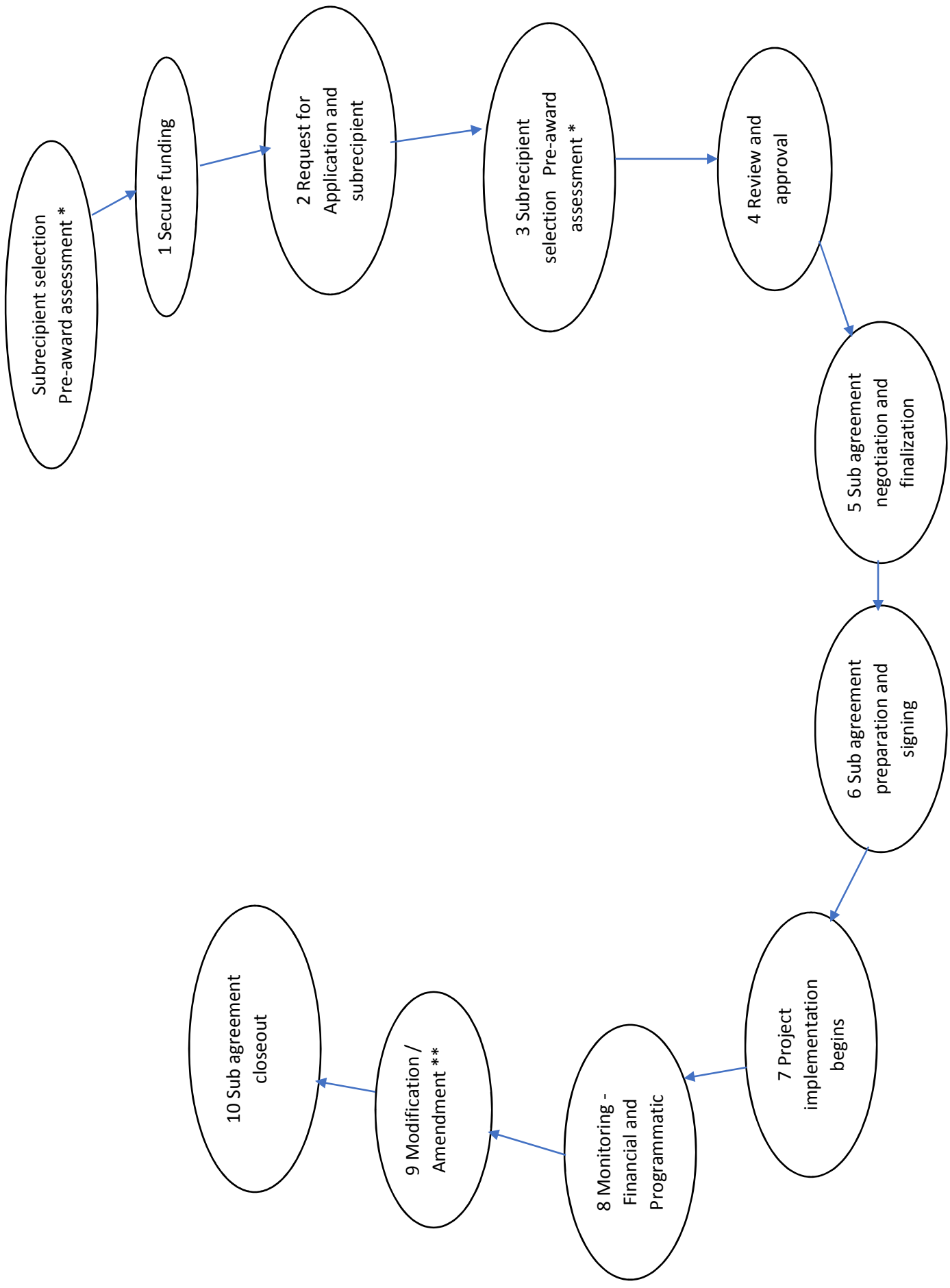
Subrecipients assume certain roles and responsibilities as a result of accepting U.S. federal financial assistance from FAROF. They agree to establish and maintain accountability for the funds with an accounting and reporting system which identifies the funds by program or award, reflects how the assistance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

4.0. Chapter III: The Subgrant Cycle

THE SUBGRANT IMPLEMENTATION CYCLE



PRE-AWARD PHASE

1. Secure Funding
2. Request for Application and subrecipient identification
3. Subrecipient selection - Pre-award assessment *
4. Review and approval

AWARD PHASE

5. Sub agreement negotiation and finalization
6. Sub agreement preparation and signing

IMPLEMENTATION AND MONITORING PHASE

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

CLOSEOUT PHASE

10. Sub agreement closeout

* Selection of major partners maybe decided on prior to securing funding

** Modification / Amendment may happen any time after the project implementation begins

Note: This chart was adopted from the PVO Networks training materials on sub granting.

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.

FAROF 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. FAROF's ability to assess potential subrecipients can be a major factor in a donor or auditor's evaluation of FAROF as a primary recipient. The process of selecting a potential subrecipient is therefore a critical part of a system for sub agreement management.

4.1.Selection Procedures

FAROF must assess a potential subrecipient's management capacity and financial controls to protect FAROF's interests right from the beginning. The following are questions a donor or auditor may ask FAROF regarding its procedures for selecting a subrecipient.

- How does FAROF choose a subrecipient?
- What are the program criteria?

- How does FAROF determine the capability of the entity to manage its program and achieve the objectives of the sub agreement?
- How does FAROF determine the capability of the entity to comply with donor standards for financial management?
- What documentation does FAROF require from the entity? Does FAROF expect written proposals and a review of their policies and procedures for travel, procurement, financial management, etc.?
- How does FAROF 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?

4.2.Pre-Award Assessment

FAROF must establish criteria that define the necessary requirements and desired qualifications for the sub recipient. 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 FAROF'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 FAROF 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 FAROF satisfied that the entity does not support any kind of organization, establishments or person that FAROF 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 Program Department (particularly the unit and technical staff responsible for managing sub grants), Finance Department and Procurement should participate in the assessment of potential sub recipients.

Note: This section uses the word “entity” when referring to “prospective sub recipients.”

4.3.RISK ASSESSMENT

a. Purpose and Benefits of Risk Assessment

Accurate risk assessment is critical to the success of organization’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 FAROF. A risk assessment is used to determine the priority of sub recipients to be reviewed and the level of monitoring to be performed.

Risk assessment will not be viewed as a one-time event. Significant turnover in the sub recipient’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, FAROF will 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
5. Amount of FAROF’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 FAROF to the agency
7. Total subgrant amount that FAROF will be funding under the current sub agreement
8. Subgrant amount that FAROF will be funding under the current sub agreement as a percentage of the total subgrant budget line item per grant agreement between FAROF 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 FAROF’s previous experience with the agency
14. Extent of FAROF 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 FAROF will make major procurement for the agency

If FAROF 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 FAROF but has had successful relationships with others 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.

FAROF 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 will 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 Sub recipients 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 sub recipient in complying with applicable local laws and regulations (e.g., registration with the relevant government departments, submission of annual returns, and submission of statutory deductions for its staff).

FAROF will apply good judgment when deciding to work with sub recipients ranked as high risk. Sub agreements with high risk organizations will 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 FAROF and subrecipient need to carry out. FAROF BOT will allow funding high risk sub recipients up to a maximum of \$100,000 per sub agreement provided that the performance- based approach in sub granting will be used and that fund transfers to the subrecipient will be limited to a maximum of \$10,000 at a time.

Sub granting using a performance-based approach identifies partners with capacity to deliver the proposed project based on performance. Sub agreement 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 FAROF.

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 sub recipients may still be subjected to special award conditions at the discretion of the grants manager.

d. Obtaining Information for Determining Risk Level of the Sub recipient

Every reasonable effort will be made to determine whether the information is already available from within FAROF 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. FAROF audit reports, and reports of the recipient's own auditors.
3. Previous experience with the sub recipient, either in the same program or other programs.
4. When applicable, analysis of the recipient's financial statements performed by the FAROF 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 FAROF 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 FAROF 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.

FAROF will not provide support of any kind to a person or entity that it knows or has a reason to know advocates terrorism or engages in terrorist activity. FAROF shall comply with all

applicable laws and regulations that address terrorism and terrorist activity in line with its antiterrorism stand. Generally speaking, those procedures are centered on checking list of persons and entities designated as terrorist by the U.S. government. The list-checking procedures will affect human resources, treasury and procurement staff, as well as staff involved with contracts and grants.

e. Minimizing Risk

FAROF 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 sub agreement

- **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 FAROF'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 FAROF awards. If special conditions are included in an award, FAROF 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 FAROF'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, FAROF 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. FAROF 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, FAROF is responsible for the removal of the conditions.

- **Technical Assistance to High-Risk Subrecipients**

Technical assistance to the subrecipient will 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 FAROF'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 FAROF personnel.

- **Set a Ceiling Amount of Subgrant Amount for Every Sub agreement**

As noted earlier, sub agreements 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 FAROF and subrecipient need to carry out. FAROF BOT will allow funding high risk subrecipients up to a maximum of \$100,000 per sub agreement provided that the performance- based approach in sub granting 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. FAROF headquarters recognizes that the risk FAROF faces in working with subrecipients is closely related to the materiality of amount we are sub granting to each prospective subrecipient. The level of risk assessment to be performed and risk on part of FAROF in sub granting \$5,000 cannot be compared with the risk for sub granting \$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 FAROF-developed questionnaires

2. Obtaining information from potential subrecipient's 'references'
3. Interviewing FAROF 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 will FAROF 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

g. Designing Pre-Award Risk Assessment Tools

FAROF is expected to justify its rationale for selecting the criteria for conducting pre-assessment risks of potential subrecipients. The process will be adequately documented and satisfy future donor inquiries and audits. FAROF will detail the contents of the Risk Assessment Form and the scoring system it will apply to determine whether the potential subrecipient is a high, medium or low risk organization. However, FAROF will evaluate the potential subrecipient based on the list presented under pages 28 to 35 of this Manual. 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 591sab_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.

4.4.Award Phase

a. To Sub-grant or Procure Under a Grant

There are three different types of sub-awards that FAROF as a primary recipient of U.S. federal funds is likely to use when dealing with partner organizations:

1. Sub grants to U.S. based organizations
2. Sub grants 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 FAROF 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 award. This is not as simple as it may appear since the relation between FAROF 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:

Subrecipient	Vendor
Determines who is eligible to receive assistance for the program being administered.	Provides goods and services to many different purchasers and any willing buyer. Operates in a competitive environment.
Has its performance measured against whether the objectives of the program were	Provides goods and services that are ancillary to the operation of the U.S. federal program.

met	
Has responsibility for programmatic decision-making.	Provides goods and services within normal business operations.
Has responsibility for adherence to U.S. federal program compliance requirements.	Is not subject to compliance requirements of the U.S. federal program.
Uses U.S. federal funds to carry out a program for which FAROF has responsibility	Provides goods and services for FAROF to use in a U.S. federal funded program it operates.

i. 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.

ii. For-profit subrecipient

FAROF 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.

iii. Compliance responsibility for vendors

In most cases, FAROF'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, FAROF is responsible for ensuring compliance for vendor transactions when the contract 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.

b. The Grant Relationship

It is very important to know the funding instrument used by our donor to determine if FAROF can further subgrant or contract/subcontract with another entity.

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

Here are the rules:

1. When FAROF is a primary recipient or a subrecipient to a grant/cooperative agreement from the U.S. federal government, FAROF can subgrant or contract under the grant.
2. When FAROF is a primary contractor or a subcontractor to procurement contract with the U.S. federal government, FAROF can contract or subcontract, but NOT subgrant the funds.

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.

c. How to Apply ICR When Implementing Projects with Subgrant

i. ICR for FAROF

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

All costs incurred by the project 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 FAROF's policy to apply the approved Negotiated Indirect Cost Rate Agreement (NICRA) on all direct project costs whether the project calls for FAROF directly implementing the activities or sub granting certain components of the program implementation to other organizations.

ii. ICR for the Subrecipient

The U.S. federal cost principles that apply to FAROF as a prime flow down to the subrecipients. In the same way FAROF would apply its NICRA when FAROF is a subrecipient instead of a prime, FAROF's subrecipient with an existing NICRA is also expected to apply the same rate in the sub agreement 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 FAROF. Generally, general and administrative expenses must not exceed 10% of the total cost.

d. Budget Negotiation and Approval, Flexibility and Guidelines

Budget is the financial expression of the project activity as approved during the award process. It may include the U.S. federal funding through FAROF and NGO contribution or only U.S. federal funding share through FAROF.

A. Budget Negotiation and Approval

FAROF will 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 FAROF 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 FAROF 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 sub agreement? If the program will be better met by adding a cost sharing requirement or if FAROF has an existing cost-sharing commitment as a primary recipient to the grant, it is appropriate for FAROF 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 FAROF 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 FAROF 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

FAROF will provide clear guidelines on budget line item flexibility.

The following are the common budget flexibility clauses in the sub agreement:

- FAROF 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 FAROF.
- 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, FAROF will 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 sub agreement.

Please refer to the succeeding pages for the sample Budget Guidelines template.

Sample Budget Guidelines

FAROF Project Name _____

Basic Budget Guidelines for Grants Program

I. Overview

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

II. Budget Plan

FAROF 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, FAROF recommends that each line item be in accordance with the cost accounting principles.

IV. FAROF's Major Line Items (MLI)

FAROF 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 FAROF.

- A) Personnel
- B) Fringe Benefits
- C) Consultants
- D) Travel
- E) Equipment
- F) Supplies
- G) Contractual
- H) Other
- I) Indirect Cost

FAROF 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

FAROF 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 FAROF 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, FAROF 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 FAROF. Generally, general and administrative expenses must not exceed 10% of the total cost.

J. Total Project Cost – FAROF 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

FAROF reserves the right to amend, withdraw, delete, omit and reject some or all line items presented on the budget proposal. FAROF 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.

Sample: Activity-based budget

Budget Proposal					
Name of Subrecipient: _____					
Name of Project: _____					
Budget Description	# of Units	Unit Cost	US \$ Total	Requested from FAROF	Match
Objective 1:					
Activity 1:					
A Personnel Expatriate National					
B Fringe Benefits Expatriate National					
C Consultants Expatriate National					
D Travel International Domestic					
E Equipment					
F Supplies					
G Contractual					
H Other Direct Costs					
Subtotal-Activity 1					
Activity 2:					
A Personnel Expatriate National					
B Fringe Benefits Expatriate National					
C Consultants Expatriate National					
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					

Sample: Cost-based budget

Budget Proposal					
Name of Subrecipient: _____					
Name of Project: _____					
Budget Description	# of Units	Unit Cost	US \$ Total	Requested from FAROF	Match
A Personnel Expatriate National					
B Fringe Benefits Expatriate National					
C Consultants Expatriate National					
D Travel International Domestic Per diems					

E Equipment					
F Supplies					
G Contractual					
H Other Direct Costs					
Total Direct Costs					
I Indirect Cost					
Total Budget					

Travel Proposal Name of Subrecipient: _____ Name of Project: _____								
Activity	Purpose of Trip	# of Trips	Days per Trip	Total Days	Departing From	Destination	Proposed Airline	Estimated Cost
TOTAL								

e. Payment Terms and Conditions

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

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

i. Payment by Cash Advance

Payment by cash advance is the most commonly used term of payment between FAROF and sub recipients.

Cash advances to a sub recipient shall be limited to immediate cash requirements and the minimum amounts needed by the sub recipient 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 sub recipients on a monthly basis.

All this said, we recognize that as we consider the materiality of monthly program expenses involved, the physical location of sub recipients 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, FAROF will transfer funds to the sub recipient up to the three (3) months cash requirements to implement the program.

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

Please refer to Attachments 2a&b – Cash Advance and Expenditures Status Report on pages 58 and 59.

ii. Payment by Cost Reimbursement

This payment process requires the sub-recipients to periodically submit financial reports with additional supporting documentation to be reimbursed for expenses already incurred.

Although this is FAROF's preferred method for paying sub-grant expenses, FAROF recognizes that most of our sub-recipients do not have the cash flow to advance to implement projects. This reason makes this option the least favorable from sub-recipient's standpoint.

iii. Cash on a Working Capital Advance

Under this procedure, FAROF shall advance cash to the sub-recipient to cover the estimated disbursement needs for an initial period generally geared to the sub-recipient's disbursing cycle, normally thirty (30) days. Thereafter, FAROF shall reimburse the sub-recipient for its actual cash disbursements.

iv. Sub granting using a performance-based approach

This approach identifies partners with capacity to deliver the proposed project based on performance. Sub agreement 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 sub-recipient to perform and deliver the agreed result under a given milestone prior to receiving additional funding from FAROF.

Please remember that the ideal level of funding for high risk sub-recipients 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 FAROF and sub-recipient need to carry out. FAROF BOT will allow funding high risk sub-recipients up to a maximum of \$100,000 per sub agreement provided that the performance based approach in sub granting will be used and that fund transfers to the sub-recipient will be limited to a maximum of \$10,000 at a time.

FAROF requires withholding of at least (10%) percent of the final payment to sub-recipients 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 sub-recipient's ability to submit the required program and financial reports. This concept is the basis for FAROF's policy that we just noted above where FAROF requires withholding of at least ten (10%) percent of the final payment to sub-recipients. It is the same concept that we apply whenever FAROF decides to use the performance-based approach.

Determining the payment terms and conditions should be influenced by FAROF's risk assessment of the sub-recipient. A high risk sub-recipient warrants a more rigid payment terms. The payment terms and conditions per grant agreement between FAROF and the donor may also be a contributing factor in determining the payment terms between FAROF and the subrecipients.

How about the manner of transferring funds?

FAROF prefers to wire transfer funds, although other methods such as issuance of check is also acceptable and widely used. FAROF will 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 FAROF and the subrecipient will agree on, FAROF will periodically review its effectiveness during the life of the subgrant and as we prepare the closeout report for every sub agreement.

f. Financial Reporting

The precise content and format of financial reports may vary from one sub-grant to another. This information should be specified in the sub agreement and must be consistent with FAROF's and the donor's reporting and monitoring needs.

FAROF will aim at maintaining the correct degree of accountability and avoid the creation of onerous, additional and redundant work for the sub-recipient.

i. Frequency of Reporting

FAROF will determine the frequency of financial reporting by considering the size and complexity of the program with the sub-recipient. However, the report shall not be required more frequently than monthly or less frequently than quarterly.

FAROF prefers to have the monthly financial reports from sub-recipients as this frequency of reporting will improve the burn rate of project expenses reported to USAID. It will also improve the ability of FAROF to immediately report back to the sub-recipient any dispute regarding the expenses claimed. A final report shall be required at the completion of the sub agreement. Sub-recipients 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 FAROF upon written request of the sub-recipient.

ii. Actual vs. Budget Financial Information

Financial reports should provide comparison of actual expenses with budget amount. When applicable, the sub-recipient should also provide actual vs. budget (obligated cost matching amount) information for the NGO/community contributions.

The sub agreement 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.

g. Donor Rules and Regulations

The sub agreement should clearly indicate the applicable rules and regulations that the sub-recipient should comply with.

Whether required by the U.S. federal agency that provided the funds to FAROF or as part of FAROF's internal monitoring plan, effective communication by FAROF will play a key role in enabling the sub-recipients 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.

Learning the regulations is a continuous process. It requires investment of time by FAROF staff and the staff of the sub-recipient to read the provisions, check relevant websites, consult colleagues within and outside FAROF 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 sub-recipients based on their legal entity and the amount of funding expended.

SUBGRANT SUMMARY CHART USAID (General Rules)

Rules & Regulations	U.S. NGOs only	Non-U.S. NGOs only
Provisions	Standard Provisions for U.S. NGOs http://www.usaid.gov/policy/ads/300/303maa.pdf	Standard Provisions for Non-U.S. NGOs http://www.usaid.gov/policy/ads/300/303mab.pdf
22 CFR 226	Required http://www.access.gpo.gov/nara/cfr/waisidx_03/22cfr226_03.html	Not Required
OMB Circular A-122	Required http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html	Required
Audit requirements		
-if the NGO spends \$300,000 or more per year		Guidelines for Financial Audits Contracted by Foreign Recipients (June 2003) http://www.usaid.gov/policy/ads/500/591maa.pdf
- if the NGO spends \$500,000 or more per year	OMB Circular A-133 (June 2003) http://www.whitehouse.gov/omb/circulars/a133/a133.html	

4.5.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

<http://www.usaid.gov/policy/ads/300/303maa.pdf>

- **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.

FAROF will check off the standard provisions which are included and applicable in the sub agreement.

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. FAROF of Laboratory Animals
9. Title to and FAROF 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

<http://www.usaid.gov/policy/ads/300/303mab.pdf>

• 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. Non liability
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.

FAROF will check off the standard provisions which are included and applicable in the sub agreement. Only those standard provisions which have been checked off are incorporated within the sub agreement.

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. Sub agreements
8. Local Procurement
9. Patent Rights
10. Publications and Media Releases
11. Nondiscrimination in Federally Assisted Programs
12. Regulations Governing Employees
13. Participant Training
14. Voluntary Population Planning
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 FAROF of Property (U.S. Government Title)
19. Title to and FAROF 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. CFR 226 is only applicable to U.S. based sub-recipients; it does not apply to non-

U.S. based sub-recipients. For non-U.S. based sub-recipients, 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 FAROF:

- 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 Organization

<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.

II. OMB Circular A-122 Cost Principles for Non-Profit Organizations

http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html

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 Non-Profit Organizations

COST PRINCIPLES Applicable OMB Circulars

OMB Circular A-122 is the Cost Principle that applies to FAROF. This Cost Principle shall be used by all U.S. Federal agencies in determining the allowable costs for work performed by

FAROF under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement.

All sub-grants 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 nonU.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

http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html

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)

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.

Selected cost items	
Unallowable	Allowable
(3) Alcoholic beverages	(7) Communication costs
(5) Bad debts	(24) Labor relations costs
(14) Entertainment costs	(50) Transportation costs
(19) Goods or services for personal use	
(25.d) Lobbying-executive lobbying costs	

Selected Cost Items	
Allowable with Restrictions/Unallowable with Exceptions	
(1) Advertising and public relations costs	Allowable with restrictions
(2) Advisory councils	Allowable with restrictions
(4) Audit costs and related services	Allowable with restrictions and as addressed in OMB Circular A-133
(6) Bonding costs	Allowable with restrictions
(7) Compensation for personal services	Unique criteria for support
(8.g) Compensation for personal services—organization-furnished automobiles	Unallowable for that portion of costs attributed to personal use
(8.k) Compensation for personal services—severance pay	Allowable with restrictions
(9) Contingency provisions	Unallowable with exceptions
(10) Defense and prosecution of criminal and civil proceedings and claims	Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement)
(11) Depreciation and use allowances	Allowable with qualifications
(12) Donations and contributions	Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)
(13) Employee morale, health, and welfare costs	Allowable with restrictions
(15) Equipment and other capital expenditures	Allowability based on specific requirements

(16) Fines and penalties	Unallowable with exception
(17) Fundraising and investment management costs	Unallowable with exception
(18) Gains and losses on depreciable assets	Allowable with restrictions
(20) Housing and personal living expenses	Unallowable as overhead costs
(21) Idle facilities and idle capacity	Idle facilities—unallowable with exceptions; idle-capacity allowable with restrictions
(22) Insurance and indemnification	Allowable with restrictions
(23) Interest	Allowable with restrictions
(23.a (6)(d) Interest – substantial relocation	Possible adjustment if relocated within 20 years
(25) Lobbying	Unallowable with exceptions
(26) Losses on other sponsored agreements or contracts	Unallowable (Losses on other awards or contracts)
(27) Maintenance and repair costs	Allowable with restrictions
(28) Materials and supplies costs	Allowable with restrictions
(29) Meetings and conferences	Allowable with restrictions
(30) Membership, subscriptions, and professional activity costs	Allowable for civic and community organizations with Federal approval; unallowable for social organizations
(31) Organization costs	Unallowable except Federal prior approval
(32) Page charges in professional journal	Allowable with restrictions
(33) Participant support costs	Allowable with prior approval of the Federal awarding agency
(34) Patent costs	Allowable with restrictions
(35) Plant and homeland security costs	Allowable with restrictions
(36) Pre-agreement costs	Allowable with restrictions
(37) Professional service costs	Allowable with restrictions
(38) Publication and printing costs	Allowable with restrictions
(39) Rearrangement and alteration costs	Allowable (ordinary and normal); allowable with Federal prior approval (special)
(40) Reconversion costs	Allowable with restrictions
(41) Recruiting costs	Allowable with restrictions
(42) Relocation costs	Allowable with restrictions
(43) Rental cost of building and equipment	Allowable with restrictions
(44) Royalties and other costs for use of	Allowable with restrictions

patents	
(45) Selling and marketing costs	Unallowable with restrictions
(46) Specialized service facilities	Allowable with restrictions
(47) Taxes	Allowable with restrictions
(48) Termination costs applicable to sponsored agreements	Allowable with restrictions
(49) Training costs	Allowable with restrictions
(51) Travel costs	Allowable with restrictions
(52) Trustees	Allowable with restrictions

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

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

This Circular is issued pursuant to the Single Audit Act of 1984, Public Law 98-502, and the Single Audit Act Amendments of 1996, Public Law 104-156. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending U.S. Federal awards.

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 Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," govern the auditing of U.S. federal awards made to non-U.S. government entities.

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.

OMB Circular A-133 is issued pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. It sets forth standards for obtaining consistency and uniformity among U.S. federal agencies for the audit of non-U.S. government entities expending U.S. federal awards.

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.

FAROF will engage annually a USG approved audit firm that satisfies the Single Audit requirements. The audit fieldwork will simultaneously take place with the year-end financial audit of our books.

FAROF 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 FAROF's OMB Circular A-133 report are required reading materials for organizations that implement U.S. federal funded projects:

- Schedule of Findings and Questioned Costs

- Schedule of Prior Audit Findings

- 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 http://www.whitehouse.gov/omb/circulars/a133_compliance/04/pt3.pdf

Part 6: Internal Control http://www.whitehouse.gov/omb/circulars/a133_compliance/04/pt6.pdf

- Guidelines for Financial Audit Conducted by Foreign Recipients <http://www.usaid.gov/policy/ads/500/591maa.doc>
- Generally Accepted Government Auditing Standards (GAGAS) <http://www.gao.gov/govaud/yb2003.pdf> (file size: 5365KB, 202 pages)
- ADS 303 <http://www.usaid.gov/policy/ads/adsbooklet.pdf>

ADS 303 contains the administrative regulations for grant management that are applied to USAID. ADS 303 derives its authority from the following four acts: o Foreign Assistance Act of 1961 o Federal Grants and Cooperative Agreement Act of 1977 o OMB Guidance, “Implementation of Federal Grant and Cooperative Agreement Act of 1977, 8/18/78” o 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; o awards to non-U.S. organizations shall be subject to the Standard Provisions for non-U.S. organizations.

Finalize and Sign the Sub agreement

When is FAROF ready to sign and share the copy of sub agreement?

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

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

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

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

4.6. ATTACHMENT E – SUB-RECIPIENT CERTIFICATION

SUBRECIPIENT CERTIFICATION

We are providing this letter in connection with the Sub agreement Number _____ of FAROF 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 FAROF 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 FAROF 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 FAROF.

_____ Chief Executive Officer

_____ Chief Financial Officer

4.7.THE SUBGRANT MONITORING CYCLE

FAROF has the responsibility to ensure that the sub-recipient spends the awards in accordance with the donor's applicable laws and regulations and FAROF's internal policies and procedures on subrecipient management. This statement is true when FAROF, 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 noncompliance 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 noncompliance.

Percentage of Pass-Through Funding: The larger the percentage of program awards passed through, the greater need for FAROF 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 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 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. The office may also use tracing to verify any unusual incidents and to verify the expenditures reported to FAROF 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 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 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 office could not review a document in any other manner. When the circumstances do not allow the review or test of documentation, the 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 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. The 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.

4.7.1. Implementation and Monitoring Phase

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 – FAROF will develop and maintain a monitoring plan. One of the purposes of this manual is to assist 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 will 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 will be addressed with the subrecipient to verify that the corrective action was taken and any debt collected. Communication with the auditor could assist the 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 FAROF believes that the monitoring results’ noncompliance issues have been adequately addressed.

Accurate risk assessment is critical to the success of the office’s monitoring effort. As FAROF enters into financial assistance agreements with 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 FAROF. 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 onetime 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
- 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 FAROF program management and finance personnel
- Finance or Grant staff
 - Review FAROF 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
 - Ask subrecipient and/or FAROF 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.

FAROF 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 sub agreements. Subrecipients should comply with the organization-wide or program specific audit requirements. FAROF 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 sub agreement budget.

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.

FAROF's subgrant monitoring policies also make this distinction.

As noted under Chapter II on "Who is Responsible for What?", FAROF 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 FAROF. FAROF will be leading the effort of putting to closure all outstanding issues.

The case of ensuring compliance with OMB Circular A-133 is quite different. Coordination at subrecipients' and FAROF's headquarters is necessary.

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 FAROF'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 FAROF 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

FAROF as a pass-through entity shall perform the following:

1. Consider whether subrecipient audits necessitate adjustment of FAROF's own records.
2. Require each subrecipient to permit FAROF and FAROF's auditors to have access to the records and financial statements, as necessary.

Note: FAROF's or FAROF designated auditor's access to the subrecipient's records pertaining to the subaward is a standard subagreement condition.

4.7.2. Management decision

FAROF 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 will be given. Prior to issuing the management decision, FAROF 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 FAROF 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.

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
14. Special Tests and Provisions

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.

Each U.S. federal program has specific activities that are allowed or that may be unallowed. 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 organization 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 sub-recipients 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 sub-recipient.
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 sub-recipients assessed as medium risk:

In addition to activities outlined above for low risk sub-recipients:

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 sub-recipients assessed as high risk:

In addition to activities outlines above for low and medium risk sub-recipients:

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.

4.7.3. Cost Principles

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:

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 FAROF 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 sub-recipients 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 sub-recipient.
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 sub-recipient if their rate has been determined in accordance with the applicable cost principles and has been audited by a CPA firm.

For sub-recipients assessed as medium risk:

In addition to activities outlined above for low risk sub-recipients:

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 sub-recipient'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 sub-recipients assessed as high risk:

In addition to activities outlined above for low and medium risk sub-recipients:

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

4.7.4. Cash Management

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 FAROF. 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.

FAROF is charged with the responsibility of reviewing the cash needs of subrecipients that receive advances every three months.

Suggested Monitoring Procedures:

Since the 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 office required to monitor cash management. When such an advance is requested, FAROF will 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

4.7.5. Eligibility

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 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.

4.7.6. Equipment

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.

4.7.7. Matching, Level of Effort and Earmarking

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 FAROF is expressed as a percentage, e.g., for every \$1 spent, the subrecipient must spent 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 of effort and earmarking requirements that apply to each funding source are identified in grant documents, allocation letters, contracts, and U.S. federal regulations. FAROF must be especially proactive in taking steps to ensure that 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

4.7.8. Award Period

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

4.7.9. Procurement

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:

In addition to procedure outlined above for low risk subrecipients:

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 FAROF and that open competition is encouraged in procurement.

For subrecipients assessed as high risk:

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

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.

4.7.10. Program Income

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 FAROF.

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

When the funding agreement between FAROF 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 FAROF. At FAROF's discretion, FAROF 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.

4.7.11. Real Property Acquisition and Relocation Assistance

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.

FAROF 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.

4.7.12. Reporting

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 A133 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 sub-recipients 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 sub-recipients assessed as medium risk:

In addition to the procedures outlined above for low risk sub-recipients:

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 sub-recipients assessed as high risk:

In addition to the procedures outlined above for low risk sub-recipients:

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.

4.7.13. Sub-recipient Monitoring

Just as FAROF is responsible for monitoring subrecipients, FAROF's subrecipients that serve as pass-through entities to 2nd tier subrecipients are required to perform subrecipient monitoring. FAROF'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.

4.7.14. Special Tests and Provisions

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.

Amendment to Sub agreements

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

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 sub agreement period
 3. The need for additional funding.
 4. FAROF 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 FAROF/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 incharge.
 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 FAROF). 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 FAROF's review of the proposed amendment.
9. Within thirty (30) working days from the date of receipt of the request for budget revisions, FAROF 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, FAROF shall inform the subrecipient in writing of the date when the decision will be made.
 1. The Program Officer managing the sub agreement will closely coordinate with the subrecipient to ensure timely submission of the final program and financial report due to

FAROF. Final program and financial reports will be finalized and submitted within the due date indicated in the sub agreement and after all award activities have been terminated.

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

3. FAROF 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 sub agreement should be checked for specific procedures, and all property should be retained, returned, sold or donated in accordance with the sub agreement.

5. If an audit is required and the final audit has not been performed prior to the closeout of an award, FAROF 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 Sub agreement 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 will submit the Subrecipient Certification (equivalent to the Representation Letter that FAROF provides to our external auditors) within thirty (30) days upon receipt of the Closeout letter from FAROF. Please refer to Attachment 9 for the Subrecipient Certification Template.

4.7.15. SUBRECIPIENT CERTIFICATION

We are providing this letter in connection with the Subagreement Number _____ of FAROF 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 FAROF 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 FAROF 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 FAROF.

_____ Chief Executive Officer

_____ Chief Financial Officer

4.7.16. Adjustment and Continuing Responsibilities of Subrecipient after Closeout

The organization will ensure that the subrecipient is aware of potential subsequent adjustments and its continuing responsibilities after the closeout.

The closeout of a sub agreement does not affect any of the following:

1. The right of FAROF 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 FAROF

After closeout of a sub agreement, a relationship created between FAROF 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.

5.0. Chapter IV

The Financial System, Accounting Requirements and Records Management/Retention

Section A: Accounting System for Subgrant Activities

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).

FAROF will 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.

Section B: Records Retention

A. Records Retention Policy Applicable to FAROF 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 FAROF.

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 FAROF NICRA rate. FAROF 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. FAROF’s Internal Retention Policy as Applicable to Programs with Subaward Component

The organization will retain program and financial records such as the original sub agreement, 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 FAROF 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 FAROF to keep them for a longer period.

B. Records Retention Policy Applicable to Subrecipients

FAROF will require subrecipients to retain program and financial records pertaining to the subaward for a period of five (5) years after FAROF 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.

Section D: Subagreement Files

FAROF will maintain a file/folder (whether electronic or hardcopy) for every single sub agreement.

Below is our recommendation on how to classify each document within the sub agreement 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

- FAROF’s monitoring documentation
- Subrecipient narrative reports
- Subrecipient financial reports
- Audit reports and related follow up

D. General correspondences

E. Closeout Folder

Appendices

A. Useful Website Links

B. Sample Forms / Templates

f Sample Letter - Declining Subrecipient Funding

f Letter of Agreement – Pre authorization

f Sample Letter – Approval of Subgrant Expense Reports and Request for Cash Advance

f Certification Regarding Implementation of Executive Order 13224 Under AAPD 04-14 (Terrorist Financing)

C. Sample Monitoring and Risk Assessment Tools

Appendix A: Useful Website Links

Standard Provision for U.S. Based NGOs <http://www.usaid.gov/policy/ads/300/303maa.pdf>

Standard Provision for non-U.S. Based NGOs <http://www.usaid.gov/policy/ads/300/303mab.pdf>

22 CFR 226 http://www.access.gpo.gov/nara/cfr/waisidx_04/22cfr226_04.html

OMB Circular A-122 http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html

ADS 303 <http://www.usaid.gov/policy/ads/adsbooklet.pdf>

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
http://www.whitehouse.gov/omb/circulars/a133_compliance/04/pt3.pdf

Part 6: Internal Control http://www.whitehouse.gov/omb/circulars/a133_compliance/04/pt6.pdf

Guidelines for Financial Audit Conducted by Foreign Recipients
<http://www.usaid.gov/policy/ads/500/591maa.pdf>

Generally Accepted Government Auditing Standards (GAGAS)
<http://www.gao.gov/govaud/yb2003.pdf> (file size: 5365KB, 202 pages)

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 of Subrecipient Organization Address

Reference: RFA No. _____ Letter of Agreement - Pre authorization _____
Program

Dear _____

FAROF, 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 FAROF and _____, but no later than _____. Upon receipt of this signed Letter of Agreement from _____, FAROF 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 FAROF Administrator for this Letter of Agreement will be Mr./Ms. _____. All requests for changes in this Letter of Agreement will be sent to the FAROF Administrator.

By signing the letter, FAROF, 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 FAROF Administrator.

If you have any questions, please contact _____. We look forward to working with you on this program.

Sincerely,

CEO, FAROF

ACCEPTANCE SIGNATURE _____ Name
Date

Cc: FAROF, Competitive Bids Unit FAROF, 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