

# FINANCIAL AND COMPLIANCE REVIEW GUIDE

Foreign Market Development

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This guide provides instructions for performing a financial and compliance review of a Foreign Market Development (FMD) Program Cooperator. It provides direction for determining whether the Cooperator:

1. Met the financial and administrative responsibilities of its FMD agreement ,
2. Claimed only authorized, reasonable and documented expenses, and
3. Reported only eligible and documented contributions, and provided the required percentage match.

The instructions outlined in this guide apply to both the Cooperator's U.S. and overseas offices.

A compliance review checklist covering the segments contained in this guide is provided for the reviewer as a control worksheet. Because of the variety of cooperator organizations, reviewers must use their professional judgment to tailor the guide and checklist to meet specific conditions at the review site.

## BACKGROUND

The FMD program uses funds from the U.S. Department of Agriculture's Commodity Credit Corporation to aid in the creation, expansion, and maintenance of long-term export markets for U.S. agricultural products. The FMD is authorized by Title VII of the Agricultural Trade Act of 1978, and is administered by USDA's Foreign Agricultural Service.

For more than 40 years, the FMD has

fostered a trade promotion partnership between USDA and U.S. agricultural producers and processors who are represented by nonprofit commodity or trade associations called Cooperators. Under this partnership, USDA and the Cooperator pool their technical and financial resources to conduct overseas market development activities.

Under the FMD, CCC funds are used to partially reimburse cooperators conducting approved overseas promotional activities. Preference is given to nonprofit U.S. agricultural and trade groups that represent an entire industry or are nationwide in membership and scope.

Each year USDA announces an application period for participation in the FMD and publishes it in the *Federal Register*. Proposals for the FMD are developed by trade organizations and may be submitted

to USDA as part of the Unified Export Strategy (UES) process that allows applicants to request funding for various USDA market development programs through a single strategically coordinated proposal. FMD regulations (7 CFR 1550), revised on September 30, 1999, define program requirements, including cost-sharing, strategic planning, reimbursement procedures, records and reporting requirements, and evaluations.

The FMD applications undergo a competitive review process based on the criteria specified in the *Federal Register* announcement. Funds are awarded to those applicants that demonstrate effective performance based on a clear, long-term strategic plan. Upon approval, CCC enters into a cooperative program agreement with each approved applicant. All Cooperators must keep an itemized list of expenses incurred during the program year and submit them to FAS for reimbursement. All expenses are

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subject to audits and Cooperators are held accountable for maintaining proper documentation for the program.

## GENERAL REVIEW INSTRUCTIONS

### A. PRELIMINARY REVIEW WORK

1. Schedule and confirm review dates with the Cooperator.
2. Notify the Agricultural Counselor/Attache/Trade Officer of scheduled itinerary for review of Cooperator's overseas offices.
3. Read or be familiar with the FMD regulations (7 CFR 1550) FMD Notices, and any other FAS policies and instructions relating to the FMD.
4. Review prior compliance report and working papers. Note report findings and recommendations, and their resolution. During the course of the current review, determine their present status.
5. Review the FMD agreement, UES, and approval letters. These documents are filed with either the Marketing Operations Staff (MOS) or the Division Marketing Specialist.
6. Through discussion with the Marketing Specialist and review of correspondence files, determine whether any problems or special conditions exist.
7. Obtain a schedule of advances and reimbursements made by FAS during the review period from the UES data base. These schedules may serve as control worksheets for

advances and expenses examined during the review period.

- B. ENTRANCE CONFERENCE.** Meet with Cooperator officials at the start of the review to discuss the propose and scope of the review, and any potential problem areas.

- C. WORKING PAPERS.** All findings must be supported by working papers.

Each working paper should identify the purpose or objective for developing and analyzing information in each review area, the scope of the review coverage, the source of the data reviewed, the conclusions as to the facts developed, and the appropriate recommendations.

Cross-reference the working papers to the review report and review check list.

- D. EXIT CONFERENCE.** Meet with Cooperator officials at the end of the review to discuss all findings and recommendations. Include a summary of the meeting along with a list of attendees in the review working papers.

- E. REVIEW REPORT.** A review report containing all findings, observations, conclusions, and recommendations must be issued to the Cooperator as soon as possible, but no later than 60 days following completion of the review. The Cooperator will be asked to respond to the report within 60 days after the issue date of the report.

### SPECIFIC REVIEW TASKS

- A. FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM CONTROLS**

1. *Purpose.* To determine whether the Cooperator has a financial management and accounting system in place that conforms to generally accepted accounting principles.
2. *Reference.* 7 CFR 1550.33.
3. *Review Steps*
  - a. Identify Cooperator personnel responsible for managing the FMD. Evaluate whether the Cooperator provides sufficient U.S.-based and overseas office support to effectively manage the FMD.
  - b. Determine whether the Cooperator has written instructions and authorizations supplementing the FMD regulations. Evaluate their adequacy.
  - c. Verify that the Cooperator's accounting system provides:
    - (1). Effective controls and accountability for all FMD funds and for property purchased with FMD funds.
    - (2). Retention and maintenance of records which provides budgetary control for each activity.
    - (3). Original receipts for all expenditures in excess of \$25 and receipts for all STRE expenditures regardless of value.

- (4). Cross references between all accounting records and source documentation.
- (5). A direct means or audit trail for verifying recorded data with reimbursement claims and expense documentation.
- (6). Procedures for determining the allowability of expenses under the FMD regulations.  
  
In most cases, control is provided by an employee who determines whether an expenditure is allowable before it is posted to the activity records and claimed for reimbursement.
- (7). Periodic reconciliation of program obligations, expenditures, and unexpended balances with reports received from FAS.

- d. Obtain and review the annual audit report, including the management letter, prepared by the Cooperator's independent public accountant.
- e. Determine whether the Cooperator has procedures to resolve audit and review findings, and recommendations.

- 1. *Purpose.* To determine whether operating and special advance payments (SAP) are accounted for properly, and fully expended within 90 days of receipt.
- 2. Reference. 7 CFR 1550.57; FMD 00-004; and FMD 00-006.
- 3. *Review Steps.*
  - a. Verify that advance balances on the Cooperator's records agree with the balances on CCC records.
  - b. Verify that advances are deposited in insured, interest bearing accounts.
  - c. Verify that interest earned on advances was reported/remitted as required.
  - d. Verify that the Cooperator's procedures minimize the time elapsing between the transfer of funds from CCC and their disbursement.
  - e. Obtain the Cooperator's annual operating advance analysis. Verify the amounts, date times and calculations used by the Cooperator to determine the advance needs. Validate any long-term deposits included in the operating advance calculation.
  - f. Select a sample of SAPs and verify that they were fully expended within 90 days after the date of receipt.

- 1. *Purpose.* To determine whether the Cooperator has properly identified and applied program income.
- 2. *Reference.* 7 CFR 1550.38.
- 3. *Review Steps.*
  - a. Determine whether the Cooperator generated income from FAS funded activities.
  - b. Verify that FMD generated income was used to offset activity costs or returned to FAS.

**D. ACTIVITY EXPENSES**

- 1. *Testing Expenses.* This section provides guidance for determining the level of testing required and how the review sample should be selected.

The scope and extent of testing of expenses are matters of professional judgment and are determined on a case-by-case basis. Sufficient testing, must be done to permit an informed opinion on the expenses reviewed. Among the factors to consider in making this determination are:

- a. The total dollar amount of all activities.
- b. The dollar amount of the individual activity expense totals in relation to the total dollar amount of all activities.
- c. The probability of finding questioned expenses. For example, travel expenses are more likely to contain questioned expenses than office supplies because of the specific guideline

**B. PROGRAM ADVANCES**

**C. PROGRAM INCOME**

requirements regarding travel expenses.

- d. The adequacy and reliability of the Cooperator's accounting system, records, supporting documentation, and internal controls.
- e. Problem areas encountered during the review period.

There are several ways to select samples including both judgmental and statistical methods. Generally, the objective is to obtain a sample that is representative of all actions. With either method, include all reimbursement claims included in the current review period to have the total population of expenses from which to select the sample.

Samples may include all expenses or be segmented by expense category, such as trade servicing, travel, salaries and benefits, or contracted services. However segmented, document the sample selection methodology for each segment reviewed.

Clearly explain the scope and extent of testing in the review working papers.

- 2. *Questioning Expenses.* Specific standards for determining whether claimed expenses are authorized are contained in the FMD regulations and notices., and are referenced in this guide under the specific expense category review procedures that follow.

When reviewing expenses, evaluate each item to

determine whether it is an acceptable charge to the FMD based upon the above criteria. Expenses that do not meet the above criteria should be questioned.

Questioned expenses generally fall under one or more of the following categories:

- a. *Unauthorized.* An expense that is specifically unauthorized under the FMD regulations. Examples are, business cards, product samples, the excess of premium class airfare over full fare economy.
- b. *Undocumented.* An expense for which sufficient supporting documentation is not available. Examples are, STRE supported only by a credit card voucher, or summary invoices without supporting individual vendor invoices.
- c. *Unreasonable.* An expense which may not be specifically unauthorized or undocumented, but which does not reflect the action that a prudent person would have taken under the circumstances and conditions that existed at the time the expenditure was made. Examples are, purchase of a year's supply of materials in the last month of the activity plan year, contracting for professional service fees that exceed normal market rates for those fees.

Include questioned expenses as findings in the review report.

### 3. *General*

- a. *Purpose.* To determine whether FMD funds were only used to reimburse expenses that were reasonable and made to further an approved activity, and for which the Cooperator has not been or will not be reimbursed for such expenses by any other source.

- b. *Reference.* 7 CFR 1550.54 & 1550.55.

#### c. *Review Steps.*

- (1). Check reimbursement claims for mathematical accuracy and proper certification for payment.
- (2). Selectively trace reimbursement claim line items to the general and/or subsidiary ledgers.
- (3). Test expenditures made at the beginning of an activity to ensure that they were not made prior to FAS' approval of the activity.
- (4). Test expenditures made at the end of an activity to ensure they were not made beyond 30 days after the end of the marketing plan year.
- (5). Selectively trace expenditures to source

documentation. Verify that they were authorized, adequately documented, and reasonable.

- (6). Selectively trace expenditures to payment documents (e.g., canceled checks, wire transfers).

#### 4. *Nonexpendable Project Property and Leases*

- a. *Purpose.* To determine that the Cooperator's property management system adequately accounts for and safeguards project property, nonexpendable project property purchases were approved by FAS, and FAS's monetary interest is protected when project property is disposed.
- b. *Reference.* 7 CFR 1550.36 and 1550.54(B)(23); FMD 98-007; and FMD-178.
- c. *Review Steps.*

- (1). Schedule all nonexpendable property purchases and leases made during the review period.
- (2). Determine whether nonexpendable property purchases and leases were authorized in the marketing plan.
- (3). Verify that leases are in writing and do not extend beyond the

current marketing plan year.

- (4). Verify that the Cooperator has not used FMD funds to purchase, lease (except during authorized travel), or repair motor vehicles.
- (5). Trace nonexpendable property purchased during the review period to the inventory record.
- (6). Ensure that the inventory record properly identifies each item purchased with FMD funds.
- (7). Select a sample of nonexpendable property items and physically verify their existence and use for project purposes.
- (8). Verify that the Cooperator properly disposed of project property.

#### 5. *Compensation and Allowances for U.S. Citizen and Foreign National Employees*

- a. *Purpose.* To determine whether compensation and allowance expenses for U.S. citizen and foreign national employees conform to FMD limitations.
- b. *Reference.* 7 CFR 1550.20(B)(8), 1550.32, and 1550.53(B)(11)-(16); FMD 99-008.

#### c. *Review Steps.*

- (1). Verify that U.S. citizen and foreign national employees are hired under written contract.
- (2). Verify that the total of compensation and allowances paid to U.S. citizen employees or contractors do not exceed 125 percent of the General Schedule Grade 15, Step 10 salary.
- (3). Verify that allowances paid to U.S. citizen employees and contractors do not exceed the rate authorized for U.S. embassy personnel.
- (4). Verify that salary and allowance expenses for foreign national employees do not exceed the rates authorized under equivalent positions in the local U.S. Embassy Foreign Service National (FSN) Salary Plan, without justification and FAS approval.
- (5). Determine whether the Cooperator maintains an auditable system of annual and sick leave records. Test the records for conformance with the Cooperator's policy.
- (6). Selectively trace salary and allowance expenses for U.S. citizen and foreign

national employees to supporting documentation.

6. *Travel*

- a. *Purpose.* To determine whether travel expenditures comply with the Federal Travel Regulations and program limitations.
- b. *Reference.* 7 CFR 1550.54(B)(18-21); FMD 00-003; FMD 99-006.
- c. *Review Steps.* Review travel reimbursements on a sample basis. Verify that:
  - (1). Per diem and miscellaneous expense claims comply with the Federal Travel Regulations.
  - (2). Air fare claims do not exceed the full fare economy equivalent and that they comply with the "Fly America Act."
  - (3). Travel advances are not claimed for reimbursement until the travel is completed.
  - (4). The Attache or Trade Officer in the destination country was notified in advance of any travel.
  - (5). Trip reports were submitted within 45 days after completion of the travel.

7. *STRE*

- a. *Purpose.* To determine whether STRE expenses comply with FMD limitations.
- b. *Reference.* 7 CFR 1550.54(B)(31); 1550.55(a)(28); and FMD-212.
- c. *Review Steps.* Review STRE expenses on a sample basis. Verify that:
  - (1). Per capita costs equal American Embassy representational funding guidelines.
  - (2). The Attache/Trade Officer provided written authorization for STRE claims that exceed Embassy limitations.
  - (3). Attendees include persons other than Cooperator and U.S. government employees.
  - (4). No STRE was reimbursed for events occurring in the U.S.

E. *CONTRACTING FOR GOODS AND SERVICES*

1. *Purpose.* To determine whether the Cooperator's contracting standards ensure that the terms, conditions, and costs of contracts for goods and services result in the most effective and economic use of FMD funds.
2. *Reference.* 7 CFR 1550.35; FMD 99-007.

3. *Review Steps.* Select a sample of contract actions and verify that:

- a. Some form of cost or price analysis was made.
- b. Documentation supports the basis for the award including justification for not selecting the lowest bidder.
- c. The action did not cause a conflict of interest.
- d. The amounts paid agreed with the contract provisions.
- e. The contracted goods or services were provided.

F. *CONTRIBUTIONS*

1. *Purpose.* To determine whether contributions equal the percentage specified in the annual approval letter, and were eligible and properly documented.
2. *Reference.* 7 CFR 1550.50-53; FMD-221.
3. *Review Steps*
  - a. Verify that the End-of-Year Report was submitted to FAS by January 31 of the year following the completion of the marketing plan year.
  - b. On a test basis, trace reported contributions to source documentation. Verify that:
    - (1). Contributions were for approved activities.
    - (2). Contributions were eligible.

- (3). Contributions were not reimbursed to the contributor by any other source.
- (4). The values placed on in-kind contributions were reasonable.
- c. Verify that the Cooperator's contributions equal the percentage specified in the annual approval letter.
- d. Any observed discrimination complaints should be reviewed for prompt and proper resolution.

*If you have any comments or suggestions about this guide, please address them to Lawrence Chamorro or Barbara Shumar at (202) 720-6713, fax (202) 720-7138, or e-mail: [Chamorro@fas.usda.gov](mailto:Chamorro@fas.usda.gov) or [Shumar@fas.usda.gov](mailto:Shumar@fas.usda.gov) or*

#### G. CIVIL RIGHTS

1. *Purpose.* To determine whether the cooperator carries out the FMD in compliance with all requirements regarding nondiscrimination as contained in Federal and USDA regulations.
2. *Reference.* 7 CFR Part 15; 12 CFR 202.
3. *Review Steps.*
  - a. Obtain a copy of the Cooperator's Civil Rights Self Certification Evaluation Checklist. (The certification must accompany each agreement and each subsequent amendment.)
  - b. Through observation and analysis make sufficient test to determine whether the information contained on the Self Certification Checklist is valid.
  - c. Complete the Participant Evaluation Questionnaire while reviewing the information contained on the Self Certification Checklist.