

New Partners Initiative

10 Steps for Managing Sub-Grants

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Introduction

The Academy for Educational Development (AED) provides technical support for grantees of the President's Emergency Plan for AIDS Relief (PEPFAR) New Partners Initiative (NPI). AED's support is aimed at building organisational capacity for managing United States Government (USG) grant awards and strengthening grantees' programmatic response to HIV and AIDS. AED's efforts are funded under USAID Cooperative Agreement (CA No. GHS-A-00-07-00019-00).

Grants under the NPI Program are governed by the regulations set out in USAID ADS Chapter 303, *Grants and Cooperative Agreements to Non-Governmental Organisation*. Many of the regulations and mandatory provisions under your Cooperative Agreement with USG must "flow-down" to any organisation you support with USG funds through sub-awards or sub-grant agreements. These regulatory flow-downs include those stated within the, *Mandatory Standard Provisions for Non-US Non-Governmental Recipients* and *Circular A-122 Cost Principles for Non-Profit Organisation*.

This document presents a brief, field-friendly summary of USG guidance for awarding, administering and managing NPI grant awards in 10 concise steps. It is intended to support PEPFAR/NPI grantees in managing their cooperative agreements with USG and the sub-awards agreements made with their partners for implementing PEPFAR funded programmes.

For the purposes of this document, *sub-awards, sub-grants and sub-agreements* are used interchangeably to mean an award of financial assistance made by a prime recipient of USG funding to an eligible partner (sub-recipient). *Sub-awards of financial assistance may also referred to as sub-grants or sub-agreements*.

Likewise, *partners, sub-partners and sub-recipients* are used interchangeably to mean those organisations receiving funding from your organisation through a sub-award from USG fund for supporting the overall objectives of your USG-funded programme.

1. Select Your Partners

Many NPI grantees need to partner with other organizations to implement their program. When these partnerships involve sub-awards there are special requirements for approvals you will need to secure. A sub-award means financial assistance made under made from your USG award, These requirements will depend on the process through which you identified your partners.

1.1 Considerations for Identifying Partners

HIV and AIDS responses that enable access to a continuum of services across prevention, care and support have a greater likelihood of success than isolated services. Comprehensive responses require partnerships with organisations and associations poised to provide more and better services at community level. As you seek new partnerships for expanding the reach and comprehensiveness of your intervention, think about prospective partners':

- credibility in the community
- mission and values in relation to yours
- financial management experience
- service delivery history & potential
- openness to technical support
- change management needs
- capacity building needs in relation to time needed to show results

1.2 Partner Selection Processes

The process through which you select your implementing partners will determine the kind of justification required to secure USG approval. The requirements related to each process of selection are summarised below.

1.2.1. When Partners Are Identified Within Original Application

If your partners were identified in your initial application for funding, along with their detailed budget and scope of work and your award references them explicitly in the cooperative agreement, no further requirements are needed to consider these partners for sub-grants. This represents the first step in a more intense approval process. Other sections of this manual will lay out other requirements for full approval of partners and their proposed scope of work, budgets and overall performance expectations.

1.2.2 When Partners Are Selected by USG

If your partner was determined in advance USG; documentation must then be provided by a legal representative of the US Government stating that they have directed such inclusion and the basis for doing so.

1.2.3 When Partners Are Selected Without Competition Because of Unique Attributes

Under rare circumstances, partners may be selected without competition on the basis of their unique qualifications. This selection process is called a *sole source* and requires that you justify why open solicitation was not engaged to identify other potential partners to provide the services needed.

1.2.4 When Partners Are Selected Competitively

Competitive selection of partners is the preferred way to go. Competition increases the likelihood of cost-competitiveness as well as the possibilities for finding a more diverse range of skill-sets and more innovative approaches. Competitive selection processes usually rely on *Requests for Applications* (RFA) or *Requests for Proposals* (RFP) circulated widely enough to reach organisations outside of your normal circle. When these processes are employed, announcements should provide the following key information:

- your program objectives, including areas of special interest
- minimum eligibility requirements for applicants
- criteria for evaluating applications
- funds available, period of performance, and the number of awards anticipated
- types of activities and costs that will not be funded
- required or suggested elements for cost-sharing
- required format and deadline for submitting applications
- how interested parties may obtain application materials

If your organization intends to use a competitive selection process, the AED NPI Team can help you with templates for RFAs/RFPs or review criteria for assessing applications.

2. Negotiate Costs

Finalising the selection of your implementing partner opens the door for refinements to both technical and financial elements of their application. To obligate USG funds, you must first ensure that your partners' proposals are technically sound and that their budgets conform to USG regulations governing 'reasonable and allocable costs' as outlined in *Circular A-122*. Your partners being considered for sub-awards must justify their proposed costs for each element of their program. Your organization, as the prime recipient of USG funding, must review the sub-partners' proposed budgets to ensure that their costs are aligned to USG cost principles prior to issuing an award. Your technical review and cost analysis should:

1. analyse the budget presented —determine cost breakdowns and evaluate specific elements of cost
2. verify cost data
3. assess the necessity, reasonableness and allocability of items budgeted
4. ensure that budget items are allowed under applicable USG cost principles

The negotiation process for resolving what is reasonable, allocable and allowable for sub-awards must be documented via a *Memorandum of Negotiation** and must include documentation of cost analysis.

3. Agree on Cost-Share

While some USG-funded agreements place cost-share requirements on prime recipients of awards, under the NPI program, there are no such requirements for recipients of sub-awards. Sub-awardees are nonetheless encouraged to identify opportunities for cost-share.

Contributions, both cash and in-kind, can be accepted as cost-share when they meet the following criteria:

- contributions are verifiable from the sub-partner's records
- contributions are not counted for any other USG funded program
- contributions are reasonably related to proper and efficient accomplishment of project objectives and would have been allowable under the applicable Federal cost principles
- contributions were not paid for by USG under another grant or agreement (unless authorized by the US Government law)

If a cost-share plan is developed, reflect it in the budget. Reporting requirements for cost-share depends on the length and type of award. AED's NPI Technical Support Team can assist you in establishing systems for tracking and reporting on cost-share.

4. Select Mechanism for Sub-Awards

Regardless of how your partners were selected, a formal agreement must be put in place outlining how funds are to be awarded under your Cooperative Agreement with the USG. There are two ways in which sub-awards are made

* See example of Memorandum of Negotiations in Appendix

—through a standard grant agreement or a simplified grant agreement called a fixed obligation grant (FOG).

4.1 Standard Grant Agreement

The Standard Grant Agreement between USG and non-US organisation is the preferred option for sub-granting. It includes the *Mandatory Standard Provisions for Non-US, Nongovernmental Recipients* and the *Required as Applicable Standard Provisions*. These documents may be found at:

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

4.2 Fixed Obligation Grant Agreement (FOGs)

Fixed Obligation Grants are used to support discrete, short-term projects. FOGs are typically used when programmatic accomplishments and results are easily quantifiable into benchmarks or deliverables. According to *ADS E303.5.15b*, they are “intended for use to support specific projects where there is a certainty about the cost, and in which the accomplishment of the purposes or milestones in the grant are readily discernible, such as conferences and supplies.” FOGs are shorter, less complicated, fixed payments tied to deliverables and governed by the following conditions:

- the total grant must not exceed USD\$100,000
- all allocable costs must be identified in the grant agreement
- international air travel, indirect costs, equipment costing more than \$5,000 or having a useful life of more than one year are not allowable costs
- all purchases must meet the rules governing local cost financing
- sub-grantee receives payment on a reimbursement basis (no advances)
- sub-grantee certifies its non-involvement in financing terrorist activities or its association with terrorists, its active engagement in promoting a drug-free workplace and that it is not excluded or disqualified from participation in business with the USG on any grounds whatsoever

Before signing FOGs, verify costs up front. Ensure that there is sufficient cost history to negotiate realistic deliverable-based payments.

Comparison of Types of Grant Agreements	
Standard Grant Agreement	Fixed Obligation Grant Agreement
generally appropriate for all types of grantees	not to be used for high-risk grantees
the amount and time frame for funds obligated must be specified in this agreement	the entire amount of the award is obligated upon execution of a FOG agreement

Comparison of Types of Grant Agreements

Standard Grant Agreement	Fixed Obligation Grant Agreement
agreement requires adequate accounting, financial and management responsibility in place	agreement requires adequate accounting, financial and management responsibility in place
<i>Financial Negotiation Memorandum</i> must be placed in file	<i>Financial Negotiation Memorandum</i> must be placed in file
accommodate any level of awards	only for grants up to USD\$100,000
payments monthly/quarterly based on approved budget and workplan	payments based on upon completion of milestones and submission of deliverables
payments may be made as advances (pre-spending)	payments must be on a reimbursement basis (post-spending)
costs reimbursable based on receipts	costs fixed and predetermined
costs identified in the agreement or attachment	costs identified within the agreement text
equipment > \$5,000 may be purchased with prior approval from AO	no equipment exceeding the \$5,000/unit threshold may be authorised
grantee submits financial reports and requests for advance according to pre-determined schedule	grantee needs to certify which activities were completed before payment is made
all <i>Mandatory Standard Provisions</i> and those <i>Required As Applicable Standard Provisions</i> are included in agreement	only applicable provisions to the individual grant are included in the agreement
grantee must sign all relevant USG certifications	grantee must sign all relevant USG certifications

4.3 Mandatory Provisions and Guidelines

USG awards are subject to all of the regulations imposed by the government of the United States of America. The provisions for the use of USG funds are to be incorporated in all agreements with both primary recipients and their sub-partners —any entity receiving USG funding.

Standard Provisions – Grants are made to sub-partners solely on condition that the funds will be administered in accordance with the terms and conditions as set forth in the “*Mandatory Standard Provisions*” documents. The full text of applicable provisions for sub-partners can be found online at: <http://www.usaid.gov/policy/ads/300/303maa.pdf>

5. Secure USG Approval

Whatever the process of partner selection, you must request and obtain, in writing, approval for sub-awards to implementing partners. Requirements for obtaining approval are outlined within the “*Substantial Involvement*” section of each NPI grantee’s award document.

5.1 Requirements for USG Approval

Requests for approval include submission of the following documents:

- a *selection memorandum* that explains the process used for identifying partners for sub-grants
- solicitation document(s) —i.e. the RFA/RFP issued
- evaluation criteria used to guide the selection process
- matrix comparing assessments of all submitted applications
- the selected partner’s technical proposal —complete with budget, budget narrative, cost and pricing information (Negotiations Memo)
- signed acceptance of USG required certifications
- sub-grant award agreement drafted for implementing partner

These documents should be forwarded to the Cognisant Technical Officer (CTO) and copied to your in-country Activity Manager (AM) and AED Field Liaison.

6. Understand the Award Process

In order to secure approval of your partners and their budgets, your organization must ensure that the agreement award clearly defines the activities that make up the program being supported. The program description should also identify the purpose of the program and provide a full description of the implementation plan.

Many of the terms and conditions of the prime agreement flow down to the sub-recipients of USG funding. Hence, one of the expressed responsibilities of the prime USG recipient is to build the capacity of sub-recipients to comply with technical and financial management obligations under the sub-award agreement. An assessment of partner capabilities is therefore essential prior to issuing the award. This allows you to design suitable supports for strengthening partners’ capacity operate in compliance of the terms of their

sub-agreements. The NPI Support Team can help you design the tools and processes for assessing partners' institutional capacity.

Documents for submission with requests for approval of sub-awards:

- *Selection Memorandum* that explains the process by which Sub-recipients were selected
- *Solicitation Document(s)*
- evaluation criteria and assessment matrix
- sub-recipient budget, budget narrative, cost and pricing information (*Negotiations Memo*) and signed certifications as required, and technical proposal
- *Draft Sub-Recipient Agreement*

Once all documentation has been provided, and if deemed in good order, approval for issuance of sub-award shall be provided in writing to your organization by the NPI Program. With this documentation, and all other documentation appropriately maintained on file within your organization, you may now issue the award for signature. All certifications required and the actual grant document must be signed by your sub-grantee and on file prior within your offices prior to issuance of any payments. Full copies of award should also be maintained by your sub-grantees.

It is important to note, under the terms of your agreement and in alignment with US Government regulations, USAID and/or AED can do a spot check at any time to ensure complete and appropriate files are maintained for sub-grantees.

Once awarded, a plan for required branding and marking must be adopted and certifications of terrorism and disbarment searches must be completed.

7. Manage Your Award

Your organization is responsible for providing oversight of the financial and technical management aspects of your sub-grantees through reviews of reports, correspondence, site visits and other appropriate means. When necessary you may request for, or arrange for special audits. To ensure success, you should provide a post award orientation to your sub-partners to clarify the roles, responsibilities and authorities of your organization's officials who will administer the award and to help your sub-grantee understand all needed technical and administrative information.

Your role as the funding organization is to support and monitor implementation by measuring and evaluating the sub-partner's progress and to be involved as appropriate. However, you should not control or try to

control the sub-partner or any sub-sub-partner day-to-day management of their program.

We recommend that sub-partners be awarded a grant for an initial period of one year renewable but depending on available funds and approval by AED/USAID.

7.1 Help Partners Manage their Sub-Grant

So now that your partners have had their budgets analysed and aligned to USG regulations, you will need to look at their capacity for financial and programme management. It is your responsibility to ensure that sub-grantees have the capacity to manage their award. Awards should only be issued after your organization determines that partners have the necessary management competence to practice mutually agreed methods of accountability for funds and assets provided by the grant.

7.1 Pre-Award Assessment

USG regulations require that you conduct a pre-award survey prior to issuance of an award. A pre-award assessment should assess:

- accounting, record keeping, and overall financial management systems against standards for good practice
- internal control systems like segregation of duties, personnel and travel policies, contracting procedures, etc. against USG applicable cost principles
- property management system where applicable
- procedures for administration and monitoring of sub awards against standards for good practice
- procurement system against established standards.

7.2 Basic Eligibility Requirements

Basic requirements of eligibility for sub-awards are established through:

- proof of legal status
- the organisation's registration documents
- tax identification number and official documentation of tax payment
- financial report for the most recent reporting period
- external audit report
- proof of a separate bank account for NPI sub-grant for partners with a standard grant agreement. (Separate account not required on FOGs)

This information should be gathered and maintained in case of audits.

8. Manage Payments

The disbursement process you will use depends on the grant type mechanism employed. Under Standard Grant Agreements, payment to sub-partners is based on reimbursement of incurred costs (rather than reimbursement of amounts defined and approved in the budget). The reimbursement takes place at the sub-partner's request, submitted in the form of a financial report on monthly expenditures that is based on copies of bills (or other documents evidencing payment of amounts due). The basis for reimbursement of the incurred expenditures is provided by all accounting documents used by the sub-partner organization in its own bookkeeping.

Similar to AED's process on Standard Grants, we recommend you provide funding in advance for two months of programming. Sub-partners are expected to then submit financial receipts for one month to reconcile, and will remain one month "ahead" for the duration of the grant.

How often you obligate funds may vary depending on the sub-partner burn rate. Individual Agreements with sub-partner specify the type and frequency of financial reporting required.

9. Report on Schedule

To ensure your organization can meet reporting requirements of your NPI Award and for PEPFAR funding, we suggest that you incorporate the following reporting requirements into your sub-agreements:

- Submit monthly reports on finances and budget (dates and contents are stipulated in each sub-partner agreement)
- Submit quarterly on the program implementation (schedules are stipulated in each sub-partner agreement). Reports shall include progress of major activities and detail results and benchmarks by using targets defined in the work-plan, and shall include a special section on the progress of the program's monitoring and evaluation. Sub-partners must document and report on their success stories annually, when they submit their annual report.
- Annual report : Shall cover a 12 month reporting period (as stipulated in the sub-agreement) which includes all activities reported in the quarterly reports.
- Final Report: The sub-partner shall submit a final performance report which summarizes the accomplishments of the sub-agreement activities undertaken, problems encountered and recommendations regarding unfinished work or program continuation.

10. Plan for Close Out

10.1 Final Payment

Sub- Agreements should specify that final grant payments will not be made until the final close-out of the grant is completed (e.g., all financial reports, programming reports, and publications produced with grant funds are received). With a standard grant, typically 10 percent of the total amount of the grant is withheld until close-out completion. With a FOG, the final milestone typically must be completed for final payment. Sub-partners should submit a final request for payment stating that it is the final invoice.

10.2 Formal Close-Out

(at the end of the grant period) When the end of the grant period has been reached, the grant must be “closed out.” Close-out requires the following.

Close-Out Certification from Sub-partner: Before closing out a grant, your organization should request from the sub-partner a signed statement certifying the following:

- that partner has received all funding due under the sub-agreement
- that the partner is due no outstanding funding
- that the partner has no outstanding debts to your organization

10.3 Equipment Inventory and Transfer

If the sub-partner has used grant funds for the purchase of equipment of any sort, an inventory must be reviewed by your organization for further instruction on the disposition of that equipment.

10.4 Publications and Materials Produced

Copies of all publications and materials produced with NPI grant funds must be sent to the NPI office, including electronic copies. These publications should be sent to the NPI office when they are produced and not just at the end of the grant period. Agreements may also require approval of all publications that sub-partners will produce before they are published.