

Due Diligence Assessment-Development

Instructions

Background

The Due Diligence Assessment is conducted to determine if a sub-recipient has sufficient technical capacity and systems in place to implement CARE sub-agreements in accordance with the requirements of CARE and its specific donor.

The assessment is used to **establish a risk rating** (e.g. low, medium or high) for each sub-recipient. The risk rating in turn is used to identify which 'special conditions' (or financial and administrative requirements) must be stated in the sub-agreement document with the particular sub-recipient. The assessment is also used to **inform a capacity building plan** for the sub-recipient to address any gaps identified during the process.

As the Due Diligence Assessment requires considerable resources, it is **only conducted with short-listed sub-recipients**, in other words sub-recipients who have met the Minimum Eligibility Requirements.

The Due Diligence Assessment is **not the same as an 'Organizational Capacity Development assessment'**. If such an assessment is warranted, for example because an objective of the specific project is to build capacity, effort should be made to combine the Due Diligence and the Organizational Capacity Development assessments.

Objective

The objective of this tool is to assist CARE staff to:

- Develop context specific tool(s) for collecting data on sub-recipient risk.
- Design an objective system to assign a risk level (low, medium or high) to each sub-recipient assessed.
- Determine how, specifically, the data will be collected; and
- Identify who, specifically will be responsible for data collection

Tasks

1. Review the <Due Diligence Assessment-Example> provided below and **determine specifically which factors will be assessed**.
 - While this example contains the minimum set of factors for all donors, and it is strongly advised that all listed factors be included in your assessment, some small community-based organizations may not have all systems in place. In such cases, factors related to these non-existent system may be deleted.
 - When working with large international NGOs, additional factors or more complex systems may be required. Refer to the specific agreement with the donor and develop additional factors, as needed.
 - For many projects, specific technical experience is required of the sub-recipient. If these requirements have not already been evaluated in the short-listing process (i.e.

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by establishing them as part of the Minimum Eligibility Requirements), technical sectors must develop specific factors to be assessed.

- Any Minimum Eligibility Requirements that have not been fully evaluated or verified during the short-listing process should also be added as factors for assessment during due diligence.
 - A due Diligence Assessment is time consuming for CARE and disruptive for the sub-recipient. Make every attempt to keep the number of factors to be assessed to a minimum. Keep in mind, the focus of this assessment is to determine the likelihood that a sub-recipient will be able to complete all requirements of the sub-agreement (including the Scope of Work) – so that measures to avoid problems can be established at the onset. The focus of the assessment is NOT to learn everything about a specific organization.
2. **Design a numeric scoring system.** Prioritizing and assign 'weight' (i.e. a numeric score) to each statement used to assess each factor. Keep in mind, a statement that describes full compliance is always scored '0'. The higher the score, the more risk. Maximum total overall score should add up to no more than 100.
 3. **Determine how each factor will be assessed.** specifically how data on the factor will be collected. Keep in mind there are two <general> methods of assessment.

Basic assessment: does not involve visiting the potential sub-recipient's office. It is done by:

- Asking sub-recipients to respond to a CARE-developed questionnaires.
- Obtaining information from sub-recipient's 'references', or from donors or other agencies who have had a working relationship with the sub-recipient.
- Interviewing CARE staff with knowledge of or experience working with the sub-recipient.
- Obtaining and reviewing copies of the sub-recipient's:
 - a. Written policies and procedures manual(s)
 - b. Description of accounting system
 - c. Organizational charts
 - d. Job descriptions or equivalent
 - e. Auditor's reports

Expanded assessment: requires carrying out the basic assessment steps and also visiting the sub-recipient's office to more fully assess the organization's financial, administrative and programmatic capability, facilities, etc. Procedures include:

- Interviewing personnel
- Observing operations, and
- Testing the sub-recipient's most important internal controls.

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- At this point also determine if the assessment team will need to record the specific evidence examined or name of the individual interviewed to assess each factor.
 - Keep in mind it may be necessary to design two separate 'tools' (or formats): one to include all factors assessed through a 'desk review' and the other containing factors to be assessed through interviews or inspection of systems at the sub-recipients office.
 - Wherever possible, the information should be triangulated (collected from at least three sources) to ensure objectivity.
 - Record the rationale for selecting the method(s).
4. Determine who will conduct the Due Diligence Assessment. Identify the skill set needed for Assessment Team members, that is to say the assessment of some factors may require staff trained in finance, while others will require program staff trained in the specific technical area of the proposed sub-agreement..
5. Ensure that the finalized tool(s) for data collection contains space for:
- Name of Organization being assessed.
 - Name(s) and signature(s) of CARE staff member conducting assessment.
 - Name(s) and signature of senior officer(s) from organization being assessed.

Due Diligence Assessment-Example

Instructions:

Read all statements under each heading and place a check mark next to the statement which best describes the organization. Unless otherwise instructed, check only one box under each heading.

After checking all appropriate statements in a SECTION, add up the score corresponding to the checked statements and place that number in the box labeled '**Total Score**' for that section.

SECTION I. Inherent Risk

1. **Dollar Value of Proposed Sub-Agreement** (exposure due to the size of this proposed sub-agreement).

Score

- ___0 0 - \$10,000
___1 \$10,001 - \$50,000
___2 Over \$50,001
-

2. **Complexity of Funding**

Score

- ___0 Funding is relatively simple in terms of allowable expenditures and documentation required.
___1 Funding is moderately complex in terms of allowable expenditures and documentation required.
___2 Funding is very complex in terms of allowable expenditures and documentation required.
-

3. **Security** (exposure due to the security or political climate of the country)

Score

- ___0 Relatively stable
___1 Somewhat risky
___2 High risk
___3 Closed society/hostile factions
-

4. **Additional Considerations** (exposure due to other considerations the Reviewer is aware of)

Score

- ___0 No additional considerations which may affect the sub-agreement
___1 2 3 4 Additional considerations (communication difficulties or satellite offices or activities) which may affect the sub-agreement are: (Please describe the situation and circle the appropriate score).
-



TOTAL SCORE FOR INHERENT RISK

Due Diligence Assessment-Example

SECTION II. Staffing

1. **Staff Qualifications**

Score

- ___0 Staff in key positions is professionally trained in program area being funded and have one or more years experience in that position.
- ___1 At least half of staff in key positions are professionally trained in program area being funded and have some experience.
- ___2 Staff in key positions have little or no experience or training in program area being funded.
-

2. **Management Turnover (exposure due to frequent management turnover)**

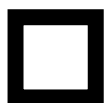
Score

- ___0 There have been no changes in key positions for the past 12 months.
- ___1 There is a new staff or a vacancy in 1 or more key positions.
- ___2 There are new staff or vacancies in the senior Finance or Administration positions.
-

3. **Additional Considerations (exposure due to other considerations the Reviewer is aware of)**

Score

- ___0 No additional considerations which may affect the sub-agreement
- ___1 2 3 4 Additional considerations which may affect the sub-agreement are: (Please describe the situation and circle the appropriate score).
-



TOTAL SCORE FOR STAFFING

Due Diligence Assessment-Example

SECTION III. Past Performance

1. **Organization's Technical Experience** (exposure due to the organization's lack of experience)

Score

- ___0 Organization has a successful history of work in the specific technical area.
___1 Organization is relatively new or is an offshoot of an experienced organization.
___2 Organization is new and inexperienced.
-

2. **Experience with CARE**

Score

- ___0 Organisation has met program objectives specified in an MOU/contract/funding agreement through CARE for 2 or more years.
___1 Organisation has met program objectives specified in an MOU/contract/funding agreement through CARE for less than 2 years.
___2 This is the first year the organization will work with CARE (no basis for evaluation)
___3 Program compliance history with CARE includes weaknesses in service delivery/program objectives.
-

3. **Experience with Sub-Agreement Management**

Score

- ___0 The organization has implemented a prior sub-agreement, through CARE, funded by the specific donor.
___1 The organization has implemented a prior sub-agreement, through another INGO, funded by the specific donor.
___2 The organization is receiving a sub-agreement funded by the specific donor for the first time.
-

4. **Prior Audit Finding**

Score

- ___0 No significant audit findings for the past two years.
___1 Minor audit findings with completed or pending corrective actions
___2 Material/significant audit findings within the past two years which relate to the organization's ability to administer a sub-agreement (i.e. deficiencies in reconciliation functions, sub-recipient monitoring, compliance with donor requirements, etc.) **OR** audit findings not resolved.

Due Diligence Assessment-Example

5. **Financial Reports (NOTE: Check ALL That Apply!)**

Score

- 0 CARE has no prior experience with the organization and / or has never required financial reports.
- 0 Financial reports are accurate, in the correct format, and submitted timely.
- 1 Financial reports are frequently submitted late, and contain errors and/or omissions
- 2 Financial reports are consistently submitted late (i.e. over two weeks of the due date) or contain significant discrepancies.
- 2 Organisation does NOT have a mechanism for review and follow-up on reports.

Additional comments:

6. **Narrative or Performance Reports (NOTE: Check ALL That Apply!)**

Score

- 0 CARE has no prior experience with the organization and / or has never required narrative reports.
- 0 Narrative reports are accurate, in the correct format, and submitted timely.
- 1 Narrative reports are frequently submitted late, and contain errors and/or omissions
- 2 Narrative reports are consistently submitted late (i.e. over two weeks of the due date) or contain significant discrepancies.
- 2 Organisation does NOT have a mechanism for review and follow-up on reports.

Additional comments:

7. **Additional Considerations** (exposure due to other considerations the Reviewer is aware of)

Score

- 0 No additional considerations which may affect the sub-agreement.
- 1 2 3 4 Additional considerations which may affect the sub-agreement are: (Please describe the situation and circle the appropriate score).



TOTAL SCORE FOR PAST PERFORMANCE

Due Diligence Assessment-Example

SECTION IV. Accounting Systems

1. Chart of Accounts

Score

- ___0 Organisation has a Chart of Accounts that allows for allocation, tracking and reporting of costs sufficient for CARE's donor reporting (i.e. account categories exist for separating CARE funds/expenses from others).
- ___2 Organisation has no system to consistently separate CARE funds/expenses from others.

2. Type of System

Score

- ___0 Organisation has a computerized accounting system to record transactions.
- ___1 Organisation uses a manual ledger system.

3. Bank Account

Score

- ___0 Organisation has a bank account in the name of the organization, OR payment will be on a cost reimbursable basis.
- ___2 Organisation cannot establish a bank account; cash must be maintained outside of a bank. (Note - such sub-agreements should have a special condition regarding cash management procedures.)

4. Cash Management

Score

- ___0 Written policies and procedures define cash handling (including advances and petty cash) AND staff are knowledgeable concerning the policies and procedures.
- ___1 There are no written policies on cash handling OR staff are not familiar with the policies and procedures.

5. Cashier

Score

- ___0 Organization has a staff member designated as cashier.
- ___1 Organisation has no dedicated cashier.
-

Due Diligence Assessment-Example

6. Budgeting (NOTE: Check ALL That Apply!)

Score

- ___0 Organisations's Finance unit is responsible for the preparation of, management and implementation of the annual budget.
- ___1 Little or no guidance material and instructions are available to provide direction to those preparing or revising the budget.
- ___2 No annual budget is prepared.
- ___1 There is no evidence that the budgeting process is integrated into annual implementation plans.
- ___3 There is no evidence that the actual expenditures are periodically compared to budgets.
-

7. Financial Reporting (NOTE: Check ALL That Apply!)

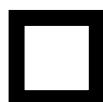
Score

- ___0 Accounts are close and reconciled monthly and a report is prepared.
- ___2 Accounts are NOT closed monthly OR a monthly report is not prepared.
- ___0 Accounts are closed and reconciled annually.
- ___2 Accounts are NOT closed and reconciled annually
- ___0 Annual financial report is prepared by a registered firm of auditors.
- ___2 Annual financial report is prepared by the organization.
- ___2 Annual financial report does NOT include a balance sheet.
- ___1 There is no evidence that the annual financial report is reviewed by the financial committee of the board.
- ___1 There is no evidence that the annual financial report is used for planning and review purposes.
-

8. Additional Considerations (exposure due to other considerations the Reviewer is aware of)

Score

- ___0 No additional considerations which may affect the sub-agreement.
- ___1 2 3 4 Additional considerations which may affect the sub-agreement are: (Please describe the situation and circle the appropriate score).
-



TOTAL SCORE FOR ACCOUNTING SYSTEM

Due Diligence Assessment-Example

SECTION V. Internal Control Procedures

1. Accounting System Controls

Score

- ___0 System of accounting appears to incorporate strong system of controls, including self balancing accounts (double entry), integrated system of accounts and the preparation of periodic financial reports.
- ___1-4 System of accounting indicates an average or weak system of controls. (assign a numeric score based on the strength of the system).
- ___5 System of accounting is not yet established - proposed accounting procedures describe a strong system of controls.
- ___6 System of accounting is not yet established - proposed accounting procedures describe an average or weak system of controls. (Follow up required for organizations with weak controls).

2. Sufficient Documentation

Score

- ___0 Vouchers, invoices, and timesheets (with appropriate supporting documents) are maintained for all payments.
- ___1-2 Circumstances may preclude maintaining vouchers, invoices, and timesheets (explain below). These circumstances, appear reasonable and should not pose a significant audit risk.
- ___3 Circumstances may preclude the maintenance of vouchers, invoices, and timesheets (explain below). These circumstances may pose a significant audit risk.
- ___4 Vouchers, invoices, and timesheets (with appropriate supporting documents) could NOT be located due to insufficient or non-existent filing system.

Spot check documentation and record all that apply in the table below.

	Are originals, i.e. not copies	Are pre-numbered	Are properly accounted for	Are approved/authorized	Are supported	Are properly recorded and filed
Cash receipts/ Disbursement vouchers						
Petty cash vouchers						
Invoices						
Timesheets		X				

Due Diligence Assessment-Example

3. Separation of Duties¹

Score

- _0 Approval, custody of assets, and recording of transactions are properly segregated.
- _1 Due to size, segregation of duties is not possible. Based on organization's circumstances, current procedures are deemed adequate.
- _2 Organization has weak system of segregation of duties.
-

4. Appropriate Supervision (NOTE: Check ALL That Apply!)

Score

- _0 Supervisors continuously review and approve the assigned work of their staffs.
- _2 There are insufficient numbers of staff to provide adequate supervision.
- _0 Management reviews performance reports.
- _2 There is no evidence that management reviews performance reports or performance reports are not written.
-

5. Controlled Access to and Accountability of Resources (NOTE: Check ALL That Apply!)

Score

- _0 Cash is kept in safe custody.
- _2 Unauthorized persons may have access to cash.
- _0 Surprise cash counts are conducted and documented.
- _2 There is no evidence of surprise cash counts occurring.
- _0 Procurement procedures are documented and being followed
- _2 Procurement procedures do NOT exist or there is evidence they are not properly followed.
-

¹ Segregation of duties controls include:

- The individual responsible for the cash receipts function does not sign checks or reconcile the bank accounts, and is not responsible for non- cash accounting records such as accounts receivable, the general ledger, or the general journal.
- The person receiving cash does not have the authority to sign checks and reconcile bank accounts and does not have access to accounting records other than cash receipts.
- Different individuals are responsible for purchasing merchandise or services, receiving merchandise or services, and approving vouchers.
- Different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts.
- Physical inventory and property inspection is segregated from daily control and custodianship.
- Staff members responsible for receiving property do not keep related financial records or have sole authority to approve the transfer, sale, or other disposition of property.

Due Diligence Assessment-Example

- ___2 Deliveries are not consistently verified as to price, quantity, quality and type
- ___0 Organisation has an up-to-date Fixed Assets Register
___2 A random sample of fixed assets reveals that not all assets are recorded in the fixed assets register
- ___0 Organisation has written inventory management procedures.
___0 Organisation has up-to-date inventory register
___2 Inventory register does not exist OR A random sample of fixed assets reveals that not all inventory is accurately recorded in the register.
- ___0 Access to critical forms, records, data files and equipment is limited to authorized staff.
___3 Access to critical forms, records, data files and equipment is NOT restricted to authorized staff.
- ___0 Assets and records are protected against physical harm.
___3 Insufficient measure are in place to protect assets and records i against physical harm.
- ___0 A mechanism to inform management of the existence of suspicious or illegal activities is in place.
___2 Management control methods are inadequate to investigate suspicious or exceptional activities or to take appropriate and timely corrective action.
-

6. Transaction Authorization

Score

- ___0 Organisation has written authority limit levels and designated staff to authorize transactions.
___2 There are no written authority limit levels OR no staff designated to authorize transactions.
-

7. Approval² of Transactions

Score

- ___0 Transactions are properly approved by persons having the authority to do so.

² Tasks undertaken as part of 'approval' include:

- Prior or related transactions are checked for conformity with transaction being recorded (for example, match invoice to purchase order)
- Amount of coded transactions are checked against source documents
- Transactions are processed on a real time basis
- Calculations, extensions, additions, and accounting classifications are independently reviewed.

Due Diligence Assessment-Example

- ___2 Transactions are not approved by persons having the authority to do so, or there are no established procedures for securing prior approval of transactions.

8. Sub-recipient Monitoring

Score

- ___0 The organization will NOT establish sub-agreements with second-tier sub-recipients.
- ___1 Sub-recipient monitoring procedures deemed above average.
- ___3-4 Sub-recipient monitoring procedures deemed average.
- ___5 Sub-recipient monitoring procedures deemed below average or organization has little or no prior experience monitoring sub-recipients.

9. Audit Coverage

Score

- ___0 Organization has regular (or recent) Government Auditing Standards Audits performed by an external auditor.
- ___1 Organization has regular (or recent) generally accepted auditing standards (or equivalent) audits performed by an external auditor.
- ___2 Organization does not have regular GAAS or GAGAS audits performed by an external auditor.
- ___3 Organization has never had an external audit.

-
10. Additional Considerations (exposure due to other considerations Internal Audit is aware of)

Score

- ___0 No additional considerations which may affect internal controls.
- ___1,2,3,4 Indicate any additional considerations which may affect the internal controls of the organization. Describe the situation and indicate an appropriate risk ranking.



TOTAL SCORE FOR INTERNAL CONTROL PROCEDURES

Due Diligence Assessment-Example

RISK RANKING SUMMARY WORKSHEET

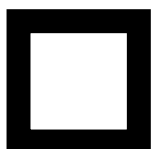
Sub-recipient Organisation Name: _____

Agreement Number : _____

Transfer the totals from the five sections onto the summary worksheet at the end of this document.

<u>Total Score</u>	<u>Section</u>
_____	Inherent Risk - the likelihood that external factors could preclude the organization from successfully completing the project.
_____	Staffing
_____	Past Performance
_____	Accounting System
_____	Internal Control Procedures

TOTAL SCORE FOR ORGANISATION



(Total should not exceed 100 points)

Based upon the above total, place a check mark next to the risk ranking of the organization.

_____	0 to 30	Low Risk
_____	31 to 69	Medium Risk
_____	70 to 100	High Risk

The above ranges should be used only as a guideline and adjusted by each Project as appropriate.