

Implementation Tips for USAID Partners

Sharing Resources and Knowledge Among the Global CSO Community

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Definitions

Allowable Cost—A cost incurred specifically to support or advance the objectives of your award that the USG (or USAID) will permit to be reimbursed.

Procurement—The process of acquiring goods, services and/or consultants in support of program activities.

Micro-Purchase Threshold—The amount your organization sets under which your procurement process may be simplified.

[Federal Acquisition Regulation \(FAR\) 2.101](#) defines the micro-purchase threshold at \$3,500. (It is important to review the regulation to see if it has been updated).

Organizations may set a more restrictive threshold. For example, if your micro-purchase threshold is \$1,000, you may be required to secure a minimum of three bids on items above that amount but not on items equal to or below that amount.

Procurement Processes and Allowability

Q. What is the process for purchasing goods and services using USAID funds? How do we know when a cost is allowable?

A. The U.S. Government's (USG) procurement regulations exist to ensure that a recipient of USG funding uses it to advance the purpose of the award, spends it wisely and does not procure anything in conflict with the public's interest. To achieve this, recipients are required to carefully document their organizations' procurements and make sure that this process is in line with USG requirements.

The following describes the procurement process and the steps your organization must follow when purchasing items with USG funds.

Procurement Phases

The procurement process can be broken down into four phases:

- 1. Prior to Procurement**—Before you begin to procure an item, you must have an approved budget with a budget category appropriate to cover it. Then, check that the item passes the allowability test and is not a restricted or ineligible commodity before you begin the procurement.
- 2. Procurement Phase**—This is the process just before purchasing when you have the funding and begin planning for the specific purchase. Depending on the dollar amount, this may involve soliciting a minimum of three bids, requiring sealed bids and/or acquiring pricing information and reviewing different vendors. Your own internal procurement policy guides much of this process.
- 3. Final Purchase Process**—To ensure adequate segregation of duties, the person soliciting the bids should be different from the person selecting the vendor, and it is best practice (especially for larger transactions) for an evaluation committee to review the bids and select a vendor based on best price or best value in view of your organization's needs. Once the committee has made a decision and settled on a price, you must confirm that the vendor is not on the excluded parties list at www.sam.gov. Then, execute a purchase order, blanket purchase agreement or other procurement method and ensure that the documentation of the selection process is in place.

References

[USAID Acquisition & Assistance Policy Directives \(AAPDS\) and Contract Information Bulletins \(CIBS\)](#)

AAPDs serve as official sources for the latest updates in acquisition and assistance (A&A) policy and requirements.

[2 CFR 200 Subpart E](#)

Procurement Standards (USG-wide)

[ADS Chapter 312.](#)

Procurement Procedures (specific to USAID awards)

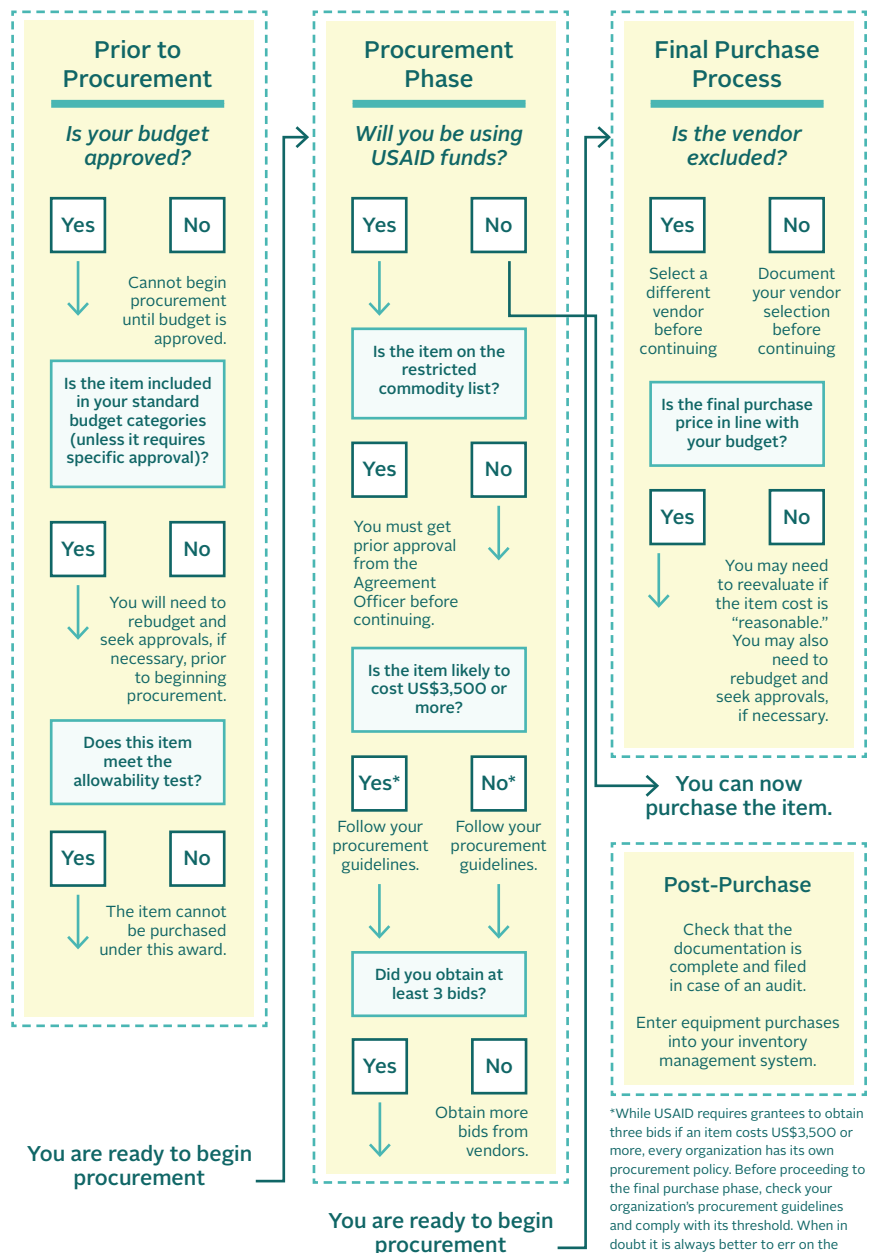
[SAM.gov](#)

System for Award Management is a website housing USG contracting databases, including the Excluded Parties List System—a database of organizations that for one reason or another are not eligible to receive USG funds, even as a supplier.

4. Post Purchase—Upon receiving goods and services, certify completion through documentation, such as a goods received note or certification of completion. Enter the relevant information into your inventory tracking system, if applicable.

If you do not have a procurement policy, it is critical that your organization adopts one to ensure that all goods, services and/or consultants it procures will be allowable under your award.

The diagram below is a procurement process map. It summarizes and highlights the major steps in a procurement process. Depending on your organization's procurement policy, there may be additional and/or more detailed steps that you must follow.



Procurement Best Practices

- Establish and follow your written procurement policies and procedures.
- Conduct annual procurement planning that includes office and program equipment, supplies and services.
- Link procurement planning to budget and work-planning processes.
- Provide for open competition to the fullest extent possible.
- Obtain quotations, review quotations against established criteria, use evaluation committees and justify vendor selection.
- Ensure vendors are not on the excluded parties list by checking www.sam.gov
- Issue goods received notes or certificates of completion indicating receipt of purchased goods or acceptance of services performed.
- Document every step in the procurement process.
- Keep an inventory of all equipment purchased and update it regularly, noting condition and location of items.
- Ensure that your subrecipient has an appropriate procurement policy in place prior to award if you are a prime.

Allowable, Unallowable, Restricted, and Ineligible Costs

The most important concept in procurement under USG-funded awards is to understand what costs are and are not allowable. Even though your budget has been approved, it does not mean that all of the line items in that budget are allowable.

A number of rules address what is allowed and what is not allowed, including U.S. laws, funding agency regulations, host country rules and agreement restrictions.

Before procuring any goods or services under your award, make sure each item passes the allowability test. A good way to keep track of these is to develop lists of allowable and unallowable items. In addition you should customize your allowable list by adding any specific items approved by your agency and agreement.

Allowable costs are costs of things you are permitted to purchase or spend money on under your agreement. Allowable costs that are reasonable and necessary for the performance of your award include salaries, fringe benefits, travel, office support costs and activity costs. (See [2 CFR 200 Subpart E](#).)

Unallowable costs are costs related to doing business that the USG won't reimburse as part of your award. Unallowable costs include alcoholic beverages, most forms of advertising, public relations and promotional materials for the organization (placing a job ad or RFQ in a newspaper is allowable, but placing an advertisement for your organization is not allowable), bad debts/losses, charitable contributions, political donations, entertainment (except where specific costs have a programmatic purpose and are authorized in the budget or approved by USG), buildings/land (unless authorized by USG), fines/penalties for failure to comply with the law, fundraising, interest expense/financing costs, membership in social organizations and airfare costs in excess of basic unrestricted class (that is, "business class" or "first class." (See [2 CFR 200 Subpart E](#).)

USAID has defined a list of **restricted** goods that require written approval prior to procuring. Restricted items include agricultural commodities, motor vehicles, pharmaceuticals, contraceptives and condoms, pesticides, used equipment and fertilizer. (See [ADS Chapter 312](#).)

Finally, there is a list of **ineligible** goods and services that cannot be purchased with USAID funds under any circumstances. Ineligible or prohibited costs include military equipment, surveillance equipment, goods/services in support of police and other law enforcement activities, abortion equipment and services, luxury goods, gambling equipment and weather modification equipment. (See [ADS Chapter 312](#).)

Review your procurement policy and funding agency regulations closely to make sure that your staff and subrecipients understand them. Subrecipients are held to the same funding agency procurement requirements as prime recipients.

Note the first two are USG wide, and the last two are USAID specific.

5 Key Questions to Test Allowability

Can you use USG funds to purchase it? Apply these five questions to all costs associated with your award, including direct and indirect costs.

- 1.** Is the cost reasonable? Is the cost comparable to what other organizations or prudent businesspersons are paying for the same item or service? Have you followed your organization's procurement policy, for example, with regard to getting bids and reaching a fair price?
- 2.** Can you allocate the cost to this specific award? Is the cost required to advance the work under your award?
- 3.** Is the cost consistent? Have you been consistent in assigning costs across all the work your organization does, regardless of the source of funding? For example, do you pay the same consultants the same rates for similar activities under your USG-funded award as you do under projects funded by other donors?
- 4.** Does the cost conform to the rules and regulations of the award? Is the cost in compliance with limitations and exclusions contained in the terms and conditions of your award? Have the individuals responsible for the expenditure acted ethically in carrying out the procurement?
- 5.** Has the cost been adequately documented? Is there adequate supporting documentation and detail of the procurement to support the charges of the cost to the award? Be sure to document your answers to these questions during the procurement process. Create a form listing these questions along with a place to fill in the item, budgeted amount, date and who in your organization filled out the form. Record the answers, making any necessary notes, and then file the forms for future reference in case of an audit.

For More Information

For this or other issues of *Implementation Tips*, please visit www.NGOConnect.net. The Web site is a dynamic and interactive portal dedicated to connecting and strengthening CSOs, networks and CSO support organizations worldwide.

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Source/Nationality Regulations

Certain provisions in the U.S. Federal Acquisition Regulations ([FAR Section 25.701](#)) apply to grantees of most USG agencies operating overseas and restrict transactions involving the following countries as of April 2010:

- Cuba
- Iran
- Sudan
- Burma (Myanmar)
- North Korea

FAR regulations that apply to your organization are included in your Cooperative Agreement.

In addition, USAID partners will be assigned a “geographic code,” which designates specific countries from which you are authorized to procure.

