



FINANCE AND ACCOUNTING PROCEDURES MANUAL

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ABBREVIATIONS

BOD	-	Board of Directors
CDC	-	Centers for Disease Control and prevention
CEO	-	Chief Executive Officer
CFR	-	Code of Federal Regulations
COO		Chief Operating Officer
HOO	-	Head of Operations
HOF	-	Head of Finance
HOP		Head of Programmes
GAAP	-	Generally Accepted Accounting Principles
LPO	-	Local Purchase Order
USG	-	United States Government
VAT	-	Value Added Tax

1.0 FINANCIAL MANAGEMENT SYSTEM

1.1 General

The financial management system refers to the accounting software, policies and procedures, and internal controls that ensure financial assets and other resources are safeguarded and efficiently utilized for their intended purpose and that adequate records of all transactions are kept. Sound financial management is critical to the efficient and effective application of HEALTH STRAT funds and other monetary or non-monetary assets. The ability to provide timely and accurate financial information and reports enables HEALTH STRAT to adhere to generally accepted accounting standards, comply with internal and external reporting requirements imposed by donors as well as legal and statutory authorities. HEALTH STRAT will also utilize financial information to make programmatic decisions. Reliable and timely financial information also helps in decision-making, budgeting, and program monitoring, and enhances HEALTH STRAT's ability to obtain additional funding and to operate in a financial environment of accountability, transparency, stewardship and responsibility.

1.2 Oversight and Supervisory Role

The HEALTH STRAT board of Directors has the overall responsibility in ensuring that the financial management system is implemented and fully adhered to.

1.3 Implementation Role

Health Strat's finance function steered by the Head of Finance (HOF) retains the primary responsibility for operating the financial management system.

1.4 CEO's Responsibilities

HEALTH STRAT CEO has the overall responsibility to develop a financial management system that will ensure proper, appropriate, accountable and efficient utilization of the assets of the organization. They will ensure that this manual is periodically reviewed to ensure it remains relevant to the changing needs and economic circumstances of the organization. It is the responsibility of the CEO to ensure that the policies, provisions and procedures of the financial management system and internal controls of HEALTH STRAT are implemented and adhered to.

1.5 Revision, updates and approvals

This manual will be reviewed and updated at least every 2 years or as necessary depending on the prevailing circumstances. The proposed revisions will be discussed and agreed in the senior management team meetings then communicated to the board of directors by the CEO. The HOF will coordinate the review process.

2.0 BUDGETS

HEALTH STRAT operations generate financial resources; in addition, all funded projects.' Service delivery is done under grants, cooperative agreements, and contracts as defined by donors or any other sources of revenue. HEALTH STRAT will typically develop income and expenditure projections based on the different sources. For donor funded projects, awards are made for multiple years but funds committed on annual basis and these must be allocated based on the fiscal year. The budgeting process enables HEALTH STRAT to develop realistic financial plans that guides prioritization of resource allocation, provide an internal control tool for organizational expenditure, provide regular variance analysis reports that compare and monitor expenditure by projects and account codes to inform investigations and decision making and supports the review and improvement of the organization's planning , project implementation and review process.

2.1 General Guidelines

Approval of Budgets: All proposed spending plans must be reviewed and approved by the board of directors.

Spending Thresholds: The HOF is responsible for monitoring the expenditure levels to ensure cost overruns can be anticipated and measures put in place to avoid occurrence. All spending should be within approved budgetary limits, approvals from the HEALTH STRAT board of directors or specific donors must be sought for any deviations that vary the budget by more than 25% of the total budget or change the scope of approved plans to the extent that the intended outcome will be significantly varied.

Budgetary Accounting Controls: The HOF should review accuracy and completeness of expenditure. HEALTH STRAT will have an organizational budgeting format but will adhere to specific formats and templates required by specific donors.

Responsibility for Budget Preparation: Each functional area in HEALTH STRAT is responsible for preparing their expenditure proposals, following the format, instructions and templates provided by HOF, which will be reviewed and revised by the budget team, comprised of COO, HOF, HOO and HOP, before consolidation by the HOF. The consolidated budget will be submitted to the CEO for internal approval and to the board for consideration and final approval.

Budget Items: The budget should have details of the anticipated income from all sources as well as expected expenditure. The cost and expenditure estimates should be prudent and well justified.

Basis of Budgeting: HEALTH STRAT prepares an annual operating budget and specific project budgets based on anticipated revenue and donor funding cycles. The budget should be prepared in the official HEALTH STRAT format which includes estimates of each functional area, details of specific items of cost, descriptions, estimated cash flow and detailed budget justification.

2.2 Steps in Preparing the HEALTH STRAT Budget

1. **Establish organizational goals:** These represent the mandate of HEALTH STRAT and should be guided by the vision and mission statements. The goals should be concise and precise.

2. **Establish organizational Objectives:** These represent specific, measurable, attainable, realistic and timely results that HEALTH STRAT desires to achieve within a specific period of time. Each objective should have a set of activities/performance measures.
3. **Budgeting Calendar:** This establishes the process the organization follows in developing its budget and should have set timelines for circulating budget templates, instructions and guidelines, preparing income estimates, compiling expenditure requests/forecasts and consolidation, submission to the board and adoption of the final budget.
4. **Define Roles and Responsibilities:** Oversight of preparation of the organizational budget, review and discussion with the board and budget implementation should be assigned to senior management staff.
5. **Circulation of Budgeting Tools:** This will be done by the HOF. Operational level employees should be involved in the process for ownership purposes.
6. **Budget Review:** The board of directors will review the budget proposal to ensure its aligned to organizational priorities and are reasonable.
7. **Approval of the Budget:** This gives legal authority for the management team to incur expenditure.
8. **Budget Implementation and Monitoring:** The senior management team will ensure all expenditure is confirmed in the budget before approval, any deviations (both below and above the threshold as discussed in budget development) should be discussed and approved by the CEO. A budget variance analysis should be prepared every month to analyze expenditure patterns and monitor costs to avoid overruns.

During the application process for new grants, cooperative agreements or contracts, the HOF works with the COO and other relevant employees to prepare budgets and budget justifications according to donor guidelines. In the case of annual renewals, the budget shall be accompanied by a financial status and administrative update report as specified in the award document. The budget is reviewed and modified by the HOF and the COO before submission to the donor.

After successful application of a new award, HEALTH STRAT shall set up a separate bank account if it's a specific donor requirement. The HOF will then revise the existing annual expenditure forecast to incorporate the new funds.

2.3 Budget Monitoring

Monitoring financial expenditure on a regular basis is mandatory and supports budgeting. It is the overall responsibility of both program and finance staffs to ensure strict adherence to allocated budget amounts by ensuring annual plans are broken down into monthly schedules and spend plans to be monitored on a monthly basis through preparation and analysis of project progress and internal management reports. The HOF will lead budget holders in budget monitoring on a monthly basis to ensure that approved budgets are utilized as per approved plans.

The FO shall produce monthly variance analysis reports to be reviewed against project achievements by management, material and significant variances shall be justified in writing.

All budget holders shall be given access to financial expenditure reports to aid monitoring. The analysis shall inform review of implementation approaches and decision making including timely communication with funders where appropriate.

Specific Roles:

The FO shall:

- (a) Produce monthly financial reports, analyzed against approved budgets in order to identify expenditure patterns that significantly depart from original plans.
- (b) Analyze the financial results by project code and line item/expenditure category.
- (c) Identify expenditure categories with material negative or positive variances.
- (d) Obtain written programmatic justifications for the variances from relevant team(s).
- (c) Recommend and implement remedial measures to rectify the variances.

For donor funded projects, it is mandatory for the /COO to initiate approval requests to the CEO in the following instances;

- A change in the scope or the objective of the project regardless of the need for a budget revision requiring prior written approval.
- Change in a key person specified in the application or award agreement
- The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.
- The need for additional funding over the approved budget ceiling during project implementation.
- Use of unobligated funds from prior budget periods.
- Signing third party agreements which were not in the original budget.
- Extension of obligations' liquidation period.
- Lifting of funding/budget restrictions.

Funding Restrictions- Where funding agreements stipulate a restriction on the funding, the implication is that the available funds for the budget period are reduced by the total amount of restricted funds. It is the responsibility of the HOF to track restricted funds to ensure they are not included in draw down requests to avoid disallowable costs.

2.4 Budget Modifications

Health Strat will review budget expenditure and determine the need for cost category realignment and shall comply with donor budget modification redirection requirements including flexibility thresholds and need for prior approval. This responsibility rests with the HOF who will take lead on all budget revisions. The budget modification must be approved by the COO and sent to specific donors where relevant. Written approval must be received filed in the budget folder; expenditure based on the revision shall not be incurred without the written approval.

Examples:

- HEALTH STRAT Internal Policy- Redirection of budget categories by more than 50% and 100% requires approval of the CEO and board of directors respectively.

This applies to HEALTH STRAT unrestricted funding. For all donor funding, rules and regulations applicable to budget redirection must be strictly adhered to.

- Centers for Disease Control and Prevention- 25% of overall budget or \$250,000 whichever is lower.
- USAID - Maximum of 10% flexibility between main cost categories of the overall budget.

3.0 FINANCIAL AND ACCOUNTING POLICIES

3.1 Income

HEALTH STRAT receives income from consulting on Health Management Systems and grant income from donors for implementation of Public Health projects. HEALTH STRAT recognizes income in its books when it is actually received with a modification for accruals at the end of a financial year so as to comply with the accruals concept in accounting. Income is classified into two categories -Restricted and Unrestricted- each of which requires different administrative processes. Restricted funds are subject to the specific conditions set by donors and their use is defined by project documents and/or contracts with donors. Unrestricted funds are not specifically restricted by donors and are allocated to meet HEALTH STRAT's overall programmatic and administrative costs.

3.2 Expenditure

The tests of completeness, validity, accuracy and maintenance will be consistently applied to all financial transactions processed through the HS accounting system.

Completeness - Each transaction must be adequately documented and recorded. For example all petty cash payment must bear the recipient's signature, date and the amount paid indicated both in words and figures. The Identification number must be indicated if the payment is not supported by an official receipt. All receipts must be official i.e. bearing the vendor's official stamp and contact details.

Validity – Each transaction must be verifiable to a third party. For example cheque payments must be supported by vendor receipts or trip expenses supported by an activity report.

Accuracy – Each transaction received or disbursed must be correct. For example the amount must be reconciled to quotations, bid analysis, delivery note, invoice and payment voucher. Also are all costs related to the transaction recorded and charged to the correct account code or funding source.

Maintenance – Each document of payment shall not leave room for alterations after approval, payment and recording. For example unused spaces when writing names and amounts on cheques must be crossed to ensure adding a zero to the amount or changing the payee name on a cheque is impossible.

Close supervision by the HOF and oversight by the Chief Operating Officer is important to ensure that internal control systems are functional and that loopholes and/or weaknesses in the system are identified and corrected in a timely manner, without loss to the organization.

3.3 Employee Responsibilities

The overall responsibility for financial management lies not only with the finance section but also all employees of HEALTH STRAT tasked with program management, administration, procurement and logistics.

Responsibilities of Finance and Accounting Staff

The Finance function, led by the HOF will be responsible for both financial planning and accounting. The section must ensure proper maintenance of accounting records and preparation of financial reports of revenue, income, expenditure and receipts. The detailed functions are:

- Control and management of movable and immovable assets, expenditure as well as liabilities.
- Receipt, control and accounting of all revenue including donor funds.
- Maintenance of proper accounting records of project funds, revenue and receipts.
- Preparation of financial accounts on a monthly, quarterly or annual basis as necessary for timely monitoring and reporting requirements.
- Ensuring effective cash management.
- Preparing expenditure forecasts and monitoring, providing advice on prioritization of activities and projects and activities for effective financial allocations in the budget.
- Oversight over commitment of funds and expenditure trends;
- Budget preparation, monitoring and reporting.

4.0 ACCOUNTING PRINCIPLES

4.1 Materiality principle

A financial transaction will be considered as material if its monetary effect and impact on the overall financial position of HEALTH STRAT can be viewed differently. Dual Aspect principle

Double entry will be recorded in all ledgers by using HEALTH STRAT's Chart of Accounts

4.2 Monetary Principle

HEALTH STRAT uses the Kenya Shilling as its operating currency. However in order to produce financial reports as may be required by specific donors, all transactions will be converted into US Dollar or Euro in separate journals to keep track of the balances in the foreign currency account. Any exchange gains/losses shall be tracked and reported.

4.3 Consistency Principle

HEALTH STRAT will treat all its financial transactions in the same manner in their accounting books and reports regardless of the source of income. Changes to methodology will be formally approved by the board of directors.

4.4 Full disclosure principle

All financial transactions must be recorded in the HEALTH STRAT accounting books and records and disclosed in all financial statements and reports.

4.5 Ban on offsetting

All entries must be posted individually and separately to ensure an audit trail e.g. bank charges/fees shall not be offset against credit receipts in the bank statements such as interest.

5.0 INTERNAL CONTROLS SYSTEM

5.1 General

The Internal controls system(ICS) is a set of controls designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations as well as safeguarding assets against theft and unauthorized use and acquisition, or disposal. It is planned and organized to provide reasonable assurance that the organization's risks have been managed effectively and achievement of its goals and objectives will be efficient and economical. Of consideration should be the cost of implementing an IC system which should not exceed the benefit to be derived from it. It should be proactive, value-adding, detect and decrease risk of errors, omissions, and intentional fraud. Internal controls can only be effective if the policies and procedures are strictly applied, regularly reviewed, effectively communicated to employees, and if risks are identified and assessment and monitoring is done. It is the responsibility of the CEO/HOF to ensure that internal controls are effective.

Internal controls ensure that:

- Transactions are accurately recorded to enable the preparation of reliable financial statements, maintain accountability over assets, and demonstrate compliance with laws and regulations.
- Financial resources, property, and other assets are protected against loss from unauthorized use, theft, or disposition.
- Transactions are executed in time and in compliance with laws, regulations, and the provisions of donor agreements.
- Reasonable assurance exists regarding the achievements of the objectives of HEALTH STRAT.

5.2 Management responsibilities

HEALTH STRAT senior management team shall establish and maintain the ICS, consistent with the requirement that management is responsible for the preparation of financial statements in accordance with the Generally Accepted Accounting Principles (GAAP).

All HEALTH STRAT employees are responsible for implementing the ICS. The HOF and CEO have the overall responsibility of leading the process by establishing, properly documenting, regularly reviewing, and improving the internal controls. Employees shall be trained and policies and procedures documented as part of ICS.

5.0 Limitations of internal controls

1. Management may override the system of IC affecting desired outcomes.
2. The cost of IC may be prohibitive as to hinder its effective implementation.
3. Internal controls may not be completely effective regardless of the due diligence applied in their design and implementation. Its effectiveness relies on the competency and integrity of the individuals and teams using it.
4. Mistakes in human judgment arising from lack of knowledge, or error may hinder IC.

To mitigate the limitations, HEALTH STRAT will focus on the following:

Control environment- The control environment sets the culture of the organization. It reflects management and board of directors' attitude, awareness, and actions. Top management must believe in the importance of IC for other employees to observe the controls established. The control environment includes; Integrity and ethical values, Commitment to competence, Human Resource policies and practices, Assignment of responsibilities and authority, Management philosophy and culture, Participation of board of directors and or audit committees and Organizational structure.

Risk assessment- Risk assessment addresses how the organization identifies, analyzes and manages risk relevant to the proper preparation of financial statements in accordance with GAAP. Risks relevant to the financial reporting include: Changes in the environment, recruitment of new employees, acquisition of new technology or information system, growth pattern, organizational restructuring and accounting pronouncements.

Financial management System - refers to the accounting system that consists of methods and records established to record, process, summarize and report an organization's transactions and to maintain accountability of related assets and liabilities. To be effective, the system should have the ability to describe transactions accurately and measure their value properly, record them in the proper time period, present and disclose the information in the financial statements properly and clearly communicate responsibilities to employees.

Control activities- These are policies and procedures that help ensure that necessary actions are taken to mitigate and address risks which may hinder achievement of objectives, including routine feedback and performance reviews, timely processing of information
Physical controls

Monitoring- Monitoring ensures that management institutes processes that regularly assess the quality of internal control performance. This will involve assessing the design and operation of controls on a timely basis and taking necessary corrective action.

5.4 Segregation of Duties

Segregation of duties includes separating responsibilities for authorizing, executing, and recording and maintaining custody of resources including assets. There must be clear and

documented segregation of duties such that no one person has complete control over all aspects of a financial transaction. Each transaction should be divided into tasks completed by different individuals in order to increase the chance of detecting unintentional errors and preventing fraud. As an example, the person who approves vouchers for payment should not prepare or sign checks. Also, staff with physical access to cash, such as the petty cash custodian, should not record the receipt or disbursement of cash. The chart below includes other examples of the appropriate segregation of duties:

PERSON WHO...	SHOULD NOT...
Prepares vouchers	Approve vouchers
Prepares checks	Sign checks
Signs checks	Prepare bank reconciliation
In charge of physical security of assets	Perform the physical inventory of assets
Signs checks	Prepare payment vouchers
Signs checks	Custodian of check books
Enters payroll data	Sign checks
Enters data into on-line payment system	Release funds to the payees in the system
Releases funds to the payees in the system	Reconciles the holding account

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****** In case of limited numbers of employees in the finance section, the HOF and CEO/COO will work together to ensure strict controls even though full segregation may not be achieved through detailed supervision and thorough double-checking.***

Office safe: The keys to the office safe must be held by a responsible delegated HEALTH STRAT staff and the HOF must hold the duplicate

6.0 CASH MANAGEMENT

Cash management has many aspects and is primarily concerned with risk management, internal control, and facilitation of program operations. The duties of collecting cash, maintaining complete supporting documentation, preparing deposits, and reconciling records should be segregated among different individuals. Internal controls are important for cash and payments.

6.1 General guidelines

- As much as practicable, payments shall be made by check. Cash payments should be made exceptionally and must be justified in writing.

******* All payments above Ksh 5,000 must be made by cheque; any deviations must be justified in a memo approved by the COO.

- All cash payments must be adequately supported

- Personal funds must not be comingled with project funds.
- A separate account may be held for employee benefits.
- The bank chosen to handle HEALTH STRAT funds must be able to offer services at a reasonable cost and provide monthly statements of transactions and any checks not honored.

6.2 Banks

The following procedures apply to all HEALTH STRAT official bank accounts.

6.2.1 Opening

Health Strat corporate bank accounts can only be opened with written authority from the board of directors through duly signed meeting minutes. The accounts will be in HEALTH STRAT's name, not an individual and all communication regarding the accounts will be addressed through the corporate contact address.

Choosing a bank- The CEO will take lead in identifying a suitable bank before preparing an approval request to the board. The CEO and HOF should confirm available banks within geographical reach, identifying those that have a global correspondent bank (Barclays, Citi, Standard Chartered, Bank of America etc) with sound knowledge of local banking practices, comprehensive and customized local services and preferably electronic banking capabilities.

The following details shall be included in the approval request:

- Purpose of the account
- Currency of account (USD, KES or Other)
- Bank details (location/branch and/or city)
- Signatories- provide copies of ID or Passports.

The HOF will act and deliver the approval of new account to the bank once it is received.

6.2.2 Number of Accounts

HEALTH STRAT will operate one USD account and open as many as necessary (depending on donor requirements) to manage local operations. If need be, other foreign accounts may be opened to transact currencies other than USD.

The foreign accounts will be used primarily as a transfer account, enabling HEALTH STRAT to receive grants and other income. Periodic transfers to the local currency accounts will be made on need basis and supported by estimated cash needs to manage currency fluctuation tendencies.

6.2.3 Bank Signatories

All bank account signatories must be HEALTH STRAT employees and/or board members. At least two signatories must sign a cheque for it to be honored.

It is the duty of the CEO and/or HOF to update the signature holders at the bank to reflect any changes.

6.2.4 Change in Accounts Details

If necessary, the CEO shall request a change in bank account details but must obtain written approval from the board of directors before initiating any such change. The CEO will provide a justification for the proposed change and always keep the HOF in copy, who shall act upon approval.

6.2.5 Authorization Limits

The bank account will have a minimum of two authorized signatories. All payments done from the bank account(s) must be related to and in furtherance of HEALTH STRAT missions, objectives and projects. All cheques must be signed by the authorized signatories. RTGS or EFT payments must be strictly reviewed before approval and release by an authorized signatory. Approval limits may be changed only in writing, by the board, the current mandate is as below:

- ***All Payments made regardless of USD value or KES equivalent:*** Minimum two signatories, including the CEO and in the absence the COO.
- ***All payments of USD 2,000 or Ksh 170,000 and above shall be confirmed by the bank through a direct phone call to at least one signatory before settlement.***

6.2.6 Approver Responsibilities

The approvers must review all payments and related supporting documentation to ensure that all is in order before signing. This review focuses on proof of debt, validity of expense and allowability under donor rules and regulations where relevant.

Before signing any payment, the following must be verified:

- The payee and total amount to be paid tally with the LPO and tax Invoice. Any deviation must be justified by an internal memo approved by the COO or HOF.
- The description of the payment is indicated and must meet the test of legitimacy.
- The invoice must be original without any alteration. Use of photocopies is discouraged, must only be the exception and justified and approved by the COO.

Pre-signing of blank cheques or approval of payments that do not meet the above criteria is NOT permitted.

6.2.7 Closing Bank Accounts

All HEALTH STRAT accounts shall remain active until such a time that they are deemed not to be useful. The following steps shall be followed in closing bank accounts;

1. The CEO sends a request to the board and includes the following information:
2. Bank name, branch, bank address, SWIFT/BIC Code
3. Currency (USD, KES or Other)

4. Reason for closure
5. Bank balance as at the date of closure.

The board reviews the request, approves then forwards to the CEO who will proceed to close the account.

6.2.8 Currency Conversion and inter-account Transfers

HealthStrat operates both foreign and local currency bank accounts. For payments in local currency, funds will be transferred from the foreign currency account to a local currency account. The following steps will be followed:

- Forecast monthly payments and make one or two transfers to them.
- All transfers will be done at the official bank (currently NIC Bank). Any exceptions must be justified in writing.
- Negotiate the best possible currency exchange rate with the official bank.

When a rate is negotiated with a bank, a letter accompanying the foreign currency cheque is drafted, indicating the rate agreed and the person with whom it was agreed. It is the responsibility of the finance office to negotiate the currency exchange rates.

Where it is not possible to negotiate a rate prior to release of the cheque, the rate will be negotiated at the bank and indicated and signed on the formal letter requesting the transfer.

6.2.9 Cash Flow Management and Forecasting

The HOF is responsible for availability of adequate cash at all times for HEALTH STRAT operations.

The following must be done:

- Plan for anticipated payments based on the budget and program activities).
- Send a periodic expenditure forecast/pipeline reports to donors as may be required.
- Proactively communicate to employees any expected shortfalls in cash flow so that program activities can be planned appropriately.
- Not make any payments if there are no funds in the bank account, to avoid the bank returning checks and tainting HEALTH STRAT's reputation.

6.2.10 Loans and Overdraft

When there is need for cash which cannot be met by internal resources, the Chief Executive Officer or Head of Finance may arrange for outside financing in form of loans and/or bank overdrafts. This **MUST** be approved in writing by the board of directors and a copy of the letter attached to the loan/overdraft request.

No other employee is authorized to arrange for such facilities on behalf of HEALTH STRAT

6.2.11 Security/ Payment by cheque/EFT

For cash security reasons, the HEALTH STRAT should use checks or electronic transfer of funds instead of cash, whenever possible. When paying for large procurement transactions, it is wise to arrange for vendors to be paid directly through a wire transfer.

6.3 Bank Reconciliations

1. The HOF must ensure that bank statements for all HEALTH STRAT accounts are received monthly.
2. Bank statements are promptly reconciled with the HEALTH STRAT financial reports on a monthly basis and the reconciliation documented, signed by the HOF and COO and filed in the specific bank folders.
3. The reconciliation details must include:
 - Any cash deposited (show date) into the bank account but not yet reflected in the statement.
 - Any payments (show date of cheque) made through the bank account but which have not cleared. Payees must be contacted for items older than 30 days to determine the cause of delay in banking.
 - Bank charges and interest received should be posted to the financial reports.

The bank reconciliation must be reviewed by the HOF and approved by COO. The review should focus on confirming that;

- Bank account balance tallies with the original bank statement issued by the bank.
- Justifications/reasons have been provided for any un-banked cash.
- Cheques that remain un-presented for longer than six months are considered stale. The following actions must be carried out
 1. The amount of cheque must be credited to the cashbook.
 2. The payee is contacted to provide a written explanation for non-presentation.
 3. HEALTH STRAT may issue a new cheque after considering the explanation. The HOF shall acknowledge the written explanation and attach it as part of the supporting documents together with confirmation of reversal in the cashbook
 4. In case the payee is not located, HEALTH STRAT will provide documentation of these actions on file.

6.4 Electronic banking

- Health Strat will utilize available on-line banking services offered by its official bank to ensure timely cash flow management.
- The CEO, COO, board signatory and HOF or other authorized employee will have password access to the on-line banking system.
- Activities to be carried out through the on-line banking system include viewing bank balances, initiating transfers, requesting cheque book replacement or bank statements.
- The password access codes must be kept confidential at all times.

6.5 Banking Controls

- Bank cheque books must be locked in the safe.
- All cash and checks received must be deposited within three working days.
- Cash exceeding Ksh 50,000 should not be kept in the office over weekends.
- Financial records and documents should be accessible to authorized individuals and should be kept in locked locations after working hours.
- Backup should be stored off-site.
- All damaged or unused checks must be posted into the accounting system and filed numerically in the payments file. The signature lines must be cut out and the word “void” written on the face.
- Reissued cheques must be supported with relevant documentation and a memo confirming the cancellation. Any cheques not reissued must have the obligation cancelled in the accounting system.

7.0 Processing Payments

- All invoices received are stamped with the date received by the Administrator and handed to the FO or HOF.
- The FO shall obtain confirmation of goods delivered or services rendered against all invoices from users/budget holders before preparing payments.
- On a monthly basis, the HOF will produce a report on all pending payments.

The finance office will confirm the existence of the following documents before initiating any payments;

- An internal requisition raised by the user department duly signed and approved by the Programme manager, HOO, HOF or COO as relevant.
- A set of three or more vendor price quotes as required in the procurement procedures over Kshs. 20,000; and a procurement committee is necessary for procurements from Kshs.160,000
- A bid analysis authorized by the HOF.
- A purchase order signed by the HOF and authorized by the COO.
- A delivery note for items received in stores or a completion status report for services confirmed by the user.
- A pre-numbered cheque requisition/Payment voucher will then be prepared by the FO, it must have details of payee, GL code, and description of items, PO, DN numbers.
- The cheques, with support documentation (requisition, PO, invoices, Delivery Note, confirmation of specifications), are forwarded to the HOF, who reviews all cheques and supporting documentation prior to approval of payment and signing the cheque
- The FO will be responsible for obtaining the second signature from the authorized board member if either the CEO or COO is not present to give the second signature.
- After the cheques are signed, the FO stamps the cheque request and all supporting documentation “PAID”, noting cheque number and date. A copy of the cheque should be made and attached to the payment documents.
- The FO delivers the cheques to the Administrator who then is responsible for delivery

and or collection of all checks. Receipt of cheques must be acknowledged on the delivery book.

- The finance office will follow up with vendors to obtain the third party receipts.

7.1 Specific Payment Procedure

All payments made by HEALTH STRAT must be in conformity with relevant internal policies and procedures, and approved in accordance with existing approval thresholds. Before authorizing any payment or signing any check, the approver must review supporting documentation, question unusual items, and ensure that all necessary information is provided.

7.2 Payment by Cheque, RTGS or Electronic Funds Transfer (EFT)

*****All bank account signatories must refer to the parts that discuss authorities and limits and check signatory responsibilities and be guided accordingly.***

All payments by check, RTGS, or EFT must follow the following procedures:

1. Generate a Payment Voucher on which the payment information is summarized – payee, LPO/DN/invoices number, description of expense(s)/business purpose, currency and total amount of invoice.
2. Attach all required supporting documents as per guidelines of processing payments.
3. Deliver the check or transmit *RTGS letter or EFT* to the bank. Have the payee sign the payment voucher when he/she collects the check. If the cheque is sent to the payee, then this must be indicated on the payment voucher. In both cases, an official receipt from the payee must be received.
4. Make a photocopy of the signed check or RTGS or EFT instructions and bank routing confirmation and attach it to the payment voucher.
5. Stamp invoices “PAID [Date].” Before filing.

HEALTH STRAT gives preference to EFT or RTGS to payment of employee salaries and for procurements by pre-qualified vendors. The following is required:

- The bank’s system must have passwords and different access rights and levels of authority. (Ideally, the system forces users to change passwords periodically.)
- Only bank account signatories can have the right to authorize and release payments. Also, no user of the system is permitted to have rights to create a payment and subsequently authorize and release the same payment.
- For transfers to employee personal bank accounts, the banking details must be obtained from the respective staff members and updated as necessary. This information is confidential and must be kept in locked filing cabinets and unauthorized access forbidden.

- For transfers to vendor bank accounts, the banking details must be sent to HEALTH STRAT on official letterhead and signed by a known official of the company.
- The establishment of vendors and individual staff members as recipients of funds through EFT can only be done by a designated user, verified by the HOF and approved by a bank signatory. All details about a newly added vendor or employee must be thoroughly checked to avoid errors and fraud.

The processing of EFT will have the following steps:

1. A designated user creates the payments and prints out a report.
2. The HOF or his/her designee verifies on the system and signs the report.
3. The bank signatory authorizes the payment on the system and signs the report.
4. The FO releases the payment
5. The signed report is filed together with all supporting documents.

To minimize errors and likelihood of fraud, where possible, the payroll system and/or the accounting system should be directly linked to the EFT system, so that payments are downloaded into it.

7.3 Payment by Petty Cash

Petty cash floats may only be used for the following authorized purposes:

- *Necessary* and *reasonable* small business transactions, not to exceed Ksh5, 000. Any exception must be approved in writing by the COO.
- *Emergency* purchases of office supplies costing Ksh5,000 or less
- *Necessary* and *reasonable* meeting expenses costing Ksh 5,000 or less
- Around town taxi runs, parking fees, and tolls charges(all airfare, train tickets, and car rentals are to be submitted through travel expense reports)

Purpose: The purpose of a petty cash fund is to allow for the reimbursement of minor and recurrent business expenses not to exceed Ksh 5,000. Any exception to this policy requires a formal request through an *Exception Memo* signed by the COO and attached to the receipt recording the transaction.

A petty cash fund will be set up at Ksh 38,000 to cater for small and recurrent office expenses.

The custodian for petty cash will be the Administrator

7.3.1 Security of Petty Cash Funds

All petty cash funds must be kept in a petty cash box that is stored in the office safe or always locked in a cabinet when not in use. Only the petty cash fund custodian and the HOF may have keys to the box and cabinet.

7.3.2 General Guidelines

- Serialized vouchers will be used for petty cash payments.

- Payments will be done using petty cash vouchers and must be for approved expenses. It is the responsibility of the custodian to ensure that each voucher is complete (approved and receipt of cash signed by recipients), accurate, and accompanied by original supporting documentation.
- All paid invoices, statements and supporting documents must be stamped “paid”.
- Expenses must be recorded on a worksheet with dates, business purpose, and amount shown and subsequently posted to the petty cash book in QuickBooks
- The HOF must have periodic physical count which should not be less than monthly and a signed certificate of the physical count filed as evidence basis Reconciliations must account for excesses or shortages which must be investigated in a timely manner.
- .

7.3.3 Monitoring

The HOF is required to make unscheduled cash counts and checks at least quarterly to ensure that the custodian is abiding by all the rules and regulations.

Balances must be reconciled against the petty cash account.

7.3.4 Replenishments

Petty cash replenishments shall be done before the fund is depleted, ideally on a biweekly or monthly basis depending on usage, the float will be replenished only to the extent to which it has been spent. The replenishment request must be supported by the petty cash book ledger print out indicating the correct balance and a petty cash certificate. The balance as per petty cash certificate must equal the balance as per petty cash book. The HOF must review the request for accuracy and completeness. A cheque will be done in the name of the bank agent, who will cash it.

Petty cash funds must be replenished by withdrawing money from the bank account that corresponds to the currency of the petty cash fund. It is not permissible to withdraw local currency petty cash directly from the USD in U.S. dollars; funds should be transferred from the USD account to the local currency then withdrawn.

7.3.5 Changing the Custodian

In case of change of custodian, the current custodian must reconcile the fund and the HOF must sign the reconciliation form, and then transfer the fund to its new custodian.

7.4 Cash Security

HEALTH STRAT management ensures financial resources in its custody are handled with utmost care to;

- Prevent mishandling of funds and safeguard against loss or theft
- Minimize the risk that cash will decline in value
- Minimize the risk that its presence will jeopardize staff safety

The HOF shall review the cash receipt and disbursement processes at least monthly to ensure that the program is achieving these goals. Employees who handle cash and cheques are responsible for the safekeeping of these assets, these must be emphasized routinely.

It is necessary to install a burglarproof, fire-resistant safe for storage of cash, important items such as cheque books, vehicle log books) as well as documents and records. The safe must be located in a lockable room. If the safe has a combination lock, the combination code must be changed at least once a year and whenever there is turnover in personnel who have the combination. If a key is used to access the safe, the HOF must ensure that the key is kept in a secure place. Only authorized employees should have access to the safe. HEALTH STRAT must take insurance cover against cash in transit..

7.5 Cash Handling Procedures

The following guidelines will be applied to safeguard cash:

- Only authorized employees will be allowed in the cash handling area.
- Safe doors must be kept closed during working hours and locked when not being accessed.
- Large sums of cash must be counted and handled out of sight of non-finance staffs and third parties.
- Excess cash must be maintained in a locked safe or deposited in the bank.
- Cheques received (e.g., reimbursement of the remainder of a travel advance) and cash should be deposited within 24 hours of receipt. Finance office should also make entries into the cashbook.
- Cash and cheques must never be left unattended. If an employee leaves his or her workstation for any reason, cash must be appropriately secured in a locked place.
- Unless authorized by the HOF under no circumstances may an individual keep HEALTH STRAT cash with his/her own personal funds, or take HEALTH STRAT funds to his/her home for safe keeping.

If exceptional situations prevent the finance team from adhering to these standard operating procedures, the HOF should be notified.

7.6 Monitoring and Oversight

The HOF is responsible for ensuring that deposits are made on a timely basis and procedures are in place to monitor and control non-compliance with these cash handling procedures.

HEALTH STRAT employees should never risk their lives or safety to protect cash.

8.0 PAYROLL

The CEO holds the authority to appoint all staff employed by the HEALTH STRAT and authorize a new employee's pay and benefits.

Payroll processing will be carried out by the HOO who will process payroll computations. The HOF will review the payroll before final approval.

8.1 Confidentiality of Salary Information

To ensure the confidential management of salary information, the following guidelines must be applied:

- Within HEALTH STRAT, salary information must be accessible only to the CEO, COO HOF and HOO and any other employee whose job roles include handling finance. Technical staff (e.g. site clinical staff or procurement staff) may have access to operational budgets for management purposes only, but must not access salary information.

8.2 HEALTH STRAT Pay Date

The payroll is prepared on a monthly basis and will be paid on or before 25th day of each month.

The payroll cheque will be authorized by at least two signatories. The CEO, COO and members of the board who are currently the authorized signatories..

8.3 Salary and Pay Structure

Health Strat utilizes a defined salary scale which has been approved by the board of directors. Salary rates will be influenced by Kenyan labor laws, market rates evidenced by salary surveys, inflationary conditions, budget availability, and performance evaluation.

The HOO will be responsible for providing the employment contract information regarding pay level for all new employees.

8.4 Cessation of Pay

All supervisors must notify the HO of staff exits, the HOO will then notify the HOF in writing which will state the last date of service, leave days unused and benefits due.

The HOO will work with the HOF to ensure the staff is struck off the payroll register.

8.5 Salary Advance Payments

Health Strat discourages taking of salary advances by its staff. It is expected that all employees plan their income and expenditure to avoid pecuniary embarrassment.

8.6 Deductions

All mandatory statutory deductions will be made from the payroll including NSSF, NHIF, PAYE, and HELB. These must be submitted within stipulated deadlines to avoid payment of fines and penalties which are not allowable expenses with most donors.

Net salary payments must be done by EFT to the employee's bank account: no cash payments are to be done.

All employees with outstanding university loans from the government of Kenya are required to provide information to the HOO to initiate deductions. HEALTH STRAT may request or verify such information on behalf of employees.

Loans of a personal nature will not be deducted through the HEALTH STRAT payroll.

8.7 Documentation

The following standards shall apply to all payroll activities

The HOO shall keep a file of all current employees in the payroll system. The accounting software will be used to record payroll transactions on a *payroll register* indicating the payee's name, gross salary/wage, payroll taxes withheld other deductions if any, net pay, date of payment, bank account number.

Monthly reconciliation of salaries will be done to ensure that they are in accordance with the letters of appointment. A hard copy of the master payroll, signed by the HOF and approved by the COO/CEO must be kept on file.

Pay and tax records of all employees will be kept for at least seven years, in accordance with HEALTH STRAT record retention guidelines or as required by the local tax authorities, whichever is greater.

Employees will receive their pay advice/slip after the deposit of their net salaries in their respective bank accounts.

9.0 COMPUTER CONTROLS

9.1 Processing Software

HEALTH STRAT shall use QuickBooks Accounting System for managing financial data. Authorized personnel will have different user rights to access the system.

9.2 Data Security

A backup of the financial management system shall be maintained. Backup shall be done on a regular basis but at least once weekly and a copy shall be kept offsite.. HOF will ensure the backup is done on a regular basis.

10.0 AUDIT

The financial year of HEALTH STRAT runs from January to December of each year and an audit shall be carried out within two months after year end. Funders such CDC, USAID, WHO, JICA etc. may request specific audits of project expenditure to provide a reasonable assurance of the records and financial statements of HEALTH STRAT.

1. Health Strat will comply with donors' requirements for audit and costs budgeted and charged to project funds.

A scope of work and reporting timeline for the audit process will be developed before engaging the auditor and must be adhered to.

An action plan for all audit findings must be developed and resolved in good time and adjustments posted before closing of books for the audited period.

In addition, HEALTH STRAT may commission specific audits of sub-recipients, if such an arrangement exists, for routine management purposes, to address specific questions or concerns whereby HEALTH STRAT is required to submit audited accounts. While regulations governing an award may vary according to the funding agency, the fundamental questions of an audit remain the same:

- Are all expenses incurred by the project(s) supported by correct documentation?

- Is documentation filed and stored correctly?
- Do all expenses meet applicable regulations? Are all expenses allowable and allocable under the term of the award agreement?
- Were all expenses incurred appropriate for the objectives of the program?
- Is there an appropriate level of oversight of program funds?

The most common finding by auditors is poor documentation. Audits frequently occur after a program is finished, so it is critical that all documentation be prepared and properly filed at the time expenses are incurred.

10.1 External Audits

External audits will be conducted as part of the overall HEALTH STRAT annual Audit in compliance with the Company's act cap 486, or as part of project related audits requested by a donor.

10.2 Audit arrangements

Appointment of an auditor and scope of the annual audit will follow the instructions of the board. For project related audits, the audit report will follow the format agreed upon with the donor and a copy of the final audit report submitted to donor.

10.3 Fraud and other irregularities

The CEO, CFO and HOF are responsible for detection and prevention of fraud, misappropriation, and other inappropriate conduct. Fraud and other irregularities include illegal acts as theft, deception, manipulation of accounting entries, bribery and corruption. HEALTH STRAT financial integrity and reputation is to be preserved and financial losses due to fraud and irregularities are to be minimized. By issuing corresponding staff policies, procedures, conflict of interest policy and employment contracts, the management has made it clear that fraud will not be tolerated and that the organization will take appropriate steps to staff who are involved in fraudulent activities.

11.0 FIXED ASSETS

11.1 TITLE TO PROPERTY AND EQUIPMENT

For donor funded projects: The title to property (defined as land, including land improvements and structures but excludes movable machinery and equipment) and equipment (defined as tangible nonexpendable property approved and procured under any grant having a useful life of more than one year and an acquisition cost of \$5000 or more per unit such as vehicles, bicycles, computer equipment, teaching aids, lab equipment, etc.) will remain vested in the name of HEALTH STRAT for the duration of the grant.

HEALTHSTRAT will have use of the property/equipment for the duration of the grants and will be responsible for proper care and management of all property and equipment. The

property may not be encumbered without the approval of the donor.

HEALTHSTRAT guarantees that it will only use the property for authorized purposes as long as it is needed. Within a stipulated number of days (as per agreement with the donor) at the end of the grant or the end of the contract, HEALTH STRAT must submit to the donor a written description of any and all remaining equipment and unused supplies acquired with the grant funds. The description should include the current market value per equipment unit (with basis for determining market value) and per aggregated unused residual supplies. HEALTH STRAT shall submit an inventory listing all property in their custody upon request by the donor

11.2 HEALTH STRAT Corporate Assets and Equipment

Health Strat may procure property and equipment to be used in carrying out its mandate as a corporate entity. All property and equipment acquired in such manner will be capitalized in HEALTH STRAT’s books of accounts and an annual report of its asset movement prepared as part of its financial reports and disclosures.

11.3 Capitalization and Depreciation

Definition - A “Capital Asset” is defined as a unit of property that has an economic useful life exceeding 12 months. A Capital Asset shall be depreciated over its useful life. All assets of a value equivalent to USD 500 or more shall be capitalized.

All Capital Assets are recorded at acquisition cost. Donated assets shall be recorded at fair or market value. The Straight Line method of depreciation shall be used to write off the assets over their useful life and shall be recognized in the books as at the end of each financial year. The following rates of depreciation shall apply for each class of assets:

	Class of assets	Rate
1.	Electronic equipment	12.50%
2.	Office Equipment	12.50%
3.	Furniture and Fittings	12.50%
4.	Computer Equipment	30%
5.	Software	30%

6.	Motor Vehicles	25.00%
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11.4 Fixed Assets Register

A Fixed Assets Register shall be maintained of all assets capitalized and shall contain the following minimum information:

1. Asset tag number
2. Date of acquisition
3. Description of asset
4. Make/ model number
5. Serial number
6. Funding source
7. Title of ownership
8. Cost at acquisition
9. Accumulated depreciation to date
10. Net book value
11. Location and condition of asset
12. Custodian
13. Insurance status
14. Requisition number
15. Purchase order number
16. Vendor
17. Disposition – Disposal date, sales price and determined market value

11.5 Record Keeping

Invoices and other documents evidencing acquisition of each unit of property shall be retained for a minimum of five years.

11.6 Revaluation of assets

An asset which has been fully depreciated but is still in good condition and continues to generate benefits to the organization shall be re-valued by a professional valuer. The re-valued amount shall continue to be depreciated in the same manner the original cost of the

asset.

11.7 Inventory listing

An inventory list (equipment records) MUST be maintained accurately and MUST include the following information:

- A description of the equipment and its unit acquisition cost.
- Manufacturer's serial number, model number and identification number.
- Source of the equipment, including the award number.
- Whether title vests with HEALTH STRAT or the donor.
- Acquisition date (or date received, if the equipment was donated) and cost.
- Information from which one can calculate the percentage of the donor's share in the cost of the equipment.
- Location and condition of the equipment and the date the information was reported.
- Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where the donor is compensated for its share.

All assets must be tagged with an asset code, and the asset code must be referenced to the inventory listing.

An inventory count must be done annually. The inventory count must be carried out by individuals independent of the day to day use of the equipment.

The physical count must be documented, and approved by the HOF.

The results of the count must be incorporated in updating the inventory listing.

The HOF is responsible for reviewing and approving the inventory listing.

The current inventory must be used for purposes of determining the insurance cover.

11.8 Disposition of Property

11.8.1 Donor Funded Projects

When the property or equipment is no longer needed, or when a grant ends, HEALTH STRAT must request disposition instructions from the donor.

There are several different options for disposition:

- HEALTHSTRAT may be permitted to retain the title of the property without further obligation to the donor or after it compensates for the remaining current fair

market value of the property.

- HEALTHSTRAT may be directed to sell the property under guidelines provided by the donor and pay the donor a percentage of the current fair market value of the property. Proper sales procedures shall be established that provide for competition to the extent practicable and result in the highest possible return.
- HEALTHSTRAT may be directed to transfer title to the property to the donor or to an eligible third party.

11.8.2 HEALTH STRAT Corporate Assets and Equipment Disposal

Health Strat will replace assets that are beyond their useful life. Proper procedures must be used to determine any residual value in such assets and these shall be recovered through open and competitive sale and the proceeds used to off-set the costs of selling and/or new purchase.

The following procedures shall be followed in the disposal of old/ obsolete equipment:

- Old and Obsolete assets shall be disposed by a sale to staff, in the open market or by donation. The disposal shall be done on a 'as is where is' basis.
- The Administrator shall in consultation with the HOO periodically prepare a list of assets for disposal which shall be forwarded to the CEO/O for approval. This shall include the reason for disposal
- All staff shall be informed of any assets due for disposal and given priority to bid before any other form of disposal is considered except in situations where donations are considered for a worthy cause. Staff will be required to respond within 5 working days and thereafter alternative form of disposal shall be considered should there be no response OR conditions for sale to staff not met
- Bidding by staff shall be subject to a reserve price as determined by reference to the depreciated cost. The assets not bid by staff shall be open for disposal in the open market or donated.
- Assets to be disposed by donation to needy person(s) or institution(s) shall be approved by the CEO/O
- Assets for disposal in the open market shall be bid for, and sale made to the highest bidder. To that end the Administrator shall advertise the sale in the most appropriate

medium

- All bids shall be addressed to the CEO
- Once an item is disposed, appropriate bookkeeping entries shall be made to the ledger to de-capitalize the asset. The following information should be reflected in the assets register:-
 - a) Date of disposal
 - b) Disposal proceeds
 - c) Reason for disposal.

11.9 Insurance of property and equipment

HEALTHSTRAT must, ensure that all its assets are fully insured at all times for all risks. The insurance value shall be the depreciated cost of individual assets.

12.0 TRAVEL POLICIES AND PROCEDURES

12.1 Purpose

The purpose of the SOP is to clarify the means by which travel should be arranged and the parameters that must be adhered to. It is HS policy to reimburse Board members, contractors and employees for ordinary, necessary and reasonable travel expenses when directly connected with or pertaining to the transaction of HS business. All travel must be done in accordance with this policy to qualify for reimbursement. Those traveling on HS business are asked to exercise prudent business judgment regarding expenses covered by this policy.

12.2 Scope

The SOP will be applicable to all forms of travel, both in-country and out of Kenya.

12.3 Prerequisites

Travel advance request, international travel authorization, local travel authorization, travel expense report (TER) and advance liquidation form, per diem rates. Additionally, a one-pager document indicating Scope of Works to be covered during the travel, deliverables achievements and action plan with timelines should be submitted as a package with the advance liquidation form.

12.4 Responsibilities

All staff that travel are responsible for the efficient functioning of the SOP.

12.5 Travel approvals

All travel requests must be preapproved by the employee's supervisor by signing a travel itinerary indicating with precise activities and deliverables before a travel funds request is submitted to the finance office. For international travel, the request for approval and written authorization from donor (if applicable) and the CEO/COO must be received before a request for funds is submitted.

*The traveler must specify vacation plans that may occur during any travel period. Any costs that arise from the extra duration of stay will be borne by the staff.

12.6 Travel Advances

For all employee and consultant travel, approval of advances and reimbursements is required from the HOF or CEO/COO.

Travel advance requisitions shall include all costs related to travel including per diem and hotel costs.

Travel advances will only be issued for trips exceeding a continuous time of 24 hours.

In order for any travel advance to be processed, all previous travel advances must be reconciled and liquidated.

All travel advance requests shall be submitted not less than 5 business days before the scheduled trip and must include a travel itinerary approved by the supervisor.

As a practice once the approvals have been made, all travel advances shall be paid to the person travelling in form of a check or wire transfer. This payment must be acknowledged as received by the traveler.

12.7 Travel Claims/ Reimbursements

All travel related reimbursements or claims shall be submitted within 3 working days after the trip is completed.

Any residual funds must be banked in the HS official bank account and a receipt issued by the finance office against the banking slip.

The reimbursement requisitions shall be accompanied by original copies of receipts for hotel accommodation, air ticket and boarding pass (if applicable).

The claims/reimbursements shall be reviewed and approved by the supervisor before

submitting them to the finance office for eventual payment.

12.8 Per Diem

Per Diem refers to expenses incurred for lodging, meals and incidentals. Incidentals include item expenses such as laundry and personal phone calls.

All staff will receive their per diem when travelling out of work station. The rate of per diem has been set as KES 2,000 for each day of travel. Per Diem shall be paid only for a business sanctioned trip outside of the known base employee location longer than 24 hours and where accommodation booking is made on half-board basis.

In the case of travel out of work-station county (generally outside of Nairobi county), for durations less than 12 hours. When full board hotel accommodation is made, an incidental allowance will be paid to the individual at the rate of KES 1,000.

If meals are provided, per diem shall be reduced accordingly.

12.9 Travel on the invite of Partner Organizations

Should an employee receive invitation to carry out work related travel by a partner organization, a formal letter of invitation from the inviting organization must be attached to the Travel Advance Request. The invitation will clearly stipulate the duration of travel, expenses to be met by the inviting organization and role to be played by the employee.

12.10 International Travel

International travel will be based on the location of the work activities and not the accommodations, unless lodging is not available at the work activity, then the CEO/COO may authorize the rate where lodging is obtained.

Meals and incidental expenses will be based on Breakdown of Meals and Incidental Expenses as outlined under the US General Service Administration website:

<http://www.gsa.gov>

13.0 Exchange Rates

Health Strat shall use the following exchange rates in translating foreign currency to local currency (Kshs) and vice versa.

- Transfers from foreign currency account to Kshs accounts – Negotiated Bank Rate
- Donor Receipts – Rate prevailing in the day the donor funds are received
- Local currency to foreign currency transactions for reporting purposes – The average

rate prevailing during the month. The oanda.com or Central Bank of Kenya mean rate shall be used.

- Where the donor has provided a rate for reporting purposes, this rate shall prevail. Care should however be exercised to ensure that this rate is reasonable and in tandem with the market offering otherwise it must be renegotiated.

Foreign exchange gains/ losses shall be calculated and recorded in the books on a monthly basis and if relating to donor funds, accounted for as per donor regulations.

14.0 Cost allocation policy

The purpose of this policy is to prescribe the methods used to allocate expenses to primary functional activities and to the supporting functions of Administration. This will make it easy to:

A shared costs allocation is the process of distributing expenses incurred for a common purpose to the benefit of projects. Equitable expense allocation is a fundamental element of effective project management and must be uniformly applied. Assigning expenses to projects in a consistent manner provides management with the total cost of each project being implemented and provides the basis for ensuring that each donor is charged their “fair share” of shared/common costs.

An improved cost allocation system will enable HS Kenya to:

1. More accurately budget program needs when creating the budget;
2. Ensure compliance with donors’ policy, procedures and regulations;
3. Maintain a consistent, compliant, reasonable, and reliable accounting system;
4. Enable a fair and reasonable distribution of operating cost for all projects; and be less at risk of overspending the budget.

14.1 Cost Centers

Health Strat tracks its activities and consequently costs by grants or business segments

14.2 Staff costs

Staff costs are each allocated by percentage of effort in each cost center, based on management’s direction and the estimate of how much time is to be spent on a project or activity. The CEO/O in conjunction with the HOO, HOF and project directors shall review when necessary. The review shall be made annually, whenever new grants come into being, an existing grant comes to an end or when there is a change in the project direction whichever is earlier. Each employee’s payroll costs are then spread across live grants according to the percentage of effort put to each grant. All other benefits are also allocated across cost centers in the same way as the payroll costs. **Activity-specific Expenses:**

Activity-specific expenses are specifically associated with one or more cost centers and are posted wholly to the specific cost center supporting the activity

14.3 Shared Operating Expenses

Shared operating expenses are shared costs of all cost centers (for example, Occupancy), and are partially program, and partially administration. Health Strat shall come up with a Standard Cost Allocation Rate for shared operating costs. Each shared operating expense is spread across the cost centers according to this Rate. The Standard cost allocation rate shall be determined based on the revenue contribution of each grant/ business segment to the total portfolio and shall be reviewed regularly as each business segment revenue changes

Shared operating expenses include but are not limited to the following the following:

1. Office supplies
2. Repairs & maintenance
3. Rent
4. Communication
5. Utilities
6. Courier
7. Audit
8. Cleaning
9. Parking
10. Internet
11. Insurance of assets other than motor vehicles

Certain expenses within the Shared cost items are treated differently e.g. motor vehicles expenses shall be spread across activities according to the proportionate distance covered by each grant.. Such motor vehicle expenses include fuel, insurance, repairs and maintenance etc.

15.0 AUTHORITIES

Signature Authorities

HEALTH STRAT Board of Directors and HEALTH STRAT staff have the following signature authorities for cheque or wire expenditures.

HEALTH STRAT Signature Authorities (U.S. Dollars)

Title	Office	Signature Limit	Additional Info
Representative of the, BOD	Nairobi	None	
CEO	HEALTH STRAT- Hq Nairobi	None	
COO	HS – HQ Nairobi	None	

None of the signatories has a single mandate authority to sign a cheque of any value.

Other Authorities

- The CEO/O is **authorized** to sign service agreements and contracts executed between HEALTH STRAT and vendors. **Other HEALTH STRAT staff may not sign any other legally binding document**, unless there is written approval by the CEO/O.
- The authority to approve petty cash expenditures lies with the HOF who must not be the custodian of petty cash.
- The authority to approve a payment to sub-recipient awardees lies with the CEO.

16.0 EXPENSES

All expenditures incurred by HEALTH STRAT in propagating its mandate must be reasonable in nature and must comply with local laws and statutes as well as rules, regulations and requirements of the funding agreements. The HOF will scrutinize all expenditures and raise queries as relevant. Untimely or unsatisfactory resolution of these issues may result in delay in or cancellation of payment. The CO/O and HOF may take action (as appropriate and in line with disciplinary procedure) regarding unresolved or persistent financial queries.

In compliance with donor conditions, HEALTH STRAT may declare certain expenses as “unallowable” or “restricted. If an employee of HEALTH STRAT incurs an unallowable cost, the incident and expense must be reported to the HOF. The HOF shall assign this expense, with permission of the COO, to the unrestricted income account. The original receipt with an approved memo must be kept on file. If the unallowable cost was incurred through knowledgeable violation of HEALTH STRAT policies and procedures, the employee responsible for the expenditure may be subject to disciplinary action including recovery of the funds from payroll.

17.0 SUPPORTING DOCUMENTATION

Each expense charged to HEALTH STRAT core activities, grants or contracts must have correct documentation supporting that expense. Proof of payment must be appended for each expense to clearly indicate that payment has been made. Please note:

- Receipts must be appended for all expenditures.
- Receipts must have a zero balance, unless they represent a partial payment.
- The amount claimed as an expense must match the receipt.
- First and last names must be provided when identifying the person who incurred the expense.

If a receipt is lost or proof of payment is not clearly documented, an Exception Memo) must be prepared and signed both by the employee incurring the expense and the HOF. Employees must not copy another receipt to submit in its place or alter original receipts in any way.

Each expense must be *allowable* under the funding agreement or contract.

Each expense must be *allocable* under the terms of the award agreement. An allocable cost is a cost incurred to advance the work under the award, or it is necessary to the overall operation of the institution and is deemed to be assignable in part to the funded projects.

Every expense item must have a *valid business purpose* and be related to the programmatic work of the grant/contract against which the expense is charged. The business purpose must be clearly described on the pertinent accounts check register, petty cash register, or advance register. If there is not enough space on the spreadsheet, the finance staff should write a detailed explanation on the receipt. In all cases, the description of the business purpose should include enough information so that an uninvolved third party would understand why the expense qualifies as both a HEALTH STRAT expense and an expense allocable to the particular grant.

Translation: Supporting documents that are not in English must have all the following parts translated: the name of the vendor, date, business purpose, and the quantity, unit cost, and total price of the items procured.

Additional Documentation Required

HEALTH STRAT and funding agency policies require additional documentation in the following cases. Omission of this documentation will cause delays in processing payments.

- **Payroll:** The HEALTH STRAT-Nairobi's office payroll must include all current employees and be recorded on a payroll register with all relevant information.
- **Rent payments:** When reporting the first payment on a lease, a copy of the signed lease must be attached. (Note that only the CEO/O may sign an office lease.)
- **Conferences/trainings:** The standard *Travel and Expense Report* must be used for reimbursement of all conference and training expenses. Conference fliers or meeting agendas must be appended for reimbursement both of overall conference/training expenses and of individual travel expenses associated with the conference/training. A list of attendees and signed receipts or a per-diem payment list must be included for reimbursement of overall conference/training expenses.
- **Consultant reimbursements:** Copies of the Consultant Agreement Letter, invoice, time sheet where applicable and – in the case of international consultants – funding agency approval must be attached to every single consultant invoice.

Note: For consultants, *donor approval must be obtained before the consultant agreement is processed.* .

- **Per diem:** The standard *Trip Expense Report* must be used for payment of all per diem. For all local and domestic business trips, the approved HEALTH STRAT per diem rates of Ksh 2,000 per day will apply. For international travel, this must be a printout from the U.S. State Department website. If someone who is not an employee of HEALTH STRAT receives a per diem, an explanation must be included, e.g., “Per diem for Collaborating Partner” or “training participant.”

- **Vehicle-related expenditures:** Vehicle-related expenditures must clearly identify the vehicle with which they are associated. For HEALTH STRAT vehicles, the license plate number of the vehicle must be written on the invoice. If the vehicle is not owned by HEALTH STRAT, the entity owning the car must be noted and a justification provided as to why HEALTH STRAT should cover expenses related to it.
- **Utility expenses:** Utility expenses must clearly indicate for which facility the expenses were incurred, e.g., a certain HEALTH STRAT office.
- **Lodging receipts:** Lodging receipts together with the signed checkout sheets must be attached to each *Travel and Expense Report*.
- **Airline boarding passes:** Boarding passes must be attached for each travel by air.
- **Value Added Taxes (VAT)** paid must be recorded and indicated on the monthly financial reports.

18.0 RECORD KEEPING

Complete and proper financial records and reports must be maintained for audit purposes and to avoid disallowance of expenses against grants and contracts. In general, record keeping requires good systems for managing electronic and hard-copy files. It also requires diligent staff – both finance and others – to ensure that expenses are allocated correctly. HEALTH STRAT’s financial records must be maintained in safe and secure file cabinets. If additional storage space is required even after disposition of records that no longer need to be retained, HEALTH STRAT should rent secured storage space. To the extent possible, HEALTH STRAT will comply with record retention, requirements of donors. For example and , pursuant to the USG Code of Federal Regulations (publication 45 CFR 74.53), which applies under NIH, HRSA, CDC and USAID funding, HEALTH STRAT is required to keep all financial records, supporting documentation, statistical records, and all other pertinent records *for seven years* from the date of the submission of the final expenditure report. If local laws require retaining documents for a longer period, then the HEALTH STRAT must also comply with the local laws.

HEALTH STRAT must keep records in its offices for 3 years after which they are considered inactive and may be stored off-site for the remaining 4 years. Records prepared for storage must be well labeled and accompanied by an inventory for each box or compact disk (CD), with a copy of such inventories maintained in active files on site for reference.

Exceptions: If there is any litigation, claim, audit, or other action involving an HEALTH STRAT award or sub-award, all associated records must be retained until that action is completed and resolved. This may mean retaining records beyond the 7-year period.

All HEALTH STRAT employees who handle records must be aware of the record retention policy and associated donor regulations. It is the responsibility of managers to ensure compliance.

19.0 FINANCIAL REPORTING

19.1 Management accounts

HEALTH STRAT will prepare periodic management and financial reports for decision making. It is the responsibility of the HOF to ensure that such reports are prepared and disseminated to the respective employees with budget monitoring responsibility. As a minimum, the financial management reports will include the following topics:

19.2 Fund accountability statement-FAS

HEALTH STRAT management requires an FAS as part of its monitoring tool for its activities and internal audit requirement. It is also a tool that management will use to quickly grasp project's finances including trend analysis. HEALTH STRAT management requires auditors to express an opinion on whether the FAS of a funding agency presents fairly in material respects project revenues received and costs incurred for the period under audit in conformity with GAAP. It is the responsibility of the HOF to prepare this statement at least quarterly. The statement will be prepared in the format below:

II Revenue (Sources of funds)

Funding Agency I

Funding Agency II

Total Revenue

II Less Expenditures (Use of funds)

Salaries and Wages

Fringe Benefits

Equipment

Travel

Professional services/Consultant

Other Direct Costs

Total expenditure

III Balance surplus (Deficit) xx

Travel advance status report

Pipe line analysis report, monthly expenditure forecasts

Monthly labor and time utilization report

19.3 Donors

HEALTH STRAT will prepare financial reports to its donors using the reporting guidelines, templates and requirements outlined in funding agreements. The processing timelines and support documentation requirements shall be those of the donor. It is the responsibility of the HOF to ensure that periodic financial reports to all donors are prepared and submitted in the manner prescribed in the funding agreements.

19.4 Expenditure Forecast

The HOF shall prepare and submit the updated 12-Month expenditure forecast to the CEO and board on a quarterly basis. This report covers the year from January to December and includes year-to-date expenses compared to the budgeted amount for that period of time. Its purpose is to forecast the HEALTH STRAT's cash needs for the coming 60 days and provide supporting documentation for the amount of the next wire transfer. It is derived by combining all grant/contract budgets that HEALTH STRAT has.

A variance analysis must also be included in this report, along with an explanation of any significant variances.

19.5 Documentation of VAT Reimbursement submission

Where a donor's regulations require, , that all value added tax (VAT) be reimbursed, then it's the responsibility of HEALTH STRAT to ensure that all necessary efforts are made to recover VAT paid from awards.

As part of financial management reports, VAT payments made must be prepared and reported to the Management.

In addition, all VAT payments and credits must be listed in the VAT column of the checking account registers and petty cash registers of the monthly finance report. These include, but are not limited to:

- VAT payments to vendors
- Receipts submitted to the government for reimbursement (even if reimbursement has not been obtained)
- VAT credit to the HEALTH STRAT bank accounts

HEALTH STRAT must credit bank accounts with VAT reimbursement(s) from government and clearly document reimbursements and maintain a separate subsidiary report for tracking each expense that contains VAT and the government credits applied to each specific expense.

20.0 ANNUAL FINANCIAL REPORTING

20.3 Reports to Donors

While funding agreements require submission of reports to head offices, representatives in country may request specific financial reports. For these reports, HEALTH STRAT shall consult with the in-country teams to obtain all the data required for producing a complete and accurate report. Since such reports may be in addition to those that are contractually required, the CEO/O and HOF must be informed when the requests are received by any employee.

20.4 Sub grants and subcontracts

Where HEALTH STRAT determines that partnerships are necessary for the achievement of specific project deliverables, formal sub-awarding agreements will be signed with selected organizations. HEALTH STRAT may not impose its internal policies and procedures on its

partners but will ensure minimum standards of performance and accountability as prescribed by donors are met; such requirements must be indicated and agreed upon in the formal agreement between HEALTH STRAT and the Partner prior to disbursement of funds. The HOF will be responsible for financial review and oversight.

The following reports will be submitted at the minimum;

- Monthly/Quarterly actual expenditure against budget
- Monthly bank and cash balances
- Yearend inventory list.

20.5 Professional Services and Consultants

Professional and consulting services are obtained via contractual mechanisms that engage the time and effort of a contractor to perform an identifiable task. To the extent possible, all procurement of professional services will be done in a competitive manner that will involve advertising of the technical services required by the program. Where this is not possible, justification for lack of competition for procurement of professional services is needed. This justification shall fully describe the reasons for negotiating with only a single source.

20.6 Major Equipment

Donor approval is required for purchases of major equipment, as defined in funding agreements. If all of the CDC- or USAID-required information for equipment purchases has been included with an approved renewal or work plan, HEALTH STRAT may not be required to obtain additional approval. HEALTH STRAT is responsible for knowing when approval is required. Most donors require that equipment and products purchased with their funds originate from the funder's country to the greatest extent practicable. Where the donor's approval is necessary, HEALTH STRAT must receive the donor's approval in writing. A sample letter seeking donor's approval is shown below:

Example (for large equipment)

Dear (CDC/USAID/WHO Grants Management Specialist):

Health Strat would like to request permission to purchase 2 units of Toyota Landcruisers – hard top ZY67 for use in HEALTH STRAT supported sites in Nairobi, Kenya. The total cost of these machines will be US\$XX.

Attached are the sole source justification, quotations, and approval for the purchase from the CDC/Kenya office.

Please contact me with any questions.

1. The HOF forwards the documentation to the CEO for review.
2. The CEO forwards the request to the appropriate donor.

20.7 Vehicles

Funding agency approval is required for purchases of vehicles.

- **CDC** requires approval of all vehicle purchases, complete information may be provided at the time of original or renewal application. It is further required that vehicles purchased with CDC funds be U.S.-made to the greatest extent practicable. When buying U.S.-made vehicles is not an option, the waiver request must form part of the information submitted and kept on file.

HEALTH STRAT must know and abide by all requirements of all other donors regarding purchase of vehicles.

- *USAID requires that separate approval be obtained for any purchases of vehicles that are not made by U.S. companies* even if the vehicles have been included in renewals or work plans submitted to and approved by funding agencies.

Since vehicles are a type of major equipment, the process for purchase of vehicles is the same as that described in the major equipment section

Example (for vehicles)

Dear (Name of CDC Grants Management Specialist):

Health Strat would like to request approval to purchase a (vehicle brand, type) vehicle for the HEALTH STRAT program in (city, country). The total cost of the vehicle purchase will be \$XX. The vehicle will be used by the XX to travel to and from CDC-supported HIV care and treatment sites located in XX.

HEALTH STRAT solicited three bids and selected the (vendor name), for a total cost of \$XX.

Add if non-U.S.-source vehicle is being purchased: This vehicle was chosen because (vehicle brand) parts and service centers are more widely available in (country). Additionally, (vehicle brand) vehicles are the best suited for the unpaved roads that need to be traversed to reach some clinic sites. The dealer was chosen because of its outstanding service and reliability in delivery and repair. These vehicles were budgeted for in the approved (program name, year).

1. Analysis of purchasing vs. leasing a vehicle: Vehicle rental in (city, country) for a (vehicle type) costs approximately \$USXX/day. Considering that HEALTH STRAT would rent the vehicle for approximately 22 working days/month, it would have to pay a total of \$USXX/month. Vehicle rental for a full year would therefore total approximately \$XX, which would exceed the cost of purchasing the vehicle over the course of the duration project.

2. The vehicle will be used for official work-related purposes.

3. The vehicle will have local license plates.

4. The vehicle will be used every working day for approved activities. If the vehicle are used on non-working days (i.e., weekends or holidays), they will be used only for work-related purposes (e.g., transportation between sites, to conferences, for training workshops).
5. The vehicle will be driven by XX.

Special procedure for vehicles funded by CDC: As soon as payment has been delivered to the vendor, the HOF must supply this information to CDC and provide any additional information as may be required.

20.8 Value Added Tax (VAT)

Value added tax (VAT) is a tax that it is levied at the time of the sale of goods and services. In some countries this tax is known as a “goods and services tax” or “consumption tax.” VAT is collected by the seller of goods and paid by the vendor to the host-country government.

20.9 VAT Exemption

Trade agreements between the USG and host-country governments stipulate that foreign not-for-profit organizations should be exempt from paying VAT. Such exemption should be sought through a ***Memorandum of Understanding*** with the relevant government ministry (usually the Ministry of Health) or submission of appropriate paperwork required to obtain VAT exemption.

20.10 VAT Reimbursement

Obtaining VAT exemption does not necessarily mean that the HEALTH STRAT is immune from payment of VAT on purchases of goods and services. Where circumstances do not permit HEALTH STRAT to claim VAT exemption upfront, “VAT Exemption” in this case implies that VAT will be paid upon purchase and that the HEALTH STRAT will, on a monthly basis, submit receipts (inclusive of VAT payments) to the relevant government ministries for reimbursement.

Every purchase that includes a VAT payment must be submitted for reimbursement. In some cases, the ministry responsible for reimbursement may not reimburse for smaller VAT payments. In such cases, the HEALTH STRAT must indicate on the *Documentation of Submission for VAT Reimbursement Form*) the submission of the receipt, the date of submission, the VAT amount paid to the vendor, and the failure of the host-country government to reimburse such expenses.

As described above, HEALTH STRAT is required to complete and submit the *Documentation of Submission for VAT Reimbursement Form*) as part of the monthly Finance Report. In addition, all VAT payments and credits must be listed in the VAT column of the checking account registers and petty cash registers of the monthly Finance Report. However HEALTH STRAT must always make demonstrable efforts to seek VAT exemption from the relevant government ministry before paying the VAT to the vendor.