Advance Payment, Liquidation/ Reimbursement, and Reporting for Assistance Agreements

A Mandatory Reference for ADS Chapter 636

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I. OVERVIEW

The purpose of this reference is to provide mandatory and non-mandatory guidance, as well as best practices related to advance payment, liquidation/ reimbursement, and reporting procedures. This guide applies to agreements applicable per **ADS 636.3.1**. When circumstances dictate, as outlined in this guide, Mission Directors, Agreement Officers (AOs), and Agreement Officer Representatives (AORs) must be informed. Where issues rise to a level at which a debt to the U.S. Government is established, payment stations must follow **ADS 625, Accounts Receivable**. Operating Units may make modifications to these procedures to accommodate unique workflows and/or circumstances.

NOTE: This mandatory reference is applicable to grants with payment/advance methods not under Letter-of-Credit (LOC).

II. REGULATIONS

Treasury Regulations:

Treasury Financial Manual (TFM) Vol. 1, Part 4A, 2045.10—Cash Advances – Establishing Procedures for Cash Advances (Dec 2012)

It is the responsibility of grantor agencies to monitor the cash management practices of their recipient organizations to ensure that Federal cash is not maintained by them in excess of immediate disbursing needs. Agencies must establish systems and procedures to assure that balances are maintained commensurate with immediate disbursing needs, excess balances are promptly returned to the Treasury; and advance funding arrangements with recipient organizations unwilling or unable to comply are terminated.

Procedures established by agencies should:

- *Specify that all contractual arrangements with recipient organizations provide that advance payments will be made only at times and in amounts necessary to meet immediate disbursing needs. This figure is calculated by the agency and should be reviewed quarterly. Agencies should conduct independent annual reviews of the balances to ensure only amounts necessary to meet immediate disbursing needs are maintained. The results of the review should be shared with Treasury.*

- *Monitor recipient organizations, and base evaluations on cash payments and not on accrued liabilities.*

- *Require, except where specifically prohibited by law, all interest earned by recipient organizations on advances from Federal funds be remitted to the agency. The agency will promptly return the funds to the Treasury.*

- *Immediately upon determination that an expenditure of advance funds is disallowable in accordance with the contractual arrangement, the agency should notify the recipient and require the return of such funds. Under no circumstances should funds be returned more than 30 days from the date of the notification by the agency.*

Office of Management and Budget (OMB) Regulations:

See: **Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, 2 CFR Part 215** (OMB Circular A-110).

Also, see **2 CFR 200.3, Advance Payment; 2 CFR 200.305, Payment; and 2 CFR 200.34, Expenditures** which will become effective on December 26, 2014.

III. PROCEDURES

Advance Payments

Upon receipt of an **SF-270**, **SF-1034**, or **SF-425** request for advance from a recipient, the Voucher Examiner verifies that the advance payment request is in accordance with the method of payment stated in the assistance agreement and whether the appropriate approvals and documentation adequately support the request. (See **ADS 630.3.10.2, Voucher Examiner Responsibilities**, for additional guidance)

Requests for advance payments may be submitted as follows:

(1) Every 30 days covering a 30-day period;

(2) Three requests may be submitted covering 30-day sub-periods of a 90-day period to be paid automatically every 30 days; or

(3) One request for 90 days may be submitted to be automatically disbursed in 30-day equal increments.

See: **ADS 303maa, Standard Provisions for U.S. Non-governmental Organizations** and **ADS 303mab, Standard Provisions for Non-U.S. Nongovernmental Organizations, RAA1**.

Per **ADS 636.3.3.1, Amount Limitations**: USAID procedures allow for *"3-month rolling advances" which is an optional procedure that allows a recipient to simultaneously submit three advance requests covering 30-day sub-periods of a 90-day period for payment just prior to the beginning of each month. This allows for the maintenance of cash flow to the recipient while at the same time limiting the available cash to the recipient to immediate cash needs as required by Treasury's cash management policy.*

For an example of how a "rolling advance" method of payment is included in a recipient's agreement, see **ADS 636saa, Managing Program Advances for Non-U.S. and Non-Governmental Recipients**, which outlines the process for grantees in submitting liquidation vouchers within 120 days.

Generally, advance payments or any portion of an advance payment not liquidated within 150 days (120 days for voucher submission plus 30 days for processing) is considered delinquent. A documented rationale from the Agreement Officer (AO)/Agreement Officer Representative (AOR) and approval by the Controller for Missions, or Chief of M/CFO/CMP for Washington, must support any exception.

The Voucher Examiner must:

- Run a detailed Phoenix or Phoenix Viewer obligation report and verify that the Excel advance/liquidation/reimbursement tracking workbook (the Excel tracking workbook is an optional method based on individual operating unit requirements) is up to date for all transactions, posted and pending (**Phoenix Worksheet**). Verify that sufficient "*undisbursed funds"* (total obligation less actual liquidation/reimbursement and outstanding advances) exist to make the advance request payment. Missions may use worksheets tailored to their local needs provided that proper internal controls exist to enforce compliance with the agreement terms as well as U.S. Treasury cash management regulations.

- Run the Phoenix Viewer advance aging report for the individual agreement, append it to the Excel tracking worksheet (Excel tip: while both workbooks are open, right click the tab on the advance aging workbook to copy it, select the tracking workbook, then click copy), and perform the following for active awards: verify if the advance balance or any portion thereof is outstanding beyond the allowed period. If so, the Voucher Examiner verifies if liquidation vouchers are in process and if so deducts those amounts from the advance balance, typically, and then reexamines the aging of the advance balance. If there is no overdue advance balance, proceed to the next bullet. If overdue advance balance amounts exist, discuss with the AOR and determine whether to (1) process a full or partial advance request with written justification by the AOR or (2) withhold the advance payment. Once overdue balance amounts are resolved, process the advance or balance thereof.

- In order to avoid the release of excess funds for agreements close to or at expiration or termination, any amounts to be advanced must be for only that amount required by the recipient for disbursements up to the termination date of the agreement, as well as for other planned disbursements post termination date provided the agreement allows for post termination costs (i.e., employee severance costs, audit costs, etc.), regardless of whether the undisbursed amount is greater. Prior to providing additional advances, care should be taken to ensure liquidation vouchers will be received for existing advance balances.

- Verify that the amount requested is within recipient's "*immediate disbursing needs"* which is defined as in general by USAID policy as up to 30 calendar days (see **ADS 636.3.3.1**) but stated specifically in each grant agreement. To determine if the amount represents immediate needs, calculate the "burn rate," which is an average amount spent by the entity over a period of time (i.e., average monthly rate during a 3-month period). If the request is significantly greater than the burn rate, consult with the AOR prior to making the advance payment. (Note: Burn rate calculations may not be an accurate predictor of future spend rates and should be corroborated (and amended as necessary) through discussions with the AOR/COR. All deviations from the calculated burn rate must be documented.) Amounts greater than 30 days are allowed if included in the agreement and/or a written approved waiver exists per **ADS 636, Program Funded Advances**. Note that because waivers generally cover a temporary period, care should be taken to grant advances greater than 30 days only during the waiver period and in accordance with the waiver instructions.

- Review the vendor code information and requests updates, if necessary.

- Upon completion of the advance voucher examination and determination of the amount to be advanced, process the payment to the recipient and update the tracking workbook.

Liquidations / Reimbursements

Payment stations must ensure that outstanding advances for assistance agreement recipients are monitored on an on-going basis to ensure funds advances are not in excess of immediate disbursing needs (see **ADS 636.3.3.2, Excessive Advances/Periodic Review of Requirements**).

On a monthly or quarterly basis, and in accordance with the terms of the agreement, the Voucher Examiner must:

- Track recipient SF-1034 or SF-425 liquidation/reimbursement submissions (processed and pending), as well as ensure that submissions are accompanied by financial reports showing actual expenditures incurred. Per **ADS 303mab, Standard Provisions for Non-U.S. Nongovernmental Organizations, RAA1**, failure to provide these monthly or quarterly reports may result in the suspension, disruption, or termination of additional payments.

- If liquidation vouchers are due and have not been received by the recipient, follow up with the recipient by email or other appropriate written communication method. It may be appropriate to copy the Supervisory Voucher Examiner, Authorized Certifying Officer (for Missions), Chief Accountant, and/or AOR outlining the advance balance status and highlighting overdue amounts. Advise the recipient that pending or future advance requests are subject to reduction and/or postponement until the required liquidation voucher(s) covering overdue advance balances is (are) submitted to the USAID Paying Station. Where serious issues exist, notify the applicable Agreement Officer (AO) or Mission Director and forward to him/her a copy of the communication sent to the recipient. Written communication to the recipient regarding past-due liquidations should occur at least every 30 days until resolved. Where advance balances appear to have become uncollectible (i.e., a defunct entity), follow the procedures in **ADS 625, Accounts Receivable and Debt Collection**.

If an advance balance held by a recipient is deemed to be excessive (see **ADS 636.3.3.2**), meet with the AO and determine the appropriate course of action (i.e., withholding future advance payments until the existing balance becomes current and/or requesting that the recipient return the excess portion to USAID). This generally involves the Financial Analyst, who assists in determining whether the recipient has spent the cash and has simply failed to submit liquidation vouchers, or the recipient has idle cash in his/her bank account and hence is able to return funds to USAID.

- Agreement Expiration/Termination – Financial Management staff should perform pre-expiration/termination steps with the AO, AOR, and recipient to outline remaining financial management matters. In accordance with the terms and conditions of the award and the appropriate standard provisions, recipients must submit all required financial reports within the time specified in the award following the award expiration date. The recipient must submit the final financial report within 90 days following the expiration of the award or in accordance with the terms and conditions of the award using the SF-1034 or SF-425 showing total disbursements, total advances received, and any cash remaining on hand, which the recipient must refund to USAID (see below for procedures related to final vouchers related to final indirect cost adjustments). When the award expires, the recipient must immediately return all unexpended funds that USAID has advanced to the recipient, unless such advanced funds have already been spent or committed in a legally binding transaction during the period of this award, or are required for approved close-out costs. At any time, USAID reserves the right to (1) withhold or offset payments to, or (2) require refund by the recipient of any amount that the recipient did not spend according to the terms and conditions of this award or that is otherwise determined by the Agreement Officer to be unallowable. USAID retains the right to a refund of all amounts paid under this award until all outstanding audit findings and settlement claims have been resolved between USAID and the recipient. Financial management staff must provide Instructions to the recipient on how to refund the excess amounts. Where unused advance balances are large and/or the recipient is U.S.-based, the preferred method of refund is via wire transfer to USAID's account at the New York Federal Reserve Board (NYFRB). Instructions are on the **USAID CFO Web site** for the Central Accounting & Reporting Division (M/CFO/CAR). If CFO does not receive the voucher by the due date and advance balances exist, a debt to the U.S. Government is deemed to exist. At that point, follow the procedures outlined in **ADS 625, Accounts Receivable and Debt Collection**. Issue a formal Bill for Collection for the outstanding advance balance.

- Agreements with Indirect Cost Rates – Voucher Examiners must maintain contact with the Agreement Officer (AO) through the formal close-out. M/OAA/CAS in Washington and AOs in the Missions are responsible for ensuring final indirect cost audits are completed and recipients are informed of the final indirect costs allowed and the resulting final adjustment. The audit may result in an additional payment due from the recipient to USAID or vice versa. The USAID agreement close-out officer prepares a final Negotiated Indirect Cost Rate Agreement and sends it to the recipient. The recipient then prepares a close-out letter to USAID and includes the signed agreement, the USAID Release Form and payment (via electronic funds transfer or check per the final negotiated agreement) or a final SF-1034 or SF-425 Voucher (in the event USAID owes a final payment to the recipient). Agreement Officers (AOs) may ask Controller staff to play a role in ensuring that the final amount received/paid is the amount that brings all payments equal to the total indirect costs per the final negotiated agreement.

Sub-Recipients

Cash advances made by the recipient to subrecipients or the recipient's field organizations must substantially conform to the same requirements as those applicable to USAID prime recipients. In the case of interest earned on advances, any interest over $250 per account, per year must be remitted through the prime recipient.

See: **22 CFR 226.22 Payment for U.S. Nongovernmental Organizations** and **ADS 303mab, Standard Provisions for Non-U.S. Nongovernmental Organizations, RAA1(i)**.

Interagency Agreements (ADS 306)

Department of the Treasury Interagency Agreement Guide

> *A requesting agency obligates funding at the time of the execution of the IAA. The advance pay scenario may be used in the case of assisted acquisition to cover the full amount of the anticipated contract obligation where the servicing agency requires the funds on hand in its financial system prior to obligation.* ***Advances should be limited in usage and requested only***

> ***when a business need exists for an advance in order for the seller to execute an order.*** *The servicing agency will process an IPAC transaction to transfer funds prior to entering into a contract obligation. Advance payment will often be based on estimates, which will require subsequent adjustments up or down when the actual costs are known. Reports of actual expenses are forwarded to the Contracting Officer's Representative (COR)/Point of Contact (POC) for approval, then posted in the financial system to draw down the advance. Any excess should be promptly returned to the requesting agency. Retention of the excess amount by the servicing agency is an improper augmentation of funds.*

Department of the Treasury Reimbursables Management Processes

> ***Federal IAAs employ a limited use of advances and must be supported by a Seller's business need that identifies the advance as necessary (the Seller's business preference is not a legitimate justification)****. The Seller must identify and document the business need to request an advance in the IAA General Terms and Conditions. The advance amount and payment dates should be indicated in the General Terms and Conditions. Seller agencies should work to reduce advances where possible and plan ahead for sufficient cash balances to execute planned agreements.*
> ***Note:*** *The business need for the advance and payment dates for the advance may be provided as attachments to the IAA Standard Form, which does not include fields specifically identified for these purposes.*

Reporting

At minimum, on a quarterly basis, or more frequently as deemed necessary, paying station supervisors, or their designees, must run the Phoenix Viewer "Outstanding Obligation Advance Aging" report for their operating unit and client locations if applicable. It is recommended that advance aging reports be tailored for individual payment station needs and saved using the Phoenix Viewer "Saved Queries" function to facilitate and expedite the running of the reports on a regular basis.

- The Phoenix Viewer advance aging report may be tailored/sorted by location (i.e., for regional paying stations), by recipient or type of recipient, by type of agreement, etc. (**ADS 636maa1, Aging Report**)

- The advance report must be aged at minimum by "Days Past Due – Month Increment." The report may be further sorted/aged by "Days Past Due" within the months. The report must further be sorted/aged by "Years Past Due" for those advances one or more years old (**ADS 636maa1, Aging Report**).

For any outstanding advances exceeding the due date, a written description must be provided indicating the most recent collection actions taken, including the date of the most recent written communication to the recipient, as well as bills for collection issued.

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