

FINANCIAL AND COMPLIANCE REVIEW GUIDE FOR THE FOREIGN MARKET DEVELOPMENT COOPERATOR PROGRAM

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This guide provides instructions for performing a financial and compliance review of a Foreign Market Development Program (FMD) Cooperator. It provides guidance 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 headquarters and the overseas field offices.

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 Cooperator organizations, reviewers must use their professional judgment to tailor the guide and checklist to meet specific conditions at the review site.

BACKGROUND

FMD uses funds from the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) to aid in the creation, expansion, and maintenance of long-term export markets for U.S. agricultural products.

FMD is authorized by Title VII of the Agricultural Trade Act of 1978 and is administered by USDA's Foreign Agricultural Service (FAS).

For more than 50 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 FMD, CCC funds are used to reimburse Cooperators conducting approved overseas promotional activities. Preference is given to nonprofit U.S. agricultural 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 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. The FMD regulations (7 CFR part 1484), effective October 1, 1999, define the program requirements, including cost-sharing, strategic planning, reimbursement procedures, records and reporting requirements, and evaluations.

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 the Cooperator. All Cooperators must keep an itemized list of expenses incurred during the program year and submit them to FAS for reimbursement. All expense claims are subject to review, 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/Attaché/Trade Officer of the scheduled itinerary for the review of the Cooperator's overseas offices (if applicable).
3. Become familiar with the FMD regulations (7 CFR part 1484), FMD Program Notices, and any other policies and instructions relating to FMD.
4. Review the previous review report and working papers. Note report findings and recommendations and their resolution. During the course of the current review, determine the present status of past findings.
5. Review the FMD agreement, UES, and approval letter(s). These documents are filed with either the Marketing Operations Staff (MOS) or the Commodity Division Marketing Specialist.
6. Through discussion with the Commodity Division 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 CCC during the review period from the UES database. These schedules can serve as the control worksheet 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 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 Cooperator officials at the end of the review to discuss all findings, recommendations and areas of concern, as well as any additional information the Cooperator 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 Cooperator as soon as possible. The Cooperator will be asked to respond to the report within 60 days after the issue date of the report, as stated in 7 CFR part 1484.75(a).

SPECIFIC REVIEW TASKS

A. *FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM CONTROLS*

1. *Objective.* 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 part 1484.33.
3. *Review Steps.*
 - a. Identify Cooperator personnel responsible for managing the FMD activities. Evaluate whether the Cooperator provides sufficient U.S.-based and overseas office support staff to effectively manage FMD.
 - b. Determine whether the Cooperator has written instructions and authorizations supplementing the FMD regulations for U.S.-based and overseas office use. Evaluate the adequacy of any written instructions.
 - c. Verify that the Cooperator's accounting system provides:
 - (1) Effective controls over and accountability for all FMD funds and for property purchased with FMD 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-reference 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 FMD 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 Cooperator'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 Cooperator has procedures in place to resolve audit and review findings and to implement recommendations.

B. PROGRAM ADVANCES

- 1. *Objective.* To determine whether operating and special advance payments (SAP) are accounted for properly and fully expended within 90 days after the date of disbursement by CCC.
- 2. *Reference.* 7 CFR part 1484.57 and FMD program notices FMD-00-004 and FMD-00-006.
- 3. *Review Steps.*
 - a. Verify that the advance balance on the Cooperator's records agrees with the balance on CCC's records.
 - b. Verify that advances are deposited in insured, interest-bearing accounts.
 - c. Verify that interest earned on advances was returned as required.
 - d. Verify that the Cooperator has procedures in place to minimize the time elapsing between the transfer of funds from CCC and their subsequent use for program expenses.
 - e. Obtain the Cooperator's annual operating advance analysis. Verify the amounts, dates, 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 SAP requests and verify that they were fully expended within 90 days after the date of receipt.

C. PROGRAM INCOME

1. *Objective.* To determine whether the Cooperator has properly identified and applied program income.
2. *Reference.* 7 CFR part 1484.38.
3. *Review Steps.*
 - a. Determine whether the Cooperator generated income from CCC-funded activities.
 - b. Verify that FMD-generated income was either used to offset the next reimbursement or returned to CCC.

D. ACTIVITY EXPENSES

1. *Objective.* To determine whether FMD resources were used only to reimburse expenditures made to further an approved activity, for which the Cooperator has not been or will not be reimbursed by any other source.
2. *Reference.* 7 CFR part 1484.54 and 7 CFR part 1484.55.
3. *Review Steps.*
 - a. *Testing/Sampling Expenses.* This section provides guidance for determining the level of sampling required and how the review sample should be selected.

The scope and extent of sampling of expenses are matters of professional judgment and are determined on a case-by-case basis. Sufficient sampling must be done to permit an informed opinion on the expenses reviewed. 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 questioned expenses. For example, travel expenses are more likely to contain questioned expenses than office supplies because of the specific regulatory requirements regarding travel expenses.

- (4) The adequacy and reliability of the Cooperator's accounting system, records, supporting documentation and internal controls.
- (5) 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 during 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, clearly document the sample selection methodology for each segment reviewed.

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

- b. *Questioning Expenses.* Specific criteria for determining the allowable expenses 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 FMD based upon the aforementioned criteria. Expenses that do not meet the above criteria should be questioned.

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

- (1) *Unauthorized.* An expense that is specifically unauthorized under the FMD regulations. Examples include business cards, product samples and consumer promotion.
- (2) *Undocumented.* An expense with insufficient or no supporting documentation attached. Examples include STRE supported only by a credit card voucher, or summary invoices without supporting individual vendor invoices.
- (3) *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 include: purchase of a year's supply of materials in the last month of the program year; contracting for professional service fees that exceed normal market rates for those fees; and excessive alcohol purchases at STRE events.

Include questioned 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 made at the beginning of an activity to ensure that they were not made prior to CCC's approval of the activity.
- (4) Selectively trace program expenditures to source documentation. Verify that the expenses were authorized, adequately documented, and reasonable.
- (5) Selectively trace program expenditures to payment documents (e.g., canceled checks, wire transfers, etc.).
- (6) Test expenditures made at the end of the program year to ensure they were for an activity that was approved prior to the end of the program year and that the activity was completed within 30 calendar days following the end of the program year.

E. NONEXPENDABLE PROJECT PROPERTY AND LEASES

1. *Objective.* To determine whether the Cooperator's property management system adequately accounts for and safeguards project property and whether nonexpendable project property was purchased with FAS' approval and whether FAS' monetary interest is protected when project property is discarded.
2. *Reference.* 7 CFR part 1484.36; 7 CFR part 1484.54(b)(23); and FMD Program Notices FMD-98007 and FMD-178.
3. *Review Steps.*
 - a. Schedule all nonexpendable property purchases and leases made during the review period.
 - b. Determine whether nonexpendable property purchases and leases were authorized in the marketing plan.
 - c. Verify that leases are in writing and do not extend beyond the current marketing plan year.
 - d. Verify that the Cooperator has not used FMD funds to purchase, lease (except during authorized travel), or repair motor vehicles.
 - e. Trace nonexpendable property purchased during the review period to the inventory records.

- f. Ensure that the inventory records properly identify each item purchased with FMD funds.
- g. Select a sample of nonexpendable property items and physically verify their existence and use for project purposes.
- h. Verify that the Cooperator properly disposed of project property.

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

- 1. *Objective.* To determine whether compensation and allowance expenses for U.S. citizen and foreign national employees conform to FMD limitations.
- 2. *Reference.* 7 CFR part 1484.20(b)(8); 7 CFR part 1484.32; 7 CFR part 1484.54(b)(11)-(16); and FMD Program Notice FMD 99008.
- 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 does not exceed 125 percent of the General Schedule Grade 15, Step 10 rate, and that allowances paid to these individuals do not exceed the rate authorized for U.S. Embassy personnel.
 - c. Verify that non-allowance expenses such as home leave travel, rest and relaxation travel, or dependent education and travel are reimbursed at the rates and frequencies applicable to U.S. Embassy personnel as allowed under the State Department's Foreign Affairs Manual.
 - d. Verify that salary expenses for foreign national employees do not exceed the rates prescribed for equivalent positions in the local U.S. Embassy Foreign Service National (FSN) Salary Plan.

If an FSN salary plan does not exist, verify that compensation does not exceed prevailing local levels.

- e. If a foreign national serves as a country or regional director, verify that compensation payments are limited to a one or two grade increase, respectively, over the existing top grade of the FSN Salary Plan. The increases are calculated as the percentage difference between the second highest and highest grade in the FSN Salary Plan, with that percentage applied to each of the steps in the top grade.
- f. Selectively trace compensation and allowance 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 FMD limitations.
2. *Reference.* 7 CFR part 1484.54(b)(11) and FMD Program Notice FMD 02-003.
3. *Review Steps.* On a sample basis verify that:
 - 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.
 - c. Daily contractor billings include a schedule of days worked.
 - d. Contract objectives are met.

H. TRAVEL

1. *Objective.* To determine whether travel expenditures comply with the U.S. Federal Travel Regulations (FTR).
2. *Reference.* FTR 41 CFR parts 301 through 304; 7 CFR part 1484.37; 7 CFR part 1484.54(b)(18-21); and FMD Program Notices FMD 03-002, FMD 00-003 and FMD 99-006.
3. *Review Steps.* Review travel reimbursements on a sample basis. Verify that:
 - a. Per diem and miscellaneous expense claims comply with the FTR.
 - b. Air travel claims comply with program regulations and 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.
 - e. Trip reports were submitted within 45 days after completion of the travel.

I. SALES AND TRADE RELATIONS EXPENDITURES (STRE)

1. *Objective.* To determine whether STRE expenses comply with FMD limitations.
2. *Reference.* 7 CFR part 1484.54(b)(31); 7 CFR part 1484.55(a)(28); and FMD Program Notice FMD 212.

3. *Review Steps.* Review STRE expenses on a sample basis. Verify that:

- a. Per capita costs are equal to or less than American Embassy representational funding guidelines.
- b. The Attaché/Trade Officer provided advance written authorization for STRE claims that exceed Embassy limitations.
- c. Attendees include persons other than Cooperator 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 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 part 1484.35 and FMD Program Notice FMD-99007.
- 3. *Review Steps.* Select a sample of contract actions and verify that:

For contracts valued at less than \$25,000 per annum, the Cooperator ensured that the costs constituted an economical and effective use of FMD 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.

In addition to the above for all contracts valued at \$25,000 or more per annum, the Cooperators should also:

- a. Obtain at least 3 competitive bids (where possible) to assure adequate competition, and
- b. Rebid all contracts at least every 3 years.

K. CONTRIBUTIONS

1. *Objective.* To determine whether contributions are equal to or greater than the percentage specified in the approval letter, and were eligible and properly documented.
2. *Reference.* 7 CFR part 1484.50-53; 7 CFR part 1484.70; and FMD Program Notice FMD 221.
3. *Review Steps.*
 - a. Verify that the End-of-Year Contribution 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 in furtherance of approved activities.
 - (2) Contributions were eligible.
 - (3) Contributions were not reimbursed to the contributor by any other source.
 - c. Verify that the values placed on in-kind contributions were reasonable.
 - d. Determine whether the Cooperator's contributions equal or exceed the percentage specified in the approval letter.

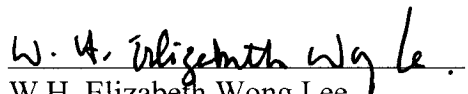
L. CIVIL RIGHTS

1. *Objective.* To determine whether the Cooperator carries out FMD in compliance with all requirements regarding nondiscrimination as contained in Federal and USDA regulations.
2. *Reference.* 7 CFR part 15 and 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 determine whether the information contained on the Self Certification Checklist is valid.
 - c. Complete the Cooperator Evaluation Questionnaire while reviewing the information contained on the Self Certification Checklist.
 - d. Any discrimination complaints should be reviewed for prompt and proper resolution.

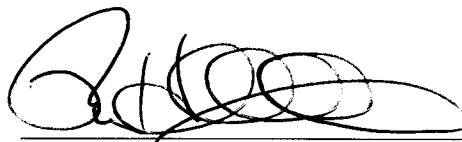
M. CONTACT INFORMATION

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

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