



Non-U.S. Organization Pre-Award Survey Guidelines and Support

Additional Help for ADS Chapter 303

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Introduction

This tool was developed with considerable input from the field as well as USAID’s headquarters staff.¹ The 29 evaluative elements represent those items most critical in the formulation of a responsibility determination before a grant is awarded to a non-U.S. organization. Agreement Officers (AOs) may select areas for review that are critical in making a determination for a particular award. (For instance, if there will be no procurement associated with the award, there is no need to do an extensive procurement policies and systems check.) Missions are encouraged to make changes to the NUPAS to more closely align to their particular needs.

Following are guidelines and information to answer frequently asked questions. It is important that the NUPAS (Non-U.S. Organization Pre-award Survey) team review the necessary documentation, noting where there are weaknesses *before* scoring a sub-element or element. Notes to that effect should be recorded in the remarks/recommendations section (Column R in Appendix A2, the Excel checklist; far right column in Appendix A1, the Word checklist). Use this area to properly explain what has been uncovered that may cause concern.

The NUPAS was developed as a tool for purposes of facilitating a responsibility determination for any non-U.S. non-governmental organization. It may also be used to determine the eligibility of an organization when competition is limited to “local entities” (see “Eligibility under competitions limited to local entities”).

Tools to support capacity development

USAID has designed three tools to support capacity development. Missions may amend them as appropriate for their local or regional context.

1. **Mapping Exercise** - conducted for the identification of potential partners, clients and other stakeholders.
2. **Non-U.S. Organization Pre-award Survey (NUPAS)** - a selection tool, to determine a potential partner’s responsibility and whether special award conditions may be required.
3. **Organizational Capacity Assessment (OCA)** – a facilitated self-assessment tool recommended for use shortly after an award is made and periodically repeated to show progress and subsequent priorities.

As noted above, the pre-award survey (NUPAS) precedes an award and is used in the selection process. It is not intended as a substitute for an organizational capacity assessment (OCA), or the associated capacity development **Action Plans** as contemplated by USAID Forward’s **Local Capacity Development (LCD)** reform efforts. The NUPAS and OCA are complementary tools designed for different purposes and time periods.

Purpose of the NUPAS

Conducting a Non-U.S. Organization Pre-award Survey (NUPAS) is the Agency’s tool for making a responsibility determination of a not-for-profit or for-profit non-U.S. organization that is being considered for a USAID grant.

¹ Special thanks to our Missions in the Philippines, West Africa/Ghana, East Africa/Kenya and Tanzania, Southern Africa/South Africa, Haiti and Egypt without whose help this tool would not have been launched.

Missions may request assistance in conducting pre-award surveys from auditors from USAID/Washington, M/OAA/CAS/CAM (Contract Audit Management Branch). Additionally, Missions may conduct pre-award surveys using the NUPAS by hiring audit firms determined by the Regional Inspector General to be an eligible USAID audit firm under the [Guidelines for Financial Audits Contracted by Foreign Recipients](#). The primary objective of the NUPAS is to assist Agreement Officers (AOs) in making a responsibility determination through assessment of a potential awardee's likelihood for compliance with the ***Standard Provisions for Non-U.S. Nongovernmental Recipients***.

NUPAS objectives:

1. To determine whether the organization has sufficient financial and managerial capacity to manage USAID funds in accordance with U.S. Government and USAID requirements,
2. To determine the most appropriate method of financing to use under the potential USAID award, and
3. To determine the degree of support and oversight necessary to ensure proper accountability of funds provided to the organization.

The NUPAS will help determine whether the organization's financial management and internal control systems are adequate to manage, control, account for, and report on the uses of potential USAID funds, thus protecting the U.S. Government's interests. It provides the AO with the information needed to evaluate the ability of a local organization to adequately fulfill the terms of an award, and serves as a tool in the selection of non-U.S. implementing partners. The NUPAS is not to be used in making a responsibility determination for awards to U.S. Non-Governmental Organizations or Public International Organizations (PIOs) under ADS 308.

Eligibility under competitions limited to local entities

When competition is limited to local entities (see ADS 303.3.6.6(b)(2)), whether an awardee meets the Agency's definition of "local" organization must be considered in determining the potential awardee's eligibility for an award. To be considered a "local" organization, an entity must:

- Be organized under the laws of the recipient country;
- Have its principal place of business in the recipient country;
- Be majority owned by individuals who are citizens or lawful permanent residents of the recipient country or be managed by a governing body, the majority of whom are citizens or lawful permanent residents of a recipient country; and
- Not be controlled by a foreign entity or by an individual or individuals who are not citizens or permanent residents of the recipient country.

The term "controlled by" means a majority ownership or beneficiary interest as defined above, or the power, either directly or indirectly, whether exercised or exercisable, to control the election, appointment, or tenure of the organization's managers or a majority of the organization's governing body by any means, e.g., ownership, contract, or operation of law.

"Foreign entity" means an organization that fails to meet any part of the "local organization" definition.

Government controlled and government owned organizations in which the recipient government owns a majority interest or in which the majority of a governing body are government employees, are included in the above definition of local organization.

When competition is limited to regional (indigenous) organizations, the definition can be expanded to include regional organizations that meet the following criteria:

- Be organized under the laws of a country in the region served by the platform;
- Have its principal place of business in the region;
- Be majority owned by individuals who are citizens or lawful permanent residents of the region or be managed by a governing body, the majority of whom are citizens or lawful permanent residents of the region; and
- Not be controlled by a foreign entity or by an individual or individuals who are not citizens or permanent residents of the region.

This requirement does not apply to non-U.S. recipients in which competition has not been limited to local entities. Therefore, when competition is not limited to “local” organizations, do not use sub-criterion 1.1 of the NUPAS.

Scale of assessment

1) Scoring individual elements

Inadequate (Scoring 1)	Significant control weaknesses could expose the organization to significant financial or other loss or otherwise significantly <u>impair its ability to manage</u> USAID funds. (Key deficiencies and SW that are not remediable before the award, or high risk.)
Weak (Scoring 2)	Significant control weaknesses could expose the organization to <u>unacceptable/inadequate</u> levels of unmanaged risk. (Some deficiencies and SW that are not easily remediable before the award, or moderate to high risk.)
Adequate (Scoring 3)	Although a control weakness was noted, compensating controls and other factors exist to reduce the residual risk within the organization to <u>acceptable</u> levels. (No deficiencies, SW [if any] are remediable before the award, or low to moderate risk.)
Strong (Scoring 4)	Overall, a <u>strong</u> control framework is in place given the inherent business risks. Some improvements may be recommended to routine detailed control activities. (No deficiencies or SW or low risk.)

2) Overall score per criterion

- 1.0 – 1.5 Inadequate
- 1.51 – 2.5 Weak

- **2.51 – 3.5 Adequate**
- **3.51 – 4.0 Strong**

If an organization does not meet certain minimum requirements (i.e., scoring a 1 to 1.5), and otherwise is found responsible, the AO can use special award conditions make the award and provide conditions that allow the organization to meet all of the minimum requirements during the award period. ADS 303.3.9.2 contains USAID’s policy for using special award conditions for non-U.S. NGO, supplemented by the guidance below. Sub-criteria will NOT necessarily be of equal weight as each award and prospective partner presents unique circumstances. The “responsibility determination” calls for the application of professional judgment based on all relevant facts and circumstances known to the AO.

If a certain criterion is not relevant given the nature, scope and requirements of the award and the country situation or context, the NUPAS should be modified to meet the Mission’s requirements and interests. Missions are also encouraged to add areas to be evaluated based on their specific needs.

It is not necessary for an organization to have all the illustrative capabilities and attributes listed under each of the four elements (1.1 through 6.2) to support a particular score. Other elements affecting a determination of responsibility can be taken into consideration such as: performance, education, knowledge and experience of finance staff, tone of management, sensitivity to internal controls, and commitment of management and employees to the organization’s mission.

Special award conditions (SACs)

Low scores in areas critical to comply with USAID requirements, or considered to be a priority for the Mission and/or program, may prevent the organization from receiving an award. In such cases, the AO may make an award with special award conditions (SACs) in accordance with ADS 303.3.9.2. If the AO makes the award pursuant to ADS 303.3.9.2, or the NUPAS findings are not resolved prior to the award, the AO must insert a provision, or “special award condition” (SAC), in the resulting instrument to require the recipient to correct the reported deficiencies.

USAID addresses the risk of successful performance by non-U.S. NGOs at both the pre-award, award and post award stages through the NUPAS and SACs. As described in ADS 303.3.9.1, the NUPAS is a pre-award process to identify and establish the baseline for potential areas of risk inherent in making a non-U.S. NGO award. The NUPAS serves as the keystone tool for the AO to make a responsibility determination as required by ADS 303.3.9.1. As described in ADS 303.3.9.2, AOs must adequately address findings resulting from the NUPAS, including conducting a follow-up review or survey to determine the extent to which the recipient corrected the reported inadequacies. Additionally, the AO must document in the Negotiation Memorandum the rationale for including SACs as part of the AO’s overall responsibility determination and explain how the SAC will mitigate the identified risk in an award to a recipient that is not otherwise responsible.

SAC Formulation

When the AO makes an award, he or she may consider requiring any of the following additional conditions:

- a. SACs, such as more detailed or more frequent financial reports for example, and

- b. Technical assistance to the recipient. When the AO determines that more oversight is necessary, the AO may
- Issue a contract to a third party to provide technical assistance to the recipient;
 - Require the recipient to contract for technical assistance; or
 - Have USAID staff provide technical assistance directly to the recipient.

SACs are derived from the AO's responsibility determination, as documented in the negotiation memorandum, and must be included in the recipient's award document. Whenever possible, special award conditions must be for as limited a time period as necessary to mitigate for the identified risks and not for the life of the award.

If a local organization receives an award with special award conditions, the Mission will need to develop a plan to support and monitor progress of the recipient in satisfying the special award conditions. This plan is intended to complement the organizational capacity assessments (OCA) and the associated capacity development action plans contemplated by USAID Forward's Local Capacity Development (LCD) reform efforts.

For SACs that do not cover the entire award period, once the SAC has been satisfied and its conditions have been fully met, the AO must remove the SAC via written modification to the award. The SAC must allow a reasonable amount of time for the recipient to satisfy the condition. In such cases, where satisfaction of a SAC represents mitigation of the corresponding risk for the remainder of the award and the corresponding risk bears directly on the responsibility of the recipient, satisfaction of the SAC must be tied to disbursement under the award such that:

- a. additional funding may not be provided to the recipient if the SAC has not been satisfied and
- b. only the Agreement Officer may make exceptions. The AO must not redelegate this authority to the Agreement Officer's Representative (AOR).

For SACs that cover the entire period of the award, the SAC must clearly state that it covers the entire period of the award or must identify clearly the timeframe(s) or milestones at which the inclusion of the SAC may be reconsidered, amended or removed.

The nature of the additional requirement must be documented in the award and stipulate the nature of the corrective action needed. A SAC must describe the milestone(s) or task(s) the recipient must complete to meet the requirements of the SAC. As a best practice, a SAC:

- a. Must be one or more concise, clearly understood and explicit provisions in the award;
- b. Must be included in the Schedule of the Award;
- c. Must be organized based on the format of the NUPAS criteria;
- d. May be of limited duration or may cover the entire period of the award.

In enforcing SACs, AOs must adhere to the guidance in ADS 303.3.9.2.

Recommended NUPAS review team

In many situations, the scope of the NUPAS will be quite broad, encompassing legal structure, financial management and internal control systems, procurement systems, human resources, performance management, and organizational sustainability indicators. Consequently, the NUPAS needs to be undertaken by a multi-disciplinary team of reviewers with the appropriate expertise and experience, including FSN staff. A typical team (**ADS 303.9.1c**) consists of:

- A Development Objective Team (DOT) member
- The AO or designated OAA specialist, and
- A financial officer/analyst from the Mission or Regional Controller's office.

Prior to conducting the NUPAS, each reviewer should be familiar with the description and requirements of the award as well as the country conditions within which it will be implemented.

Depending on the capacity of the Operating Unit to assemble the above team, the survey may be conducted in whole or in part by a RIG-eligible independent local accounting or audit firm as long as the Scope of Work for such work includes conflict of interest restrictions prohibiting the firm from providing services to entities it surveys for purposes of capacity development or fulfilling SACs, if any.

Three steps for a successful NUPAS

1) Desk review

Missions that conducted a sector Mapping Exercise may have already requested and received documentation from the potential partner. Depending on which of the six criteria are to be reviewed in the NUPAS, the following items, to the extent available, must be collected from the organization for a USAID desk review:

- Articles of incorporation or charter
- Record of legal registration; other material licenses and permits
- By-laws
- Mission statement
- Organizational chart with supporting documentation as to the delegation of authority
- Names of depository commercial banks
- Chart of accounts and corresponding general ledger
- One or more annual financial statements (income and expenditure report and balance sheet)
- Audit report of the most current audit
- Written policies or manuals:
 - Procurement
 - Financial management (accounting and internal controls)
 - Personnel (to include timekeeping/activity reports or other personnel time tracking systems)
 - Travel policies and procedures
- List of funding sources (current year)
- Any additional data needed to make a determination (such as prudential ratios specific to for-profit organizations...see pages 10 and 11 for formulas).

2) The survey

The survey tool helps the NUPAS team assess the strengths and weaknesses of a potential partner. Depending on the nature of the award, the reviewing team will pre-determine the specific areas for review in the following categories:

First Criterion: Legal Structure

- 1.1 Local Organization Definition (if competition is limited to local entities)
- 1.2 Legal Requirements
- 1.3 Organizational Structure
- 1.4 Governance
- 1.5 Control Environment

Second Criterion: Financial Management and Internal Control Systems

- 2.1 Banking Relationship and Accounts
- 2.2 Accounting/Bookkeeping System
- 2.3 Chart of Accounts, General Ledger and Financial Statements
- 2.4 Variance Analysis (Budget to Actual Cost)
- 2.5 Allowable and Unallowable Cost
- 2.6 Direct and Indirect Cost
- 2.7 Payments – Segregation of Duties
- 2.8 Accounting Cycle – Segregation of Duties
- 2.9 Financial Records Management
- 2.10 Sources of Funding
- 2.11 Financial Reporting
- 2.12 Audit and Review of Financial Statements
- 2.13 Financial Management Personnel

Third Criterion: Procurement Systems

- 3.1 Procurement Policies, Procedures and Practices
- 3.2 Compliance with Policies and Procedures – Reasonableness of Price
- 3.3 Procurement and Sub-awards

Fourth Criterion: Human Resources Systems

- 4.1 Overall HR Policies and Procedures
- 4.2 Staff Time Management
- 4.3 Payroll System
- 4.4 Travel Policies and Procedures

Fifth Criterion: Project Performance Management

- 5.1 Technical Evaluation Criteria (TEC to determine)
- 5.2 Project Management Capacity

Sixth Criterion: Organizational Sustainability

- 6.1 Cash Flow Management
- 6.2 Absorptive Capacity

See Appendix A1 or A2 – The Non-U.S. Organization Pre-award Survey (NUPAS) in either a Word (Appendix A1) or an Excel format (Appendix A2). The Excel spreadsheet will calculate average scores for each of the 29 elements within the six criteria (Legal Structure, Financial Management and Internal Control Systems, Procurement Systems, Human Resources Systems, Project Performance Management and Organizational Sustainability) as well as the average score for these six criteria.

3) Final Report

The NUPAS team leader should obtain clearance of the final report from the other team members before submitting it through an Action Memo to the Controller. Once approved by the Controller, the NUPAS report is submitted to the Agreement/Contracting Officer for the “responsibility determination.”

See Appendix B – NUPAS Final Report (suggested format)

See Appendix C – NUPAS Report Table

See Appendix D – NUPAS Questions for Consideration

Prudential Ratios (for use as appropriate with for-profit organizations)

Prudential ratios are standard business metrics to determine the “financial health” and the financial sustainability of an organization. These ratios should be performed using three years of financial statements (this will give a snapshot of whether the organization is growing stronger or weaker). Compiled statements are not reliable, and should not be used. The ratio elements (cash, accounts receivable, liabilities, revenues, etc.) can generally be found on the organization’s annual balance sheet and income statement.

Current Ratio:

An analysis of an organization's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the organization is of paying its obligations. This ratio helps determine overall liquidity (if the ratio is less than 1 the organization has negative working capital, if the ratio is too high the organization may have too much inventory).

Current Assets/Current Liabilities = CR (1.5 or over is a good score)

Acid Test Ratio:

This ratio answers the question “Does the organization have sufficient short-term assets to cover its immediate liabilities without receiving additional revenue or selling off inventory?”

(Cash +Accounts Receivable + Short Term Investments) / Current Liabilities = ATR

Monthly Defensive Interval:

An analysis of how many months an organization can operate on its current liquid assets without having to rely on additional revenues. For example, an organization with a defensive interval of 10.5 could operate for 10.5 months without additional revenues. A high defensive interval is preferable.

$$\text{Current Assets (cash + marketable securities + receivables)}/\text{Annual Operating Expenses} \\ (\text{divided by 12}) = \text{DIR}$$

Working Capital Turnover:

A measurement comparing the depletion of working capital to the generation of revenues over a given period. For example, if the working capital turnover is 2.25 per year, this ratio indicates that revenues average over two times working capital per year. Depending on the organization, this may indicate sufficient working capital for the organization's regular operations. A high working capital turnover ratio is preferable; however, a very high ratio or a negative ratio usually indicates insufficient working capital.

$$\text{Cost of Sales}/\text{Net Working capital} = \text{WCTR}$$

Definitions

The following definitions apply to the NUPAS

Capacity: the ability of a prospective recipient to perform and achieve the objectives of the award in accordance with applicable requirements; this includes technical, operational, financial management and reporting, procurement, sub-award management, legal, policy, and other requirements of the award including any special award conditions.

Deficiency: a material failure to meet a requirement of the award or a combination of "Significant Weaknesses" that increases the risk of unsuccessful performance of the award to an unacceptable level.

Responsibility determination: the pre-award process for making a determination in accordance with ADS 303 that a prospective local organization recipient of a USAID grant and cooperative agreement within the NUPAS threshold "*has the capacity to adequately perform the award in accordance with the principles established by USAID and the Office of Management and Budget.*" (ADS 303.3.9)

Risk: the probability of occurrence and the potential magnitude of the impact of an adverse attribute, vulnerability, threat, transaction, or other event that will or may have an adverse impact on the achievement of objectives or otherwise result in loss or harm.

Risk management: the overall process concerned with the systematic identification, analysis, measurement, control, and minimization of risks with an expectation of decreasing the probability of their occurrence.

Weakness: a flaw or adverse attribute, including a deficit in capacity, which increases the risk of unsuccessful performance of the award.

A Significant Weakness (SW): a significant flaw or attribute, including a significant deficit in capacity, which appreciably increases the risk of unsuccessful performance of the award.

Useful references

- [Guidelines for Financial Audits Contracted by Foreign Recipients](#)
- M/OAA Web site elements that address indirect costs
 - a) [CIB 92-17 Indirect Cost Rates](#)
 - b) [CIB 97-9 Indirect Cost Rate Responsibility for Non-U.S. Nongovernmental Organizations](#)
- [RCA Standards 4.5 Funds Accountability and 4.16 Internal controls](#)
- [ADS 591.3.2.1; ADS 591.3.3.1; ADS 591.3.3.2; ADS 591.3.4.2; ADS 591.3.5](#)
- [Standard Provisions for Non-U.S. Nongovernmental Recipients \(A Mandatory Reference for ADS Chapter 303\)](#)
- [ADS 303.3.9](#)
- [ADS 303.3.9.1 a, b, c, d](#)
- [ADS 591 Appendix A; ADS 591 Appendix B](#)
- [OMB Circular A-133](#) and [Circular A-122](#)
- [ADS 305, 310, 312, and 317](#)

[**Appendix A1: Non-U.S. Organization Pre-award Survey \(NUPAS\) \(Word Version\)**](#)

[**Appendix A2: Non-U.S. Organization Pre-award Survey \(NUPAS\) \(Excel Version\)**](#)

[**Appendix B: NUPAS Final Report \(suggested format\)**](#)

[**Appendix C: NUPAS Report Table**](#)

[**Appendix D: NUPAS Questions for Consideration**](#)

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