

FINANCIAL AND COMPLIANCE REVIEW GUIDE FOR THE FOOD FOR PROGRESS, SECTION 416(B), AND MCGOVERN DOLE INTERNATIONAL FOOD FOR EDUCATION & CHILD NUTRITION PROGRAMS

Date of Issuance: September 28, 2005

This guide provides instructions for performing compliance reviews of Cooperating Sponsors (CSs) that provide food aid through the Food for Progress Program (FPP), the Section 416(b) Program (416(b)), and the McGovern-Dole International Food for Education & Child Nutrition Program (McGovern-Dole).

It provides directions to determine whether a CS:

1. Fulfilled its financial and administrative responsibilities;
2. Used direct distribution commodities in accordance with the executed agreement;
3. Properly stored and handled commodities;
4. Monetized commodities in accordance with the agreement;
5. Used monetization proceeds for only authorized activities; and
6. Monitored Recipient Agencies (RAs).

This review guide covers several segments of the Food Aid Programs; however, not all segments will be applicable to all reviews. Also, if the review is being performed only at the home office, the reviewer will not be able to review CS' controls over commodities and monitoring of RAs.

BACKGROUND

The U.S. Department of Agriculture donates agricultural commodities for use in carrying out assistance programs in developing countries and friendly countries. Such countries are often emerging democracies that have made a commitment to introduce or expand private enterprise elements into the agricultural sectors of their economies.

Food aid may be provided through three channels: FFP; 416(b); and McGovern-Dole. Recipients under these programs are known collectively as CSs.

FFP, authorized by the Food for Progress Act of 1985, provides for the donation or credit sale of U.S. commodities to developing countries and emerging democracies to support democracy and an expansion of private enterprise. To date, all food aid under this program has been by donation. Commodities may be provided under the authority of P.L. 480 or 416(b). USDA's Commodity Credit Corporation (CCC) may also purchase commodities for use in the program. Depending on the agreement, the commodities donated

through FFP may be sold in the recipient country, with the proceeds used to support agricultural, economic, or infrastructure development programs. Assistance is provided through foreign governments, private voluntary organizations, nonprofit organizations, cooperatives, or intergovernmental organizations.

416(b), authorized by the Agricultural Act of 1949, provides for overseas donations of surplus commodities acquired by CCC. Donations may not reduce the amounts of commodities that are traditionally donated to U.S. domestic feeding programs or agencies and may not disrupt normal commercial sales. Availability of commodities under 416(b) depends on CCC inventories and acquisitions, and programming varies from year to year. The commodities are made available for donation through agreements with foreign governments, private voluntary organizations, cooperatives, and intergovernmental organizations. Depending on the agreement, the commodities donated under 416(b) may be sold in the recipient country, with the proceeds used to support agricultural, economic, or infrastructure development programs.

McGovern-Dole, authorized by Section 3107 of the Farm Security and Rural Development Act of 2002, helps support education, child development, and food security for some of the world's poorest children. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income, food-deficit countries that are committed to universal education. The commodities are made available for donation through agreements with private voluntary organizations, cooperatives, intergovernmental organizations, and foreign governments. Commodities may be donated for direct feeding or for local sale to generate proceeds to support school feeding and nutrition projects.

CCC makes commodities available to CSs for use in the operation of charitable and economic development activities in eligible foreign countries. CSs may be foreign governments or private entities including nonprofit organizations located in the United States but operating programs overseas. These private entities are generally referred to as private voluntary organizations or PVOs.

Commodities made available under FFP are donated for use in developing countries and emerging democracies that have made commitments to introduce or expand free enterprise in their agricultural economies.

Commodities made available under 416(b) are used to support food assistance programs in friendly countries and developing countries.

Commodities made available under McGovern-Dole are used to provide in-school feeding for needy children in poor countries.

A CS enters into an agreement with CCC prior to the transfer of any commodities. The agreement stipulates, among other things, the nature of the project assistance, the types and quantities of commodities needed, the purpose for which the commodities will be used, and the use of either monetization or direct distribution of the commodities.

A monetization agreement authorizes the CS to sell the commodities in the host country and use the sale proceeds to support programmatic and administrative activities in accordance with the signed agreement.

A direct distribution by the CS involves the distribution of donated commodities directly to RAs (e.g., hospitals, schools, orphanages, homes for the elderly). RAs then use the commodities in serving their clientele.

A CS must enter into an agreement with RA prior to the transfer of any commodities, sales proceeds, or program income to RA. The agreement must require RA to compensate the CS for any agricultural commodities or other assets generated by the program that are not used for purposes expressly provided for in the agreement, or that are lost, damaged, or misused as the results of the RA's failure to exercise reasonable care.

Commodity donations are authorized by the Food for Progress Act of 1985 (7 USC 1736) (FFP), Section 416(b) of the Agricultural Act of 1949 (7 USC 1431(b)) (416(b)), and Section 3107 of the Farm Security and Rural Development Act of 2002 (McGovern-Dole). The implementing regulation for FFP and 416(b) is 7 CFR part 1499, and the regulation for McGovern-Dole is 7 CFR part 1599.

GENERAL REVIEW INSTRUCTIONS

A. Preliminary Review Work

1. Read or be familiar with the Foreign Food Aid Donation Program regulation 7 CFR part 1499, and the McGovern-Dole International Food for Education and Child Nutrition Program regulation 7 CFR part 1599.
2. Schedule and confirm the review dates with the CS at least two months in advance.
3. At the time the review is scheduled, request a detailed printout out of financial information by agreement. This includes a printout by account code of administrative expenditures from CCC funds, a printout by account code of all administrative expenditures from monetization funds, and a detailed printout by account code of program expenditures from monetization funds.
4. If the review is only going to include the home office, take a judgmental sample of the expenditures off of the requested printouts and request that the home office request the supporting documentation for these expenditures from the in-country office. The supporting documentation should include a copy of the invoice. Remember to request that relevant information on the invoice be translated to English.
5. Obtain copies of the following from Export Credits' Programming Division:
 - a. Program Agreements and Amendments for each country with which CS has agreements;
 - b. Plan of Operations (this may be included in the agreement);
 - c. Budgets (also may be in the agreement);
 - d. Financial Reports;
 - e. Logistics and Monetization Reports;
 - f. Evaluations; and
 - g. Pertinent correspondence between Export Credits and CS.

6. Obtain copies of trip reports/analyses of any on-site visits done in country by Export Credits.
7. Review any evaluations of the agreement conducted by Export Credits, noting any issues, recommendations, and corrective actions.
8. Discuss the CS with the individuals responsible for the CS in Export Credits. This should include someone from the Programming Division.
9. Obtain a schedule of any advances or reimbursements that CCC may have issued to the CS.

B. Entrance Conference

Meet with the CS' officials at the start of the review to discuss the purpose and scope of the review and any potential problem areas.

C. Workpapers

Support all findings with workpapers. Each workpaper should identify: (1) the purpose or objective for developing and analyzing information in each area; (2) the scope of the review coverage; (3) the source of the data reviewed; (4) the conclusions as to the facts developed; and (5) the recommendations.

Cross-reference the workpapers to the review report and the review checklist.

D. Exit Conference

Meet with CS' officials at the end of the review to discuss all findings and recommendations. Include a summary of the meeting along with a list of the attendees in the review workpapers.

E. Review Report

If there are no findings or recommendations, send a memorandum to the Deputy Administrator of Export Credits summarizing the review. No further action is needed.

If there are findings with recommendations or observations, send a report to the Deputy Administrator of Export Credits as soon as possible.

SPECIFIC REVIEW TASKS: COOPERATING SPONSORS (CSs)

A. Financial Management System

1. Purpose: To determine if the CS has an adequate financial management system in place.
2. Reference: 7 CFR part 1499.7 and 7 CFR part 1599.6.

3. Review Steps:

- a. Verify that the financial management system provides:
 - 1) Effective control over and accountability for both CCC funds and monetization funds.
 - 2) A comparison of outlays with budgeted amounts.
 - 3) Accounting/records supported by source/original documentation.
 - 4) Written procedures to determine the reasonableness and propriety of costs in accordance with the terms and conditions of the agreement.
 - 5) An equitable way of allocating overhead costs in country when the CS office in country operates more than one program (e.g., an organization may have a FPP agreement with FAS, one or more agreements with USAID, and other activities funded by other sources).
- b. If CS has agreements with one or more RAs, verify that:
 - 1) Each RA's financial management system substantially conforms to the standards outlined under A.3.a. above.
 - 2) CS performs periodic reviews on each RA's accounting system and documents.

B. Cash Management

- 1. Purpose: To determine whether CS complied with the cash management terms of its agreement.
- 2. References: 7 CFR part 1499.7(f) and (g), 7 CFR part 1499.12(c), 7 CFR part 1599.6 (f) and (g), and 7 CFR part 1599.11(c).
- 3. Review Steps:
 - a. Determine whether CS received administrative funds from CCC. If so:
 - 1) Determine whether CS minimized the time elapsing between receipt of funds from CCC and disbursement of the funds.
 - 2) Verify that any cash advanced to CS by CCC was deposited in an interest bearing account.
 - 3) Verify that any interest earned on CCC advances was used for the same purposes as the cash advances themselves.

- 4) Verify that any funds advanced by CCC were expended within 180 days from date of advancement. Verify that unexpended advances were returned to CCC along with the interest earned on those funds.
- b. Determine whether CS received proceeds from monetization of donated commodities. If so:
 - 1) Verify that all proceeds from the sale of donated commodities were deposited in an interest bearing account.
 - 2) Verify that any interest earned on monetization proceeds was used for the same purposes as the monetization proceeds themselves.

C. Annual Audit

1. Purpose: To determine if CS receives annual financial audits done and is performing reviews at RAs, as required.
2. Reference: 7 CFR part 1499.17 and 7 CFR part 1599.16.
3. Review Steps:
 - a. Obtain a copy of the annual audits. Non-governmental CSs are subject to the audit requirements of Office of Management and Budget Circular A-133 as implemented in USDA by 7 CFR part 3052, "Audits of States, Local Governments, and Non-Profit Organizations."
 - b. Verify that the audits were performed to assure compliance with the agreement and program regulations.
 - c. Verify that CS performed or had an independent auditor perform audits of all RAs receiving more than \$25,000 of provided commodities or sale proceeds.

D. Operating Budget

1. Purpose: To determine if changes to the operating budget made by CS complied with the McGovern-Dole program regulations.
2. Reference: 7 CFR part 1499.7(e) and 7 CFR part 1599.6(e).
3. Review Steps:
 - a) Obtain the Program Operation Budget and match the balances against the balances recorded in CS' financial management records.

- b) If differences exist, determine whether the changes were authorized and approved by CCC or could be made at CS' discretion. Document any exceptions.
- c) Ensure that CS did not make adjustments between the line items of an approved operation budget by more than 10 percent of the total amount of the approved budget without prior approval by the Director of Export Credits' Programming Division.

E. Program Expenses

- 1. Purpose: To determine whether program expenses were reasonable and allowable.
- 2. Reference: 7 CFR part 1499.7 and 7 CFR part 1599.6.
- 3. Review Steps:
 - a) Test a sample of program expenses to verify that:
 - 1) Expenses were for items expressly authorized in the agreement and Plan of Operations.
 - 2) Expenses did not include any costs incurred by CS prior to the date of the program agreement.
 - 3) Administrative expenses directly relate to program administration and monitoring.
 - 4) Expenses were supported by appropriate documentation such as approved purchase orders, receiving reports, vendor invoices, and canceled checks and were correctly charged as to account and amount.
 - 5) Indirect administrative expenses charged by CS are based on the most current Negotiated Indirect Cost Rate Agreement (NICRA) between CS and USAID (where applicable).
 - 6) CS is applying the indirect rate correctly.

F. Reporting

- 1. Purpose: To determine whether the required reports included all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.
- 2. Reference: 7 CFR part 1499.7(i), 7 CFR part 1499.16, 7 CFR part 1599.6(i), and 7 CFR part 1599.15.

3. Review Steps:

- a) Review agreement provisions for reporting requirements. Determine the types and frequency of required reports.
- b) Select a sample of financial statements and:
 - 1) Determine the accounting basis used in reporting the data (i.e., cash or accrual).
 - 2) Determine whether the reports were filed in a timely manner. The regulations require that financial reports for CCC monies granted for administrative expenses be submitted within 10 days of the end of the calendar quarter. However, financial reports for administrative expenses paid from monetization funds can be submitted with the Logistical and Monetization Report which are due no later than November 15 for the period April 1-September 30 and May 15 for the period October 1–March 30.
 - 3) Test the mathematical accuracy of the reports.
 - 4) Trace the amounts reported to accounting records to verify that reported amounts agree with financial records.
 - 5) Verify that all applicable accounts were included in the reports.
- b. Select a sample of semiannual logistical and monetization reports and:
 - 1) Determine the methodology used for compiling and reporting data.
 - 2) Verify that the reports were filed by the dates specified in the agreement.
 - 3) Test the mathematical accuracy of the reports.
 - 4) Trace the data to records that accumulate and/or summarize the data.
 - 5) If the agreement being reviewed is a McGovern-Dole agreement, verify that CS is reporting against the established baseline indicators (indicators will be in the agreement) for:
 - i) number of meals serviced;
 - ii) enrollment numbers;
 - iii) total attendance numbers;
 - iv) female attendance numbers;

- v) learning developments (if required in agreement);
- vi) nutrition and health progress of mothers and children (if required in agreement); and
- vii) progress toward sustaining the feeding program.

G. Receiving and Storing Commodities

1. Purpose: To determine whether CS' procedures for receiving and storing commodities minimized loss, damage or theft.
2. Reference: 7 CFR part 1499.9 and 7 CFR part 1599.8.
3. Review Steps:
 - a. Determine whether there were any delays in commodity receipts because of CS' failure to obtain appropriate approvals for entry and transit. Document whether the delays damaged the commodity.
 - b. Verify that CS promptly took possession of the commodities at the port or point of entry.
 - c. Obtain the bill of lading, surveyor's report, inland shipping and warehouse inventory, and entry documentation and compare the recorded volumes. Document any differences. (If the commodity was monetized, CS may not be storing it, and, as a result, inland shipping and warehouse entry records would not exist).
 - d. If possible, visit the port or point of entry to observe the receipt, offloading, and distribution of commodities. Examine the controls for minimizing loss, damage, or theft.
 - e. If possible, visit the warehouse and examine controls for receiving, monitoring, and disbursing commodities.

H. Use and Distribution of Commodities

1. Purpose: To determine whether CS used donated commodities as expressly provided in its agreement and Plan of Operations.
2. Reference: 7 CFR part 1499.10, 7 CFR part 1499.12, 7 CFR part 1599.9, and 7 part CFR 1599.11.
3. Review Steps:
 - a. Test a sample of commodity transactions to verify that:

- 1) The commodities were used only as expressly authorized in the agreement and Plan of Operations.
 - 2) Commodity distribution was not based on political affiliation, geographic location, or ethnic, tribal or religious affiliations of the potential consumers or recipients.
 - 3) CS' criteria for selecting RAs and individual recipients for commodity donations was transparent, fair and reasonable.
 - 4) Specific CCC authorization was given for handling, distribution, or allocation by military forces.
 - 5) Internal controls are in place to protect against the loss and theft of the commodities. (If possible, observe the distribution of commodities from the warehouse to the distribution site and through to the recipients.)
 - 6) CS has a system in place for monitoring commodities distributed by RAs. (Review monitoring reports and evaluate the resolution of any noted deficiencies.)
- b. If commodities were monetized:
- 1) Review the process that CS used to advertise the commodity sales. Verify that the commodities were sold at prices reflecting prevailing local market values.
 - 2) Determine the type of activities that were undertaken with sale proceeds and verify that internal controls include procedures for determining recipient eligibility and the use of proceeds.
 - i) Examples of activities that may be funded under FFP are: construction projects; micro-credit programs; community development programs; and technical assistance programs. Examples of activities that may be funded under McGovern-Dole with monetization funds are: food purchases; teacher training; vaccinations for children; training for mothers; school construction; and purchase of education supplies.
 - 3) Test a sample of transactions to ensure that controls are working.
 - 4) If possible, visit monetization funded activities to test first hand whether internal controls are in place and functioning.
 - 5) Verify that CS has a system in place for monitoring the use of monetization proceeds and that those with access to the funds are held accountable for all expenditures.

I. Processing, Packaging, and Labeling of 416(b) Commodities

1. Purpose: To determine whether CS complied with program regulations for processing, packaging and labeling of 416(b) commodities.
2. Reference: 7 CFR part 1499.13 and 7 CFR part 1599.12.
3. Review Steps:
 - a. Review the agreement to determine if CS was authorized to have commodities processed, packaged, and labeled.
 - b. Verify that CS entered into a written agreement with a third party service provider, and that the third party service provider submitted periodic reports that adequately account for all commodities delivered. Test the accuracy of the data recorded on the reports.
 - c. Verify that CS provided a copy of the third party agreement to the Agricultural Counselor or the Attaché by contacting the Embassy for confirmation.
 - d. Verify that CS provided information to recipients on the name of the commodity, its source (people of the United States), and that it is not to be sold or exchanged, by examining commodity labels, news media advertisements, pamphlets, posters, flyers, radio announcements, and any other written or published material used for such purpose.

J. Disposal of Unfit Commodities

1. Purpose: To determine whether the CS followed the procedures set forth in the regulations for disposal of commodities deemed unfit for the authorized use.
2. Reference: 7 CFR part 1499.14 and 7 CFR part 1599.13.
3. Review Steps:
 - a. Confirm that an inspection of the damaged commodities was conducted.
 - b. Examine the inspection report to verify that the commodities were deemed unfit for the intended purposes.
 - c. Confirm that the CS was given permission to sell the commodity for use other than human consumption and determine if the proceeds were to be deposited into the monetization account by examining written communications from Export Credits. If the commodities were not provided as a part of a monetization program, net proceeds from the sale shall be deposited with the U.S. Disbursing Officer, American Embassy, in an account designated by FAS.

- d. By examining photos of the commodity or by reviewing contracts with the entities responsible for removing the markings, verify that all U.S. Government markings on the commodities were obliterated or removed.
- e. If CS donated the commodities to a government or charitable organization verify that the recipient used the commodities for other than human consumption. Examine the agreement between CS and RA and any documentation that CS created when monitoring RA.
- f. If the commodity was destroyed under the supervision of a representative of the Agricultural Counselor or Attaché, ask the supervising official to confirm that the commodity was destroyed.
- g. Verify that CS submitted a report to the Agricultural Counselor or Attaché regarding any commodity loss in excess of \$5,000.

K. Filing and Collecting Misuse, Loss, or Damage Claims

- 1. Purpose: To determine whether any misuse, loss or damage to a commodity, sale proceeds, or program income caused by CS or third party was appropriately resolved.
- 2. Reference: 7 CFR part 1499.15 and 7 CFR part 1599.14.
- 3. Review Steps:
 - a) Examine all reports of misused, lost or damaged commodities.
 - b) Verify that CS notified the Kansas City Financial Management Office (KCFMO) immediately after any misuse, damage or loss occurred.
 - c) Confirm that the amount paid to CCC for commodities misused, lost, or damaged equaled domestic market price at the time of the misuse, loss, or damage.
 - d) Verify that CS assigned the rights to third party claims to CCC and promptly forwarded all documents pertaining to the claim to CCC, including any narrative chronology or other imperative commentary that can assist in the adjudication of the claim.
 - e) In the event of cargo loss or damage, verify that CS provided KCFMO the names and addresses of individuals who were present during discharge.
 - f) If misuse, loss or damage of commodity or proceeds occurred as a result of negligence of the warehouseman, carrier, recipient agency or other person, verify that CS pursued the claim through initial billing and a least three subsequent demands at not more than 30 day intervals.
 - g) If the collection actions failed, verify that CS pursued legal actions in the judicial system of the respective country.

- h) If CS chose not to pursue legal action verify that CS notified the Agricultural Counselor or Attaché, in writing, of such decision.

Procurement

- 1. Purpose: To determine if CS followed commercially reasonable practices in procuring goods and services and when engaging in construction activities.
- 2. Reference: 7 CFR part 1499.12(f) and 7 CFR part 1599.11(f).
- 3. Review Steps:
 - a. Obtain the CS' procurement policy.
 - b. Review the policy and verify that it requires that solicitations incorporate a clear and accurate description of the technical requirements for the product, service, or construction activity to be procured, identifies all requirements that must be fulfilled, and includes other factors to be used in evaluating bids or proposals.
 - c. Select a sample of procurements and:
 - 1) Examine contract files and verify that the files document the significant history of the procurements.
 - 2) Verify that the procurements were made by full and open competition. If competition was limited, determine if the limitations were justified.
 - 3) Verify that appropriate cost or price analyses were performed.
 - 4) To the extent possible, verify that CS and its employees did not have any financial interest in the selection or award of the contracts.

L. Equipment and Real Property Management

- 1. Purpose: To determine whether CS: (a) maintains proper records for equipment and adequately safeguards and maintains the equipment; and (b) disposes of any equipment or real property in accordance with program regulations.
- 2. References: 7 CFR part 1499.12(g) and 7 CFR part 1599.11(g).
- 3. Review Steps:
 - a) Select a sample of equipment identified on the inventory furnished to CCC and physically inspect the equipment to verify that it is appropriately safeguarded and maintained.

- b) Determine the equipment dispositions for the review period and verify that disposals were made in accordance with CCC directions.
- c) Determine the real property dispositions for the review period and verify that the disposals were in accordance with CCC directions.

SPECIFIC REVIEW TASKS: RECIPIENT AGENCY (RA)

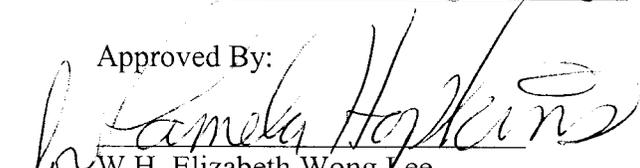
A. Agreement with RA

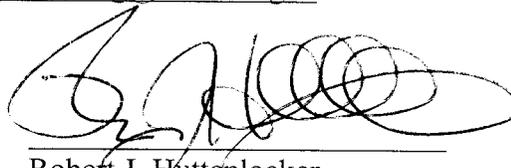
- 1. Purpose: To determine whether: (a) CS entered into a written agreement with RA; (b) CS' use of RA was consistent with the Plan of Operations; and (c) CS monitored the activities of RA to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.
- 3. Reference: 7 CFR part 1499.11 and 7 CFR part 1599.10.
- 4. Review Steps:
 - a) Select a sample of RA and verify that:
 - 1) CS entered into a written agreement with RA.
 - 2) CS' use of RA was consistent with the Plan of Operations.
 - 3) CS appropriately monitored the activities of RA to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.
 - 4) RA has adequate control over and properly used commodities, monetized proceeds, and program income. (If possible, perform an on-site visit of RA. The review procedures should mirror those used for CS.)

CONTACT INFORMATION

If you have comments or suggestions about this guide, please address them to Barbara Shumar or W.H. Elizabeth Wong Lee, Compliance Review Staff, at (202) 720-6713, via fax at (202) 720-7138, or via e-mail at: Barbara.Shumar@fas.usda.gov or Beth.Wong@fas.usda.gov.

Approved By:


W.H. Elizabeth Wong Lee
Supervisory Compliance Review Officer
Compliance Review Staff


Robert J. Huttenlocker
Director
Compliance Review Staff