



Building A Cycle of Trust

FINANCIAL MANAGEMENT COLLABORATION
BETWEEN CRS AND OUR PARTNERS

TRANSPARENCY IN ACTION

For more than half a century Catholic Relief Services (CRS) has demonstrated a successful model for working with other organizations serving poor and vulnerable people in more than fifty countries. This approach is at the forefront of our belief in building strong local institutions to allow people access to quality and sustainable services to help them to achieve their potential. We believe strongly that our partnership collaborations with other organizations in the twin domains of management quality (MQ) and program quality (PQ) form the foundation of this approach.

In the MQ area of financial management our collaborative work with our partners is part of a cycle of trust to fulfill our legal responsibility to our donors and our common obligations to those we serve. When we receive money or goods from any donor and give them to one of our partners, we always have an obligation to understand exactly how those resources are being used. In turn, these collaborations also benefit our partners by helping their staff to meet the needs of communities, understand all the donors' compliance rules, and then to adopt the financial management procedures and tools that are necessary for compliance. It is the goal of CRS' capacity strengthening that each of these collaborations will be an opportunity for a partner organization to demonstrate a high level of fiscal responsibility, transparency, and technical capacity that meets the needs of project beneficiaries and the standards of large institutional donors like USAID, The Global Fund, the European Union and private donors like the Bill and Melinda Gates Foundation. Finally, we want all our partners and donors to know that CRS' financial management policies were developed over many

QUICKFACTS (FY 2014)

Total number of sub-recipient organizations	1,105
Total funding to sub-recipients	\$222 million

years working with over a thousand partner organizations in all areas of the world. The most senior and experienced employees of CRS have contributed to these policies after careful consideration of lessons from work with partners and donors. CRS' financial management policies have also been accepted by all our major donors in the United States and in Europe, along with our sister organization, Caritas Internationalis.

But how exactly is this cycle of trust fulfilled? Our policies require us to put the main financial management obligations in a formal agreement between CRS and every partner. These obligations can be summarized in three main areas:

FINANCIAL ASSESSMENTS

Before an agreement is signed with any partner, our policies say we must work closely with the staff of that organization to identify what kinds of financial policies and procedures are already in place. For example, CRS' accountants must get an in-depth understanding about how bank reconciliations are prepared. Then they will go even further to check if recent bank reconciliations are accurate, were completed on time, and were likely reviewed by a supervisor. Where improvements are needed to meet the donor's compliance standards, we must ask our partners to draft an action plan which we

call an “Internal Control Improvement Plan” (ICIP). Our policies require our partners to implement the ICIP within 180 days after a concern has been identified so that we can assure our donors that their resources are in good hands. Whenever necessary our staff are dedicated to work side-by-side with partner staff to help them make changes in their business practices and technical competencies, helping them become more compliant, sustainable, and resilient organizations.

At a *minimum*, CRS expects the following basic financial management mechanisms to be in place at every partner that receives funding from us:

- **An authorization chart, indicating who is authorized to approve commitments, disbursements, and other financial transactions and to sign checks**
- **A formal chart of accounts**
- **A single general ledger maintained in accordance with double-entry accounting disciplines and with an audit trail**
- **Cashbooks for recording all cash transactions and running balances for cash-on-hand funds**
- **Standard journal entry forms or voucher documents that are used for recording all financial transactions**
- **The appropriate documentation to support each financial transaction, including timesheets signed by employees and approved by their supervisors for all salaries and wages charged to CRS’ projects**
- **A planning process that provides detailed reliable and realistic estimates of the organization’s annual operating budgetary needs, as well as its estimated cash flow, capital expenditures, and project spending.**
- **An internal control system that provides for complete segregation of duties or that has compensating controls if duties cannot be fully segregated**
- **Secure filing systems that allow for easy, complete retrieval of financial documents**

Our policies usually require us to review our partners’ financial policies and procedures about once a year. (Or every two years for strong U.S.-based organizations that are also being audited annually under the U.S. Government’s A-133 regulations.)

FINANCIAL REPORTING

Accurate and timely financial reports are the cornerstone of CRS’ financial relationship with our partners. According to the specific requirements of our policies, most of our partners must submit a set of financial reports to CRS every month. Our policies state that reporting to us should include:

- **Actual expenses for the report period**
- **Budgeted expenses for the report period**
- **Actual expenses for the fiscal year-to-date**
- **Budgeted expenses for the fiscal year-to-date**

- **Actual expenses from inception of the project**
- **Budgeted expenses from the inception of the project**
- **Advances received during the report period**
- **Cash returned to CRS during the report period**
- **Current advance balance for this project per the subrecipient’s records**
- **A separate section to be filled out by CRS that reconciles the subrecipient’s ending balance to that per CRS’ records**

When we receive these reports from our partners, CRS will issue the funding according to a regular schedule. If we do not receive complete and accurate financial reports from a partner, our policies say that we cannot issue any new funding to the organization until the problems have been resolved. In these situations, we will support partner organizations to identify the underlying causes for the problems, and, as needed, assist in resolving them.

FINANCIAL MONITORING VISITS

Our policies say that CRS’ accountants are required to make regular visits to our partners’ offices to perform detailed reviews of the files that were used to prepare the financial reports that were submitted to us. These visits are not audits. At CRS we view these monitoring visits as an integral part of ongoing relationship strengthening efforts and as occasions for mutual learning about how to satisfy the financial management rules of donors.

Our policies require that these monitoring visits take place quarterly for most partners. The frequency of these visits is determined by the results of the latest financial assessment of the partner. Our partners can help make this process go smoothly by always keeping files in good order and by following all of their financial policies and procedures. Often, these visits are made jointly by CRS finance and program staff, assisting partner staff to support project beneficiaries, achieve donor intent, and meet specific financial obligations.

Most of the time our partners’ accounting files are acceptable. However if there are unsupported expenses, we will ask our partners to submit additional documentation or more comprehensive explanations. Additional verification efforts might be necessary on CRS’ part to ensure that the expenses are allowable and properly documented according the donor’s rules. If any unallowable expenses are discovered, we will ask the partner to reimburse CRS and, in turn, we will reimburse the donor.

For more information about the CRS Sub-Recipient Financial Management Policy, please contact the local CRS Country Representative or an employee of the CRS Office of Finance in Baltimore, Maryland, U.S.A.