

Appendix 7

Sub-Grant Development and Management Guidelines

ESTABLISHING A COOPERATIVE AGREEMENT WITH NDI

- PROCEDURES MANUAL -

Updated 6/00

Welcome to NDI!

As a component of its program activities, the National Democratic Institute for International Affairs (NDI) from time to time enters into cooperative agreements with foreign civic associations, nonpartisan institutes or similar organizations. The agreements are designed to enhance the organization's capabilities and NDI's democratic development programs in the country. In all cases, NDI works in cooperation with the organization to plan and implement program work in the field of political party building, civic education, election monitoring, or governance, and thus the arrangement is a "cooperative agreement" as opposed to a grant.

This manual is divided into five sections:

- I. APPLICATION PROCEDURES
- II. COOPERATIVE AGREEMENT PROCEDURES
- III. GRANT MONITORING PROCEDURES
- IV. AUDIT
- V. CLOSE-OUT PROCEDURES

I. APPLICATION PROCEDURES

Before submitting a proposal, speak to an NDI representative to determine if NDI is planning to work on a specific project with a local organization and how much funding would be available for those activities. Once this is completed, prepare a proposal. The proposal should include:

- o proposal summary
- o relevant background information on the country
- o description of project objectives
- o description of activities
- o an evaluation plan
- o background on the organization
- o a budget

Special attention should be given to describing the type and level of cooperation that is to exist between the organization and NDI. Please refer to Attachment A for a more detailed explanation of what should be included in each section of the proposal and to Attachment B for a sample line item budget.

A. Proposal. In developing the proposal, special attention must be paid to developing an activity plan and budget that are realistic. The proposal should state clearly the project goals and

objectives, its cost, and methodology. The budget must adequately reflect the costs of successfully conducting the proposed activities. Preparation of the budget is extremely important because the budget defines the project activity.

B. Restrictions. All organizations that receive funds from NDI must accept and follow certain procedures and guidelines. This is to ensure an open and transparent accounting of activities and expenditures. This document defines these procedures and guidelines.

C. NDI Approval. Final approval authority for all proposals rests with NDI senior officers in Washington, DC. Once all documents are received by NDI Washington it often takes from one to 3 months for the proposal to receive final approval and for funds to be disbursed. Once final approval has been given, an NDI Grants Officer will be assigned to monitor the grant and assist the organization in understanding and following specific grants requirements. All documents should be sent to:

Subgrants Manager
National Democratic Institute
1717 Massachusetts Ave., NW
Washington, DC 20036
USA

II. COOPERATIVE AGREEMENT PROCEDURES

Review of Cooperative Agreement with Potential Subgrantee. Once the proposal has been approved by NDI Washington, the subgrantee will receive a copy of the cooperative agreement and appendices. It is important that you read this document thoroughly and contact the NDI Grants Officer if you have any questions before signing it. The final agreement document will explain the various conditions and requirements of the cooperative agreement. The organizational questionnaire is extremely important as it provides NDI information on your organization's ability to manage funds. Particular attention is paid to internal control mechanisms and the ability of the organization to properly account for all funds.

The following forms must be filled out and sent to NDI Washington before the cooperative agreement can become official any funds can be disbursed:

- organizational questionnaire
- two copies of the signature page of the cooperative agreement, signed by the organization's authorized representative
- verification of separate bank account form (see Attachment H)
- a copy of the authorization to request drawdown form (see Attachment D)
- request for drawdown form - for first drawdown (see Attachment E)

- articles of incorporation and by-laws of the organization

Upon receipt of these documents, the president of NDI countersigns the cooperative agreement and the cooperative agreement takes effect. A final copy of the cooperative agreement will be returned to the subgrantee.

The following is a breakdown of the sections within the cooperative agreement that you should be aware of and review with the Grants Officer:

A. Duration of Cooperative Agreement. Duration of the agreement should provide ample time for the subgrantee to conduct and report on proposed activities, but not allow for substantial delays in activities or for program funds to remain idle.

B. Drawdowns. For the purposes of NDI's cooperative agreements, a drawdown is the transfer of funds from the grantor, in this case NDI, to the subgrantee. Funds shall be disbursed to the subgrantee on an as-needed basis. NDI shall have no obligation to disburse funds until, in NDI's sole judgement, the subgrantee is in need of such funds. NDI will not be obligated to disburse any funds before the dates specified. All drawdowns will be requested in the manner stipulated in the cooperative agreement.

Drawdowns are usually made in the form of wire transfers from the grantor's bank to the subgrantee's bank. Only in extreme rare emergency cases that the transfer of funds is acceptable in the form of cashier's checks, traveler's checks with an NDI staff person who is going on to the subgrantee's country, or in the form of cash. These cases require approval well in advance from the president or vice-president of NDI.

Review carefully the dates and amounts for the drawdown of funds. A sample drawdown schedule is shown in Attachment C. Drawdown dates and amounts should accurately reflect the subgrantee's cash flow needs, so that grant funds do not remain idle. Before transferring the next drawdown, the subgrantee should send in both financial and narrative reports. **LATE FINANCIAL AND/OR NARRATIVE REPORTS WILL RESULT IN THE DELAY OF FUTURE DRAWDOWNS.**

C. Authorization to Request Drawdown. This form should contain the signatures of all persons authorized to request cooperative agreement funds on behalf of the subgrantee. One copy is completed and returned to NDI and the other is completed and kept with the subgrantee's records.

Any change in the persons authorized to request funds on behalf of the subgrantee must be conveyed to NDI in writing and a revised authorization to request drawdown form must be submitted. A copy of the authorization to request drawdown is shown in Attachment D.

D. Request for Drawdown. The request for drawdown (refer to Attachment E) is to be completed and returned to NDI in advance of the requested date for transfer of funds. A copy of each request for drawdown must be kept with the subgrantee's records. As stated

previously, requests for drawdowns shall be completed in the manner stipulated in the cooperative agreement.

E. Procurement Regulations. All goods and services procured with funds provided under the cooperative agreement must conform to regulations set out in OMB Circular A-110 and the requirements of the agreement. Be sure to review OMB Circular A-110 carefully, as it provides guidelines on what expenditures are allowable and what are not. Purchase of non-expendable equipment such as furniture and office equipment, with a life expectancy of more than one year and a per unit purchase price of more than US \$500, other than as specifically named in the Project Budget, is not allowable under the terms of the cooperative agreement without prior written approval from NDI.

F. Reporting Schedule. All reports are due to NDI 15 days after the reporting period ends. All final reports, project evaluation and nonexpendable goods report are due to NDI within 30 days after the completion of the agreement.

In some instances, such as when the duration of the cooperative agreement is for a short period of time, like one or two months, only a final report is required. Your requirements will be described in the reporting schedule.

G. Description of Reports. Attachment F contains a description of the various required reports.

H. Nonexpendable Goods. As used for the purpose of this cooperative agreement, a non-expendable good is an article of tangible property having a useful life of two years or more and an acquisition cost of \$500 or more per unit. All equipment which meets the above description is considered a nonexpendable good. All nonexpendable goods must be fully documented according to the enclosed form (refer to Attachment G). A completed list of all nonexpendable goods must accompany the first financial report and any updates along with the next report. A final copy should be sent along with your final financial report.

I. Banking Information. All funds awarded under cooperative agreements must be kept in a separate bank account and cannot be mixed or co-mingled with any other sources of funding. A sample verification of separate bank account form is included in attachment H. This form must be completed and returned to NDI before any grant funds will be paid to the grantee. If an initial deposit must be made to open the required separate bank account, the Grantee may use non-Grant funds for this purpose, and withdraw the non-Grant funds following receipts of the initial advance of Grant funds.

J. Other Relevant Subgrantee Information. NDI will gather other relevant subgrantee information, such as the organization's charter, articles of incorporation or other documents legally constituting the organization, its by-laws and its board of directors.

K. Amendments and Modification. All amendments or modifications to the cooperative agreement shall have no effect until they are in writing and signed by representatives of both NDI and the subgrantee organization. All notices to NDI are effective upon receipt.

L. Prohibited Activities. The subgrantee shall not engage in or use grant funds for the following activities: lobbying, political activity in the U.S., support for political campaigns, violation of law, support for violence and/or intelligence activity.

M. Other Provisions. The subgrantee agrees to accept indemnity of NDI both its officers and directors, cost of litigation, and no partnership or agency.

III. GRANT MONITORING PROCEDURES

The Grants Officer maintains regular contact with the subgrantee in order to effectively monitor the status of program activity and funds. This contact is in the form of on-site visits, review of reports, and phone and fax contact.

If NDI should determine that the subgrantee is in noncompliance with or in violation of any part of the agreement, NDI shall inform the subgrantee of its noncompliance in writing. The subgrantee shall have ten (10) working days after receipt of the notification to respond, indicating steps taken to remedy the noncompliance. Should NDI determine the subgrantee's actions are inadequate, NDI has the right to terminate the agreement.

NDI may terminate the cooperative agreement if, in its sole discretion, it determines that the subgrantee has failed to comply with the terms and conditions of the agreement or is no longer willing or able to carry out the program proposed by the agreement. In the event of termination, the subgrantee shall return any, and all unexpended or unobligated funds to NDI.

All cooperative agreements are governed by the laws of the United States and the District of Columbia. Any litigation arising from the agreements will take place in the District of Columbia.

A. Maintenance of Records. The subgrantee shall establish policies and procedures, maintain accounts and records and assign personnel to keep track of all activities and expenditures made with cooperative agreement funds. The financial procedures established by the subgrantee shall be consistent with generally accepted accounting procedures and shall enable NDI or its representative to audit or verify the accounts of the subgrantee to ensure compliance with the agreement.

The subgrantee shall maintain for a period of five (5) years all records and documents necessary to conduct a full financial and compliance audit of the activity supported by the cooperative agreement.

B. Subgrantee's Narrative Reports. The subgrantee shall submit a narrative report for each reporting period during the term of the cooperative agreement. The narrative reports shall describe a chronology of events that took place during the reporting period. The report should

specifically address the purpose and activities described in the purpose of the subgrant. Particular achievements and obstacles to the success of the project shall be reported in specific terms. If no activity occurred during the reporting period, the subgrantee shall still submit a narrative report stating that no activity occurred and the reasons why no activity occurred.

Reports shall be reviewed and any question or ambiguities shall be discussed directly with subgrantee. If further description or more clarification is necessary, the subgrantee shall submit additional narrative text.

The subgrantee will also list any programs that were assisted or made possible by support from the cooperative agreement funds. This is most relevant in instances where the cooperative agreement provides infrastructure support, which in turn allows the subgrantee to conduct various program activities. Any activities done in conjunction with NDI, such as participating in NDI sponsored conferences or seminars, must also be mentioned.

C. Subgrantee's Financial Reports. The subgrantee shall submit a financial report for each month or quarter during the term of the agreement. A sample monthly financial report is appended as Attachment L. If no expenditures were made during the reporting period, the subgrantee shall submit a financial report so demonstrating. Reports shall be reviewed and any questions or ambiguities shall be discussed directly with the subgrantee. Should there be changes to the report, the subgrantee shall submit to NDI a revised report.

Financial reports and documents shall also be reviewed for the following items:

1. Receipts. Each expense should be supported by an original receipt, pay sheet, or invoice. Photocopies or faxed documents will be accepted in instances where local laws require that original documents must be retained in the country. Any expenses that do not have one of these supporting documents will not be allowed and the organization will be responsible for reimbursing these claimed expenses.

2. Authorization and Internal Control. All payments must be authorized in advance and must be accompanied by a signed authorization form. In addition, mechanisms to ensure internal control will be evaluated.

3. Line Item Budget. All funds shall be spent in accordance with the approved line item budget. The subgrantee determines that it will be necessary to increase the expenditures in one line item (i.e. Salaries, Printing, etc.) and concurrently decrease the expenditures in another line item; and this increase and decrease exceeds 15% and \$5,000 of the original expenses of either of the line items affected, as indicated in the Project Budget, then prior written approval must be obtained from NDI before such expenditures are made.

4. Allowability of Costs. Unless otherwise stated, costs incurred under a cooperative agreement shall be in accordance with OMB Circular A-122 (see Attachment R). Under no circumstances shall subgrant funds be used for the following:

- * advertisements other than for recruitment of personnel and procurement of goods and services;
- * contributions to contingency reserves for unexpected expenses or occurrences;
- * contributions, gifts, or donations to other organizations or individuals;
- * entertainment including, but not limited to: amusements, diversions, social activities, ceremonials and costs related thereto, such as meals, lodging, rentals, transportation, and gratuities;
- * interest on borrowed capital;
- * fund-raising activities;
- * investment counsel to enhance income from investments;
- * repayment of loss due to excess of costs over income on any other projects;
- * fines, bad debts, alcoholic beverages, or tobacco.

5. Travel and Per Diem. Travel and per diem costs shall be at a rate that is reasonable for the country. Travelers' subsistence expenses which exceed the per diem rates included in the Project Budget may not be paid with subgrant funds without prior written approval from NDI. In addition, a Travel Authorization Form bearing the individual subgrantee name in the title, must be completed each time a person leaves the home city. It must be filled out in detail and signed by both the traveler and the authorizing official. (see Attachment I).

6. Exchange Rate. The subgrantee must include with its financial reports the exchange rate used in the preparation of the financial report. As stipulated in the cooperative agreement, the exchange rate shall be the applicable official exchange rate prevailing at the time the funds are converted into local currency.

7. Personnel and Salaries. Each employee must have an employment contract. All permanent employees must complete a contract and have it signed by the executive director before any employee can be paid. The contract should be placed in his/her personnel file. (see Attachment J). A timesheet should be completed by each paid employee at the end of every pay period and signed by both the employee and the executive director prior to the employee being paid. (Attachment K). The daily consultant fee may not exceed the amount approved in the project budget, without prior approval from NDI.

8. Expense and Receipt Log. A sample chart (see Attachment M) will help keep track of total expenditures and individual line item expenses on monthly/quarterly expense reports. **It is very important that grantees obtain all receipts relating to each transaction.**

9. Bank Statement. A copy of your bank statement is to be sent along with your financial reports.

10. Property Records. The subgrantee's property records should be maintained accurately. The records must include among other things a control system to prevent loss, damage, or theft of property, adequate purchase documentation, and periodic physical inventory information.

IV. AUDIT

The Grantor reserves the right to conduct, or have conducted, audits of the subgrantee's records. The books and accounts of the subgrantee pertaining to the funds granted under the terms of the cooperative agreement shall be open for inspection by an independent certified public accountant or any other duly authorized representative of the grantor with five days written notice, and said books of account shall be legible, kept current and available for copying.

In addition, the National Endowment for Democracy, the United States Information Agency and the Comptroller General of the United States, or their duly authorized representatives, shall have access for the purpose of the audit and examination to any books, documents, papers, and records of the subgrantee that are pertinent to assistance provided by NDI.

The report of any such audit shall be provided to NDI. Should the audit disclose any material instances of noncompliance or indication of fraud, abuse or illegal acts, such information shall be included in the report.

V. CLOSE-OUT PROCEDURES

A. Final Narrative Report. A final narrative report is due to NDI not more than 30 days after the completion of the cooperative agreement. This report contains a detailed description of all activities undertaken with the cooperative agreement funds, including names of key participants, number of participants or attendants, and dates and locations of activities. Copies and examples of materials produced with grant funds, such as radio and television spots, brochures, manuals, posters and public opinion polls are also included with the final narrative report.

As with all other reports, the final narrative report includes a description of all subgrantee activities assisted or made possible by the grant funds.

B. Final Financial Report. A final financial report is due to NDI not more than 30 days after the completion of the cooperative agreement. This reports shall contain a complete line item breakdown of all expenditures paid with cooperative agreement funds.

The applicable exchange shall be included and any unspent or unobligated funds are documented in this report.

C. Project Evaluation. A project evaluation is due to NDI 30 days after the completion of the cooperative agreement. This report contains the subgrantee's analysis of the degree to which the subgrant activities are achieving the project objectives. The items identified as key indicators are described in the subgrant agreement. Based on these indicators, the results of project activities must be analyzed, and conclusions drawn as to the degree to which they contributed to meeting the objectives. This shall include an examination of the effectiveness of current actions and a discussion of future actions to be taken to strengthen success or correct weaknesses. Whenever possible, specific examples of project impact should be described and documented, noting short-

term results and expected long-term changes as well as any unexpected outcomes which have become evident.

D. Nonexpendable Goods Report. A nonexpendable goods report is due to NDI 30 days after the completion of the cooperative agreement. The report must be submitted on the Nonexpendable goods Equipment List (see Attachment G), along with the final financial report.

E. Final Audit. As required by OMB Circular A-133 (see Attachment Q) and stipulated in the cooperative agreement, an independent organization wide audit must be conducted to U. S. Based organization receiving a cooperative agreement totaling \$300,000 or more. This audit shall go beyond the normal financial steps to conduct tests to determine whether subgrantees are complying with applicable laws and regulations related to the grant. As mentioned previously, the audit shall be conducted in accordance with Government Auditing Standards and in the manner stipulated in the cooperative agreement. The report of any such audit shall be provided to NDI.

In the event that no independent audit is conducted, the grantor reserves the right to conduct an agreed upon procedures audit.

F. Audit by General Accounting Office. The General Accounting Office (GAO) has the right to conduct an audit of any subgrantee's financial transactions each fiscal year. As with any audit requested by NDI, the subgrantee shall permit the GAO access to all books, accounts, record, reports, files, and other papers, things or property pertaining to the cooperative agreement and necessary to facilitate the audit. The GAO shall also be granted access to the locations where the subgrantee's accounts and records are normally kept.

G. Return of Surplus Funds. Upon the termination or completion of the cooperative agreement, the subgrantee shall immediately return any unspent and unobligated funds. The subgrantee must repay to NDI any portion of the funds provided herein which is not used for the purposes of this agreement. Any subgrant funds which are not supported by valid documentation in accordance with the subgrant, or which were expended for purposes other than those of the subgrantee, must be returned to NDI upon termination or completion of the cooperative agreement.

H. Return of Interest. All interest earned in excess of \$250 per year shall be remitted to NDI on an annual basis.

I. Disposition of Property. Final disposition of all nonexpendable property purchased with cooperative agreement funds shall be in accordance with OMB Circular A-110, and any subsequent regulations stipulated by the funding source grant. Generally, the title to such items purchased with agreement funds is vested in the subgrantee.

J. Best Interest. If the National Endowment for Democracy, the United States Information Agency, or any of NDI's grantors deem it in the best interest of the United States to terminate its agreement with NDI, NDI may terminate this subgrant by giving the subgrantee thirty (30) days' notice in writing. In the event this subgrant is terminated under this provision, the subgrantee shall immediately terminate any obligations that it may have entered into involving funds provided under this subgrant and shall settle all outstanding liabilities and all claims resulting from the termination of its obligations. Any balance of funds received from NDI that is unused and found to be unnecessary to liquidate outstanding obligations shall be returned to NDI.