

# FINANCIAL AND COMPLIANCE REVIEW GUIDE FOR THE EMERGING MARKETS PROGRAM

Date of Issuance: September 22, 2005

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This guide provides instructions for performing a financial and compliance review of an Emerging Markets Program (EMP) Recipient. It provides guidance for determining whether the Recipient:

1. Met the financial and administrative responsibilities of its EMP 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 the Recipient of program funding.

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

## **BACKGROUND**

EMP is authorized by Section 1542(d) of the Food, Agriculture, Conservation, and Trade Act of 1990. The Act directs the Secretary to make available to emerging markets the expertise of the United States to "identify and carryout specific opportunities and projects," including potential reductions in trade barriers, "in order to develop, maintain, or expand markets for United States agricultural exports." EMP provides funding for technical assistance activities that develop, maintain, or expand the export of U.S. agricultural commodities to overseas emerging markets, and which benefit primarily U.S. industry as a whole. EMP regulations appear at 7 CFR part 1486.

EMP is administered by personnel of the USDA's Foreign Agricultural Service (FAS). FAS implements this provision by providing Commodity Credit Corporation (CCC) funds for specific projects to various entities, including government agencies and U.S. private entities, representing a wide range of agricultural commodities and products.

EMP forms a partnership between the Recipient and USDA's CCC by providing partial funding for technical assistance activities (such as feasibility studies, market research, sector assessments, orientation visits, specialized training, business workshops, and similar undertakings) that promote U.S. agricultural

exports to emerging markets worldwide as defined by a per capita income that does not exceed the upper middle-income limit as defined by the World Bank.

Any United States private or Government entity with a demonstrated role or interest in exports of U.S. agricultural commodities or products may apply to the program. Proposals are submitted to FAS separately or as part of the Unified Export Strategy (UES), the process that allows applicants to submit a single consolidated marketing plan and strategy to request funding under various USDA market development programs.

Upon approval of an EMP application, FAS sets a program funding level and signs a program agreement with the Recipient.

The EMP regulations (7 CFR part 1486), which were implemented in 2005, define program requirements, including cost-sharing, strategic planning, export goals, reimbursement procedures, record and report requirements, and activity evaluations.

All Recipient expense claims submitted to FAS for reimbursement are subject to review, and proper supporting documentation must be maintained for three years after the end of the activity.

## **GENERAL REVIEW INSTRUCTIONS**

### ***A. PRELIMINARY REVIEW WORK***

1. Schedule and confirm review dates with the Recipient.
2. Notify the Agricultural Counselor/Attaché/Trade Officer of the scheduled itinerary for the review of the Recipient's overseas offices (if applicable).
3. Become familiar with the EMP Regulations (7 CFR part 1486), EMP Notices, and any other policies and instructions relating to EMP.
4. Request copies of EMP agreement/s from the Marketing Operations Staff (MOS) and talk to MOS staff to determine if there are any problems or concerns with the Recipient.
5. Review the EMP agreement, UES (not applicable to all recipients), and countersigned agreement between FAS and the Recipient. These documents are filed with the Marketing Operations Staff (MOS).
6. Through discussion with the MOS and review of correspondence files, determine whether any problems or special conditions exist.
7. Obtain a schedule of advances and reimbursements made by CCC during the review period from the UES database. This schedule can serve as the control worksheet for advances and expenses examined during the review period.

- B. ENTRANCE CONFERENCE.** Meet with Recipient officials at the start of the review to discuss the purpose and scope of the review and any potential problem areas.
- C. WORKING PAPERS.** Support all findings with complete and accurate working papers. Each working paper should identify the: (1) purpose or objective for developing and analyzing information in each review area; (2) scope of the review coverage; (3) source of the data reviewed; (4) conclusions as to the facts developed; and (5) appropriate recommendations. Cross-reference the working papers to the review report and the review checklist.
- D. EXIT CONFERENCE.** Meet with Recipient officials at the end of the review to discuss all findings, recommendations and areas of concern, as well as any additional information the Recipient needs to provide. 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 and recommendations resulting from the review must be issued to the Recipient as soon as possible. The Recipient will be asked to respond to the report within 60 days after the issue date of the report, as stated in 7 CFR part 1486.504(a).

**SPECIFIC REVIEW TASKS**

**A. FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM CONTROLS REVIEW**

- 1. *Objective.* To determine whether the Recipient has a financial management and accounting system in place that conforms to generally accepted accounting principles.
- 2. *Reference.* 7 CFR part 1486.405.
- 3. *Review Steps.*

  - a. Identify Recipient personnel responsible for managing EMP activities. Evaluate whether the Recipient provides sufficient U.S.-based and overseas office staff to effectively manage EMP.
  - b. Determine whether the Recipient has written instructions and authorizations supplementing the EMP regulations for U.S.-based and overseas office use. Evaluate the adequacy of any written instructions.
  - c. Verify that the Recipient's accounting system contains:

    - (1) Effective controls over and accountability for all activity funds and for property leased with EMP resources.
    - (2) A records management system 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 EMP expenses. In most cases, control is provided by an employee who determines whether the 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 CCC.
- d. Obtain and review the annual audit report, including the management letter, prepared by the Recipient's independent public accountant. If the organization expends \$500,000 or more of Federal funds (from one or more sources) in a year, it is required to have an audit conducted in accordance with Office of Management and Budget Circular A-133 for that year (for fiscal years ending on or after January 1, 2005).
  - e. Determine whether the Recipient has procedures in place to resolve audit and review findings and to implement recommendations.

**B. PROGRAM ADVANCES**

- 1. *Objective.* To determine whether advances are accounted for properly and fully expended within 90 days after the date of disbursement by CCC.
- 2. *Reference.* 7 CFR part 1486.406.
- 3. *Review Steps.*
  - a. Verify that the advance balance on the Recipient's records agrees with the advance balance on CCC's records.
  - b. Verify that the advances are deposited in an insured, interest-bearing account.
  - c. Select a sample of the advances and verify:
    - (1) The Recipient has procedures in place to minimize the time elapsing between the transfer of funds from CCC and their subsequent use for program expenses.
    - (2) Advances are fully expended within 90 calendar days after the date of disbursement by CCC or returned to CCC along with all interest earned on the advances.
    - (3) Interest earned on advances was reported/remitted to CCC, as required.

**C. PROGRAM INCOME**

1. *Objective.* To determine whether the Recipient has properly identified and applied program income (if applicable).
2. *Reference.* 7 CFR part 1486.509.
3. *Review Steps.*
  - a. Determine whether the Recipient generated income from CCC-funded activities.
  - b. Verify that EMP-generated income was either used to offset the next reimbursement claim or returned to CCC.

**D. ACTIVITY EXPENSES**

1. *Objective.* To determine whether EMP resources were used only to reimburse expenditures made to further an approved activity, for which the Recipient has not been or will not be reimbursed by any other source.
2. *Reference.* 7 CFR part 1486.403.
3. *Review Steps.*
  - a. This section provides guidance for determining reasonable expenses as specified in the Recipient's program agreement.

Determine whether expenses are eligible and have not been made prior to approval of a Recipient's proposal. Among the factors to consider in making this determination are:

- (1) The total dollar amount of all activities.
  - (2) The dollar amount of the individual activity expense totals in relation to the total dollar amount of all activities.
  - (3) The probability of finding questionable expenses.
  - (4) The adequacy and reliability of the Recipient's accounting system, records, supporting documentation, and internal controls.
  - (5) Problem areas encountered during the review period.
- b. *Questionable Expenses.* Specific criteria for determining the allowable expenses are contained in the EMP 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 EMP based upon the aforementioned criteria. Expenses that do not meet the above criteria should be questioned.

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

- (1) Unauthorized. An expense that is specifically unauthorized under the EMP regulations. Examples include branded product promotions, administrative and operational expenses for trade shows, refundable deposits or advances, and the amount of premium class airfare over full fare economy.
- (2) Undocumented. An expense with insufficient or no supporting documentation attached. Example: STRE supported only by a credit card voucher.
- (3) Unreasonable. An expense which may not be specifically unauthorized or undocumented, but which does not reflect an action that a prudent person would have taken under the circumstances and conditions that existed at the time the expenditure was made. Examples include: contracting for professional service fees that exceed normal market rates for those fees; and excessive alcohol purchases at STRE events.

Include questionable expenses as findings in the review report.

*c. General.*

- (1) Check reimbursement claims for mathematical accuracy and proper certification for payment.
- (2) Selectively trace activity expense line items on reimbursement claims into the general and/or subsidiary ledgers.
- (3) Test expenditures to ensure that no expenditures were not made prior to the counter signature of the agreement by FAS and the Recipient.
- (4) Selectively trace program expenditures to source documentation. Verify that the expenses were authorized, adequately documented, and reasonable.
- (5) Selectively trace program year expenditures to payment documents (e.g., canceled checks, wire transfers, etc.).

***E. NONEXPENDABLE PROJECT PROPERTY AND LEASES***

1. *Objective.* To determine whether the Recipient's property management system adequately accounts for and safeguards leased project property and whether CCC's monetary interest is protected when project property is returned to the supplier in accordance with the lease agreement/s, but in no case later than 90 calendar days from the completion date of the project.

2. *Reference.* 7 CFR part 1486.403(b)(7).

3. *Review Steps.*

- a. Schedule all rental costs for equipment and leases made during the review period.
- b. Determine whether rental equipment and leases were authorized in the activity plan.
- c. Verify that leases are in writing and do not extend beyond 90 calendar days from the completion date of the project.
- d. Verify that the Recipient has not used CCC resources to purchase, lease (except during authorized travel status), or repair motor vehicles.
- e. Trace nonexpendable property rentals during the review period to the inventory records.
- f. Ensure that the inventory records properly identify each item leased with CCC resources.
- g. Verify rental equipment and physically verify their existence and use for activity purposes.
- h. Verify that the Recipient properly returned rental equipment.
- i. Verify that the Recipient has insured all nonexpendable property rented with EMP resources.

***F. COMPENSATION FOR U.S. CITIZEN AND FOREIGN NATIONAL EMPLOYEES***

1. *Objective.* To determine whether compensation expenses for U.S. citizen and foreign national employees conforms to EMP regulations and limitations.

2. *Reference.* 7 CFR part 1486.403(b)(i)(ii)(iii) and (2).

3. *Review Steps.*

- a. Verify that U.S. citizen and foreign national employees are hired under written contract.
- b. Verify that compensation paid to U.S. citizen employees or contractors conform to EMP regulations and limitations.
- c. Trace compensation expenses for U.S. citizen and foreign national employees to supporting documentation.

***G. DAILY CONTRACTORS***

1. *Objective.* To determine whether daily contractors' fees comply with EMP limitations.

2. *Reference.* 7 CFR part 1486.403(b)(i) and 1486.403(2).

3. *Review Steps.* Verify:

- a. Daily contractors are hired under written contract.
- b. Daily contractor fees do not exceed the daily gross salary of a GS-15, Step 10, base salary in effect at the time.
- c. Daily contractor billings include a schedule of days worked.
- d. Contract objectives are met.

***H. TRAVEL***

1. *Objective.* To determine whether travel expenses comply with the U.S. Federal Travel Regulation (FTR).

2. *Reference.* FTR 41 CFR parts 301 through 304 and 7 CFR part and 1486.403(4)(i)(ii) and (iii).

3. *Review Steps.* Review travel expense claims on a sample basis. Verify that:

- a. Per diem and miscellaneous expense claims comply with the FTR.
- b. Air travel claims do not exceed the full fare economy equivalent and that they comply with the "Fly America Act."
- c. Travel advances are not claimed for reimbursement until the travel is completed.
- d. The Attaché/Trade Officer who covers the destination country was notified in advance of any travel.

***I. SALES AND TRADE RELATIONS EXPENDITURES (STRE)***

1. *Objective.* To determine whether STRE expenses comply with EMP limitations.

2. *Reference.* 7 CFR part 1486.403(b)(3).

3. *Review Steps.* Review STRE expenses. Verify:

- a. Per capita costs are equal to or less than American Embassy representational funding guidelines.
- b. The Attaché/Trade Officer provided written authorization for STRE claims that exceed Embassy limitations.



- c. Attendees include persons other than Recipient and U.S. government employees.
- d. No STRE was reimbursed for events occurring in the United States.

**J. CONTRACTING FOR GOODS AND SERVICES**

- 1. *Objective.* To determine whether the Recipient'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 EMP resources.
- 2. *Reference.* 7 CFR part 1486.303(a) through (c) and (d)(1) through (6).
- 3. *Review Steps.* Select a sample of contract actions and verify:

For contracts valued at less than \$25,000 per annum, the Recipient ensured that the costs constituted an economical and effective use of EMP resources:

- 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 result in a conflict of interest.
- d. The amounts paid agreed with the contract provisions.
- e. The contracted goods or services were provided.

**K. CONTRIBUTIONS**

- 1. *Objective.* To determine whether contributions equal the amount specified in the program agreement on a percentage basis and were eligible and properly documented.
- 2. *Reference.* 7 CFR part 1486.400(a) through (e).
- 3. *Review Steps.*
  - a. Verify that the Contributions Report was submitted to FAS at completion of the EMP agreement.
  - b. On a test basis, trace reported contributions to source documentation. Verify:
    - (1) Contributions were in furtherance of approved activities.
    - (2) Contributions were eligible.

(3) Contributions were not reimbursed to the contributor by any other source.

- a. Verify that the values placed on in-kind contributions were reasonable.
- b. Determine whether the Recipient's contribution equals or exceeds the amount specified in the program agreement on a percentage basis.

**L. REPORTING REQUIREMENTS**

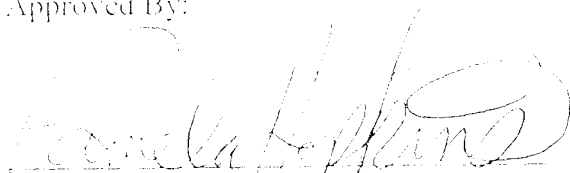
- 1. *Objective.* To determine whether final performance reports are submitted to MOS no later than 90 days after the completion of the project.
- 2. *Reference.* 7 CFR part 1486.500(a)(1) through (4) and (b).
- 3. *Review Steps.*

Obtain copies of and verify that final performance reports have been submitted no later than 90 days after completion of the project.

**M. CONTACT INFORMATION**

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

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SEP 22 2005

Date