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USAID/Ukraine Acquisition & Assistance Notice 09-002

To: USAID/Ukraine, Moldova, and Belarus staff, Contractors, and Recipients

From: Karin Kolstrom, USAID/Kiev/OAA Director 

Subject: Personnel Compensation Policies for local Non-Governmental Organizations (NGOs)

Authority: Office of Management and Budget (OMB) Circular A-122

Purpose: The purpose of this A&A notice is to remind implementers and grantors of the importance of (OMB) Circular A-122 Attachment B, section 8, Compensation for Personal Services, paragraph (b) as it applies to local/indigenous non-profit Non-Governmental Organizations (NGOs) that receive direct and sub-awards with USAID funds. The cost principle states:

“Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities.”

*** OMB Circular A-122 is incorporated by reference in assistance award documents through the standard provision entitled “Allowable Costs (October 1998).”*

Discussion:

The following common local practices have been determined to be not in compliance with OMB Circular A-122, and were identified during audits and financial reviews of local NGOs with non-profit tax status:

- 1) issuance of local national employee and consultant labor contracts in dollars, with payment in local currency based on exchange rates at time of payment
- 2) issuance of local national employee and consultant labor contracts in local currency, but the amount of annual compensation was calculated using the dollar exchange rate at the time of contract signing. “Compensation” payments are given each month to some or all employees and consultants as a bonus if the dollar appreciates, but the local currency payments are not changed if the dollar devalues from the original rate used.

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- 3) periodic salary adjustments given to local national staff based on the value of the dollar, not local inflation
- 4) USAID-funded local national employees and consultants receive different (often higher) compensation than individuals funded from other sources for similar work
- 5) the same individual is billed to different projects/donors at different rates (which is common practice for for-profit entities, but not permitted for non-profit organizations)
- 6) lack of a structured, organization-wide compensation system/pay scale, set in local currency, that is applied consistently for all activities regardless of funding source

Local non-profit organizations who are direct recipients of USAID awards are subject to compliance with A-122 as a condition of receiving funding.

US and foreign organizations receiving direct awards from USAID shall exercise due diligence when issuing subawards to local non-profit NGOs to ensure that their personnel compensation policies and practices are in compliance with A-122, and none are engaging in the business practices listed above, or other practices that would result in contingencies, overcompensated staff, fraud, waste or abuse. If subawardees spend more than US \$300,000 annually and are therefore subject to the annual audit requirement, prime recipients must also ensure that the audit firms used are fully aware that the above business practices would be considered areas of non-compliance with A-122. Prime recipients are required to report any audit findings to the cognizant USAID Agreement Officer and Agreement Officer's Technical Representative (AOTR.)

For sustainability purposes, prime recipients are encouraged to assist local subgrantees with the development of personnel compensation policies that are in compliance with A-122. It is recommended that local organizations have a system of position classifications and a corresponding organization-wide pay scale that is in line with the local market and fixed in local currency. Should local NGOs wish to develop policies to permit salary adjustments due to inflation, prime recipients are encouraged to assist them with this effort and ensure that such adjustments are fair and reasonable and tied to published or otherwise externally verifiable local economic indicators, and not to the value of foreign currency such as the dollar or the euro.

USAID/Kyiv Financial Analysts (FAs) and Acquisition Specialists are available to assist with subawardee compliance reviews.