GENERALLY ACCEPTED COMMODITY ACCOUNTABILITY PRINCIPLES

FAM

Food Aid Management (FAM) is an association of thirteen United States private voluntary organizations (PVO's) formed in 1989 to improve the efficiency and effectiveness of food aid through collaborative effort. FAM's primary role is to provide services that facilitate the sharing of information and ideas among its members. Among its activities, FAM develops PVO guidelines and operating standards such as the Generally Accepted Commodity Accountability Principles (GACAP), sponsors briefings and seminars, publishes a bi-monthly newsletter, *Food Forum*, and maintains a library of food security materials.

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PREFACE

The Generally Accepted Commodity Accountability Principles, GACAP, is a set of professional standards relating to the management, handling, tracking, and reporting on the use of food commodities in international development and relief programs. Although similar in name, GACAP should not be confused with the Generally Accepted Accounting Principles, or GAAP, published by the Financial Accounting Standards Board. GAAP is a group of standards or guides used in presenting financial accounting reports.

Food Aid Management (FAM), an association of PVOs engaged in international food aid programming, compiles and publishes the Generally Accepted Commodity Accountability Principles. FAM is dedicated to improving the efficiency and effectiveness of food aid activities.

GACAP was first issued in 1991 as the Generally Accepted Commodity Accounting Principles. In 1993, a working committee of PVOs and NGOs revised these principles and changed the name to the Generally Accepted Commodity Accountability Principles. This new name encompassed the broader area of commodity accountability rather than the more narrowly defined area of commodity accounting. In 1995, the principles were again revised by another working committee and several new principles were added.

"Commodity Accountability" concerns the responsibility of PVOs and NGOs to ensure that the commodities entrusted to them are brought under accounting control, are physically safeguarded, and are used for the purposes intended.

Commodities include raw foods such as whole grains and processed foodstuffs. These commodities usually are made available to PVOs and NGOs by private donors, U.S. or other governments and international organizations. The commodities are distributed internationally through member private organizations, international organizations, and foreign governments for humanitarian and development purposes

The essential reason for developing and publishing GACAP is the recognition that commodities and the way they are acquired, distributed, and used present unique accountability problems not found in other types of financial transactions.

GACAP is intended to provide a set of useful commodity accountability principles that organizations involved in international commodity handling can use as a reference guide for their operations. We encourage the use and application of these principles because we believe that they will help achieve greater physical and monetary control over commodities as well as increase the operating efficiency of organizations.

The principles presented cannot address all the situations for which organizations may seek information and guidance. GACAP is expected to evolve as a working document as experience is gained with its use and is subject to periodic revision. Users and other interested parties, therefore, are encouraged to contact FAM with suggested changes or for further assistance.

GACAP is organized in a chapter format with: (1) a statement of the commodity accountability principle; (2) the rationale for the principle; and (3) an elaboration with illustrations or examples. Chapter I contains principles relating to the organization of PVOs and NGOs. Chapter II contains principles of financial accountability. Chapter III contains principles on internal controls and audits. Chapter IV's principles concern inventory management.

USAID Regulation 11 allows GACAP to be used for commodity accounting purposes. Using GACAP can result in a departure from GAAP and, therefore, require disclosure in the organization's financial statements. This type of disclosure should have no bearing on the acceptability of an A-133 audit report submission.

If GACAP is to continue to be a helpful and useful tool contributing to the efficient management of food aid, we need to incorporate the experience of those who are using it. We encourage all users to contribute to the improvement of GACAP by providing us with their insights, suggestions, and questions.

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N.B. Readers are advised to review the glossary in order to familiarize themselves with the terms used in this document.

CHAPTER I

ORGANIZATION

Principle I-1
FOOD AID POLICY

Commodity management organizations should develop and publish for their own use and that of the public and the donor organizations clear statements of the organization's purpose and operating principles guiding the use of food aid.

Rationale - Food aid can be used to achieve various organizational objectives. A statement of these objectives and their guiding principles should be available so that organizations served by PVOs and NGOs or those interested in providing assistance are fully aware of what the organization intends to achieve and how it will pursue its objectives.

Elaboration - Food aid can be used, among other things, to feed the hungry, to address emergency situations such as droughts and famines, and to support development. Each of these objectives may attract a variety of sympathetic organizations. For example, some donors may be willing to provide assistance to relieve the victims of droughts and famine, others to relieve the suffering from civil disturbance. Others may be interested in allowing the sale of commodities to obtain local currency for development projects. Clear statements of organizations' food aid policies and guiding principles provide a definitive sense of purpose to in-house staff, donors, international organizations, and counterparts.

Principle I-2
COMMODITY RESPONSIBILITIES

Commodity management organizations should establish systems that will enable them to exercise accountability for commodities until the commodities are issued for consumption to target recipients, even if disbursement and logistical control over the commodities are exercised by subrecipient commodity management organizations.

Rationale - The program or project objectives sought by PVOs and NGOs in the distribution of food aid must often be achieved by turning over the commodities to subrecipient organizations or other agencies for further distribution to the target groups. PVOs and the NGOs have a continuing responsibility to the beneficiaries and the donors to ensure that the food aid reaches the intended beneficiaries and the desired impact is achieved.

Elaboration - Often PVOs and NGOs are several steps removed from directly assisting the ultimate beneficiaries and being able to measure the impact of the assistance. This distancing, however, does not relieve PVOs and NGOs of their fundamental responsibility to the beneficiaries and the donors to pursue the achievement of programmatic goals and objectives. Organizations must have information systems in place that will allow them to record and report on the distribution, or operational, results.

Principle I-3
ORGANIZATIONAL ARRANGEMENTS

Commodity management organizations should establish comprehensive, up-to-date organizational systems for commodity matters that define staff responsibilities with lines of authority clearly delineated.

Rationale - Individuals involved in commodity accountability matters need to understand their role and its relationship to those of others in effectively carrying out stated policy objectives.

Elaboration - The overall system established by the organization to conduct its affairs should be reflected in an up-to-date organizational chart. The chart should identify the various organizational units such as personnel, finance, operations, and resource management and show how these units relate to one another in terms of operating the organization. Thus, personnel involved in commodity accountability matters can readily learn the lines of authority and responsibility that exist with key members of the organization.

To illustrate, in the commodity inventory management area the position of warehouse manager would be shown on the organizational chart as reporting to a supervisor linked in the chain of command to the country director. The chart would also show that the warehouse manager position was responsible for the supervision of inventory clerks, and custodial staff below that position. The individual job descriptions provided employees occupying warehouse positions would detail these arrangements.

Principle I-4
FUNCTIONAL RESPONSIBILITY STATEMENTS

Commodity management organizations should provide staff involved in commodity accountability with a clear description of their individual job requirements and responsibilities.

Rationale - Employees who understand what is required of them, how they are expected to perform, and how they relate to other members of the organization are likely to contribute more effectively to the achievement of the organization's food aid goals and objectives.

Elaboration - Employees must know and understand precisely what is expected of them in the position they occupy if they are to contribute meaningfully to achieving the goals of the organization. This is done, in part, by developing and providing to employees detailed descriptions of each position in the organizational system discussed in Principle I-2. The detailed job description, or statement of functional responsibilities, is part of the organization's personnel management system. It provides a basis for assessing the employee's performance for job retention and promotion. It places specific responsibilities for job performance on the employee by letting employees know what their essential function is, how they are expected to carry it out, and how it relates to fulfilling a larger objective. The job description should also specify to whom the employee reports and the limits of his or her responsibility and authority.

Principle I-5
COMMODITY ACCOUNTABILITY POLICIES AND PROCEDURES MANUAL

Commodity management organizations should maintain Commodity Accountability Policies and Procedures Manuals which describe the organization's policies and procedures.

Rationale - The policies and procedures governing the commodity accountability operations of the organization should be published so that all staff are aware of them and guided by them in day-to-day operations.

Elaboration - A policy and procedures manual provides employees the philosophical and ethical context within which to operate. Accordingly, the Commodity Accountability Policies and Procedures Manual should be reviewed and revised regularly. It should contain an appropriate organizational chart with lines of authority and responsibilities, clear statements on the organization's food aid policies, purposes, principles, and operating procedures. Operating procedures should be defined in sufficient detail to enable employees to use the manual as a guide in carrying out their job responsibilities. Job responsibilities cover the duties for the positions shown on the organizational chart and reflected in individual job descriptions.

The Manual would explicitly state the organization's governing policies in inventory management and describe the specific procedures to be followed to carry out these policies and to achieve its objectives.

CHAPTER II

FINANCIAL ACCOUNTABILITY

Principle II-1
CHART OF ACCOUNTS

Commodity management organizations should maintain a Chart of Accounts that describes the accounts used to record commodity transactions and provides a basis for fairly presenting financial data in published statements and reports.

Rationale - Commodity transactions must be accounted for according to prescribed accounting procedures using financial accounts that accumulate transaction data in an orderly, logical and verifiable fashion thereby facilitating management reporting responsibilities.

Elaboration - Individual accounts are a means of collecting and organizing information (data) to fulfill internal and external management and reporting responsibilities. Once the organization has defined its information needs, accounts can be created to capture the required data. Financial transactions, for example, can be recorded in the accounting records of the organization to document the receipt, issue, payment, and remaining asset values (or balances) of commodities according to specific donors. This information can then be used to satisfy management's reporting responsibilities to the donors.

Financial accounts used to record these transactions should be fully described to facilitate recording of events according to generally accepted accounting principles.

Charts of Accounts should identify the financial accounts that are to be used and also describe how transactions are to be documented and recorded. The Chart of Accounts should also identify the accounts to be used and explain the accounting entries for accumulating costs such as the administrative costs of pursuing loss claims for possible reimbursement.

Principle II-2
COMMODITY VALUES

Commodity management organizations should establish and use accounting policies that specify reasonable, standard bases for valuing and accounting for commodities.

Rationale - All commodities, even those that are provided at reduced cost or donated free of charge to distributing organizations, have a financial value. The financial value assigned to these commodities and recorded in the financial records should be determined by established accounting policies and used in connection with all commodity transactions, including losses.

Elaboration - Organizations sometimes do not assign a financial value to donated commodities when the commodities are transferred overseas for immediate distribution. However, commodities that are provided to organizations and are later distributed according to agreements with providers have a financial value that should be recognized and recorded in the financial records of the recipient organization. Organizations should have accounting policies that describe how this value is to be assigned and used. One method for assigning fair value could be the cost, insurance and freight value included on the bill of lading. However, it must be kept in mind that the cost of some commodities originating from the U.S. Government or elsewhere could possibly be very minimal and not reflective of a "fair value."

Assigning a value to donated commodities requires that organizations treat commodities like any other asset with appropriate safeguards over their use and disposition. The organization's accounting policies also should address how gains and losses from commodity swaps or sales, exchange rate transactions, thefts, and deterioration are to be handled for recording and tracking purposes.

Principle II-3
DOCUMENTS AND RECORDS

Commodity management organizations should maintain documents and records that accurately reflect all transactions involved in the receipt and disposition of all commodities up to the point where the commodities are issued for distribution or issued for consumption.

Rationale - Organizations have a responsibility to account for and efficiently use the commodities entrusted to them for the purposes intended.

Elaboration - Organizations receive commodities and other assets from donors to be used for agreed-upon purposes. These assets, therefore, while under the control of the recipient organization should be accounted for through an integrated system of financial record keeping at the field and headquarters levels. The books and records at these levels must be: (1) accurately kept; (2) reflect at all times the quantities on hand and the amounts disbursed; and (3) meet the needs of internal and external audits. (See also, Principle III-1, Inventory Control and Principle III-2, Inventory Records).

Principle II-4
COMMODITY RECORDS AND DOCUMENTS SAFEGUARDS

Commodity management organizations should establish and implement procedures for adequately safeguarding commodity records and documents.

Rationale - Commodity records and supporting documentation are the official database records of the organization and are used in the preparation of a variety of financial and administrative reports that detail the performance of the organization over time. These records must be safeguarded against improper access and loss and must be retained for established periods as required.

Elaboration - Commodity records such as inventory ledgers, accounting journals, bills of lading, waybills, and transfer and disbursement authorizations make up the official records of the organization. They record the organization's performance and are used to develop many management and financial reports that are used in the operations of the organization. Steps must be taken to ensure that the records are available only to specifically authorized personnel, and that the records are not lost, stolen, or destroyed.

Control over the records can take many forms but most common controls are physical restraints such as locked or secured commodity or document storage areas, limited excess areas or restricted use or password-controlled computerized accounting systems. Organization records must be retained for specified periods to comply with government requirements. Thus, organizations must also formulate official record retention policies and ensure that these policies are followed throughout the organization.

Whenever corrections are made in commodity records, such entries should be countersigned by supervisory personnel.

The system adopted for safeguarding records and documents should be described in the commodity management organization's commodity accountability policy and procedures manual.

Principle II-5
COMMODITY TRANSACTION RECORDING

Commodity transactions should be recorded in a timely manner so that the organization's financial records provide the current status of commodity inventory balances, issuances, and value.

Rationale - Current information enhances the basis for making management decisions affecting the financial operations of the organization.

Elaboration - Management decisions affecting various aspects of the organization are made on a daily basis. To help management in making the most informed decisions possible, the financial records need to be maintained on a timely basis. Commodity transactions, therefore, should be recorded daily. This requirement should be reflected in established accounting systems and recording procedures. Written procedures should be included in the organization's commodity accountability policies and procedures manual or some similar publication of instructions.

Principle II-6
COMMODITY ACCOUNTING STAFFING

Commodity accounting should be performed by knowledgeable staff trained in commodity accounting.

Rationale - Commodity accounting is a unique function with principles and rules governing the valuation and handling of commodities that may differ from usual accounting practices. The complexity of financially-based commodity transactions suggests that responsibilities for commodity transactions should be assigned to qualified staff within a designated part of the accounting department.

Elaboration - Commodities are often obtained from donors who place certain restrictions on the purposes for which the commodities are to be used. These conditions require separate accounting on the financial records to show the restricted or unrestricted nature of the arrangement and for subsequent reporting of activities. Private Voluntary Organizations or Non-Governmental Organizations may be permitted to sell donated commodities for local currency or transfer the commodities to other organizations in the distribution chain. Losses requiring follow-up and the filing of claims for reimbursement occur at virtually every level. These types of commodity transactions present accounting and valuation problems that are different from the usual commercial type transactions and require accounting staff that are familiar with the processes and with the applicable private and government rules and regulations. Commodity accounting functions should be a distinct part of the organization's financial accounting system.

CHAPTER III

INTERNAL CONTROLS AND AUDIT

Principle III-1
INTERNAL CONTROL SYSTEMS

Commodity management organizations should establish and maintain systems of internal controls over commodity transactions which ensure that its policies and procedures are being followed. The systems will also provide reasonable assurance that the assets of the organization are efficiently managed and being used for their intended purposes.

Rationale - Organizations are entrusted with commodities over which they exercise direct control to achieve certain humanitarian and development goals. Organizations, therefore, must maintain systems of internal control over these assets including provision for periodic monitoring and reporting of their disposition.

Elaboration - Internal controls are the steps that organizations take to provide reasonable assurance that its objectives and goals such as adequately safeguarding commodities, providing reliable information to donors and for management decisions, complying with appropriate rules and regulations, etc. are being achieved efficiently. Internal controls include, among other things, proper segregation of duties and responsibilities and an adequate system of records, approved procedures, and authorizations.

By carefully designing control systems incorporating specific complementary actions, organizations can provide necessary safeguards over the actions of individual employees. For example, separating the functions of the warehouse manager for keeping physical control over the commodities from those of the accounting manager for auditing warehouse records and making final entries to the financial and commodity records provides an element of internal control and would be an integral part of the organization's system of internal controls. (See also Principle I-5, Separation of Duties and Responsibilities).

Principle III-2
SEPARATION OF DUTIES AND RESPONSIBILITIES

The organizational structure of a commodity management organization should ensure the proper separation of duties and responsibilities of its staff as a critical part of an effective system of internal controls.

Rationale - Separating the duties and responsibilities of employees so that no one employee controls all aspects of a transaction or activity enhances the effectiveness of organizational internal control objectives and makes it more difficult to conceal waste, fraud, abuse, and mismanagement.

Elaboration - An organization's internal control system consists of its organizational structure, its operating procedures, and its administrative practices. Collectively, these components operate to provide assurance to management that programs and activities are effectively carried out and that the risk of misappropriation of assets is minimized.

An essential aspect of the internal control system is the proper separation of the duties and responsibilities of employees. Organizational charts, statements of functional responsibilities, and policies and procedures manuals should reflect this separation. With respect to commodity accountability this means that the duties and responsibilities related to: (1) the authorization to move and disburse commodities, add or delete distribution sites or change the quantities the sites should receive; (2) the physical control (custody) of commodities; and (3) the financial record keeping or the validation of commodity transactions should be assigned to separate personnel in, preferably, separate departments. For example, warehouse personnel with keys to and physical control over the warehouse should not be allowed to disburse commodities without the written approval of a separately authorized individual. Custody of commodities should be separated from the financial record keeping for these assets.

In cases where the appropriate separation of duties and responsibilities is not possible due to the size of the staff or other considerations, compensating controls must be considered. For example, when a warehouse manager has control over the commodities and also supervises the bookkeeper a compensating control would be frequent physical inventories conducted by persons independent of the warehouse personnel. When the financial records are kept by the warehouse manager, there should be independent audit verification of the accounting entries.

Principle III-3
INTERNAL AUDIT

Commodity management organizations should provide for periodic internal audits of their commodity accountability systems to assess the reliability of the systems as a whole and to ensure that the systems are functioning at the desired levels of efficiency and effectiveness.

Rationale - Commodity accountability systems and those responsible for their operation as a part of a regular internal control system should be an integral part of formal internal audits and as such should be subject to periodic examination to ensure that operational efficiency and accuracy in record keeping is maintained. Periodic reviews can deduce problem areas, shortcuts, or other lapses resulting from staff turnover, issues not addressed by a policy and procedures manual, or special circumstances. Potential losses can thereby be minimized. While reviews may be conducted as a part of a regular internal control system, they should be an integral part of formal internal audits.

Elaboration - The internal audit function is an important aspect of the organization's internal control system. Internal audits are designed to examine whether financial and operational activities are running properly and whether the organization's policies and procedures are being followed and to report the findings to management. The internal auditor's work complements the work of the external auditors of the organization's public accounting firm.

The internal audit work along with the external auditor's approach should address the risks associated with handling commodities and provide a reasonable assessment of the system of internal controls. In determining the scope of their audit and the amount of testing to be done, the external auditors usually will consider previous internal and external audit reports.

With respect to commodity accountability systems, internal audits should include testing of inventory controls, transaction recording and reporting, and end-use checking functions. They should be made on a continuing basis with reports to management on how well the systems are operating. By doing so, problems can be identified and timely corrective actions undertaken. To function effectively, internal audit staffs must be independent of the operations they evaluate and must report to a high ranking member of the organization. The work should meet professional auditing standards. Internal audits should comply with the Statements of the Professional Practices of Internal Audit (SPPIA) of the Institute of Internal Auditors.

Principle III-4
EXTERNAL AUDIT

Commodity management organizations should have a plan for supplementing internal audit activities through the use of outside certified public accounting firms. Outside audits can address whatever examination needs management may have, but at a minimum annual financial statement audits should be directed to expressing opinions about the organization's results of operations and its compliance with the laws and regulations, including those applicable to federal financial assistance programs and the adequacy of the internal control system.

Rationale - Interested parties rely on published annual financial statements of NGO and PVO operations showing how they used the resources available to them. To be meaningful the reports must accurately describe results, be consistent in how the information is presented over time, and be free from material misrepresentations. External auditors, or certified public accounting firms, are in the best position to make the required examinations because they are not subject to internal organizational pressures and restraints on their work.

Elaboration - Audits by outside audit firms are logical extensions of internal audit activities. In fact, there is usually close coordination between the two audit groups, with the outside auditors often relying on the work of the internal auditors in many areas, including examinations of the internal control systems discussed in Principle III-1. Internal Controls.

External audits go beyond the work of the internal audit group and provide management with an objective, independent view of the organization's activities by rendering opinions about financial operations in formally published reports at least annually. Outside firms are able to be objective because they are not encumbered by internal pressure concerning audit approach, opinions given, and its recommendations and disclosures. In addition, certified public accounting firms are held to the high professional standards of the American Institute of Certified Public Accountants.

Annual financial statement audits are commonplace. However, the Federal Government's need for greater accountability in assistance programs requires NGOs and PVOs to cope with new audit requirements, principally those contained in Office of Management and Budget Circular A-133 issued in March 1990. Organizations receiving more than $100,000 in federal awards in more than one program area must provide their cognizant federal audit agency no less than annually but not less than every two years, a report on operations done by an outside accounting firm in accordance with Government Auditing Standards.

The audit must specifically address whether: (1) the organization's financial statements fairly present its financial position; (2) the internal control structure provides reasonable assurance that federal awards are managed in compliance with applicable laws and regulations; and (3) the organization has complied with laws and regulations that may have a direct and material effect on financial statement amounts and on each major federal program (see also Principle III-3, Internal Audit, for a discussion of audit requirements when awards are made to subrecipients.)

Principle III-5
COMPLIANCE

Commodity management organizations should comply with the terms and conditions of all contractual arrangements entered into or be prepared to justify why compliance was not possible or necessary.

Rationale - Commodity transactions contain terms and conditions that legally bind the parties. Providers have a right to expect that the agreed upon terms and conditions are met and if not to know why. Recipient organizations have a concurrent responsibility to fulfill their commitments and to report back to the providers and to others.

Elaboration - The activities of a commodity management organization relate in large measure to contractual arrangements entered into with private and government sources. These arrangements carry with them terms and conditions that can be wide ranging covering such things as the targeted beneficiaries, quantities to be given to individual recipients, allowable losses, shipping, handling and warehousing requirements and the use of local currency proceeds in the case of monetization activities.

As part of the testing of the internal control system, the record should be examined periodically to determine compliance with contractual requirements. Tests made by first level managers, such as project directors, can be important in disclosing discrepancies before they become significant problems requiring public disclosure. For example, when contracts or grants require receipts for distributed food, documentation supporting such transactions can be validated by project directors overseeing distribution of the food on an ongoing basis. Similar steps included in the audit scope of the internal and external auditors would provide further validation of these control procedures.

If noncompliance is found, the commodity management organization must be prepared to take corrective action to preclude possible recurrences. Note that under Federal A-133 requirements the auditor must give an opinion on organization compliance with applicable laws and regulations. (See Principle III-4, External Audit)

CHAPTER IV

COMMODITY INVENTORY MANAGEMENT

Principle IV-1
INVENTORY CONTROL

Commodity management organizations should maintain inventory control over commodities entrusted to them up to the point where the commodities are turned over to another organization that is responsible for exercising similar management control over and responsibility for the commodities.

Rationale - Commodities have a significant financial and programmatic value. Accordingly, commodities must be subject to continuous control by being entered into the inventory records of the acquiring organization and maintained there similar to any other asset until they are finally disposed of.

Elaboration - Organizations that acquire commodities through donations or purchase must maintain inventory control over such commodities up to the point where the commodities are turned over to subrecipient commodity management organizations or issued for consumption.

However, the extent of this control is not always adequate for organizations to meet their responsibilities for ensuring that commodities reach the intended beneficiaries and are used for agreed-upon purposes. Accordingly, inventory records must be maintained that track the commodities up to the recipients.

The commodity management organization receiving commodities must be accountable to the commodity management organization from which they received the commodities. It must provide reports that reflect the use of the resources according to the terms and conditions of their agreement, including maintaining inventory records that track the commodities to the recipients.

Principle IV-2
STORAGE AND HANDLING

Commodity management organizations should establish and use appropriate storage and handling procedures to protect the quality of commodities and guard against undue losses.

Rationale - Storing and handling commodities properly can prevent deterioration and losses through theft and misappropriation. Proper practices and procedures increase the ability of organizations to achieve food delivery objectives.

Elaboration - Commodity management organizations are responsible to providers for ensuring that the quality of commodities is retained up to the time of delivery to users. This requires initially that commodities off loaded from ships be done under the direction of qualified port survey agents and knowledgeable organization staff. This phase is particularly important because of the potential for damage and losses due to poor handling practices. Shipment from the port to the inventory locations must be done in a manner that preserves the quality and characteristics of the product as well. This phase can require proper vehicles, good stacking techniques and protective coverings.

Organizations continue to be responsible for commodities placed into their storage locations. Storage facilities must be appropriate for the types of commodities being stored. Considerations, in this regard, include controlling temperatures and humidity, protective coverings, proper stacking arrangements, fenced areas and security guards. Storage locations also need to be clean to avoid infestation, be securable to discourage pilferage, and be under a system of record keeping to provide a basis for loss claims. Material handling at the warehouse level is extremely important. Properly staffed warehouses should be supervised, have trained staff, proper equipment such as correctly sized pallets, and weighing scales, and counters for inventory control.

As stated in other principles, when organizations turn over commodities to subrecipients, issuing organizations have a responsibility to ensure that the subrecipients have acceptable storage and handling capabilities consistent with requirements discussed above.

Principle IV-3
INVENTORY RECORDS

Commodity management organizations should maintain a perpetual system of inventory records at all management levels to record and report commodity receipts, issues, and adjustments to inventory.

Rationale - An efficient system of continuous inventory record keeping for commodity resources is necessary to: (1) make decisions on allocating resources; (2) fulfill required commodity reporting requirements; (3) meet control, oversight, and auditing needs; and (4) simplify organizational program implementation and future planning considerations.

Elaboration - Inventory records are the primary data base on commodity status and transactions that change commodity status. Records include waybills, bills of lading, stock or bin cards, inventory registers at warehouse, warehouse loss and damage reports, etc. Records contain the original unconsolidated data describing the condition or event at the time of recording. All records should include the (1) date and (2) type, (3) source, (4) quantity, (5) location and (6) condition of a commodity.

Records also serve as supporting documents if more than one party sign the record attesting to the truth and accuracy of the recorded data. Bills of lading, waybills and loss reports are examples of this.

Thus, the system of records must be accurate and up-to-date and must be maintained at all levels of storage and tie into the financial accounting system. The preferred method of inventory control is the First-In, First-Out system, or FIFO method. Under the FIFO system the first units received in, or the oldest units in stock, are the first units issued. Although FIFO is the preferred method of issuance, storekeepers must use their judgment and consider other factors such as the receipt of damaged commodities to control spoilage, infestation, and shelf life in deciding which stocks to issue.

Principle IV-4
INVENTORY VERIFICATION

Warehoused commodities should be physically counted regularly, no less than annually, by persons other than those involved in the receipt and issuance of commodities at the warehouse level. The results of physical inventories should be compared with the related commodity accounting records and the records adjusted accordingly by authorized personnel. Recurring physical inventories made by outside staff should be supplemented by periodic counts made by warehouse staff as part of their commodity management responsibilities.

Rationale - Inventory balances shown on warehouse commodity records must be validated periodically by physical counts. Regular inventory procedures help staff in the early identification of overages and shortages and in determining the condition of the commodities being stored so that corrective action can be taken. Inventory procedures also provide a basis for ensuring that the value of the inventory on the financial records agrees with the commodities on hand.

Elaboration - Inventory records of stored commodities usually are kept by warehouse staff. These records generally consist of a warehouse daily register in which receipts and issuances are recorded with references made to supporting documentation such as bills of lading and waybills for the particular transactions involved. In addition, individual bin cards are kept for each commodity stored. The bin cards are annotated each time a commodity is received or issued or when adjustments to the indicated balances are necessary to reflect the actual quantities on hand. The cards also provide a link to the quantities recorded in the warehouse register quantities.

A separate financial record of the value of the commodities in storage usually is kept by the organization's accounting department. Periodically, these financial records must be brought into balance with the warehouse physical count records. This is done by making a count of commodities in the warehouse and then comparing the results of the count with the financial records. The physical inventory of the warehouse should be done by staff not directly associated with warehouse operations to ensure the integrity of the process.

Commodity management organizations do not always maintain separate financial records of commodities that are in storage. In these cases, the warehouse records must be checked by independent persons on a regular basis to validate the recorded inventory balances.

Principle IV-5
END-USE CHECKS

Commodity management organizations should establish and implement procedures for making end-use checks of commodities to ensure that commodities reach intended beneficiaries and that the commodities are used for agreed-upon purposes.

Rationale - Commodities usually are provided to organizations so that they can be distributed to target groups and used for defined purposes. Periodic end-use checks are an important means of meeting accountability requirements and are necessary for validating the results achieved.

Elaboration - Agreements with donors should specify how commodities are to be used and for what purposes. Generally, organizations issue commodities with the understanding that intended beneficiaries will receive the commodities for the intended purposes. Periodic end-use checks must be made to validate that these events happened as planned and reported by the disbursing agency. End-use checking provides information for comparing reported results with recorded and actual results and should be an important aspect of the organization's system for validating commodity transactions.

Validation is most efficiently accomplished through representative random or statistical sampling of target groups. Validation techniques include examinations of distribution and consumption records, interviews with recipients and beneficiaries, and firsthand observations.

Principle IV-6
ACCOUNTABILITY AND LIABILITY LIMITS

Commodity management organizations should ensure that accounting and accountability responsibilities and liability limits for accepting and using resources are clearly specified in agreements and contracts with donors, subrecipient organizations, transporters, and suppliers of goods or services. The agreements and contracts should be legally binding and specify the period for which they are in force.

Rationale - The acceptance of donated commodities carries with it responsibilities for maintaining accountability over the commodities provided and involves certain financial liabilities. The conditions defining the transfers of commodities should be described in legally binding agreements and contracts between the parties.

Elaboration - PVOs and NGOs should always ensure that their accountability responsibilities and financial liability limits for commodity transactions are clearly specified in written, legally binding contracts with donors, transporters, subrecipient organizations, and suppliers of goods and services. Before entering into such agreements, PVOs and NGOs should carefully assess the risks involved, the probability and extent of various types of losses, and the span of control that they can realistically exercise over commodity transactions.

Formal contracts should be the basis for all transfer of resources, especially PVO and NGO commodities. Difficulties in food aid programming often stem from the failure to prepare realistic and sufficiently detailed contracts. Attention needs to be focused on describing the specific accountability and liability arrangements appropriate to individual commodity programs. In this regard, contract issues that should be addressed by PVOs and NGOs include: (1) an explanation of the roles and responsibilities of each party; (2) how accountability for the commodities is to be established and maintained; (3) the definition and extent of financial liability of each party; (4) how disputes will be arbitrated; (5) what will constitute the use of force majeure; and (6) contract cancellation and penalty provisions.

PVO and NGO commodity agreements with host country organizations and donors should address: (1) the definition of when commodities are considered issued for consumption; (2) what parties are recipients; (3) how money recovered from claims is to be handled; (4) the applicability of local laws such as labor laws, contract laws, and minimum wage rates; as well as (5) criminal laws; and (6) donor requirements and regulations such as publicity requirements, container sales, and destruction of unfit commodities.

Principle IV-7
LOSS AND CLAIM DOCUMENTATION PROCEDURES

Commodity management organizations should develop and implement specific procedures for estimating and assessing commodity losses and pursuing and resolving claims. These procedures should be referred to in any contractual agreements entered into with subrecipient organizations, donors, and host government agencies.

Rationale - Each type of commodity loss and claims resolution process has its own unique requirements for supporting documentation. To ensure that employees responsible for identifying losses and pursuing claims handle these processes consistently with the various documentation requirements, an organization's procedures should be put into writing and referred to in all commodity contractual agreements.

Elaboration - The liability clauses of commodity contracts usually are the basis for deciding what is a claimable loss. Because these clauses can differ significantly among contracts, there can be a certain amount of confusion about the requirements for identifying losses and filing claims for reimbursement. Organizations usually identify and report all losses; however, not all losses result in claims. Also, PVOs and NGOs may not file claims for losses incurred while commodities are in their possession. They also may not file claims for unavoidable or routine losses as defined in government regulations or in the governing contracts. On the other hand, claims may be filed in cases of misrepresentation or in the failure to exercise due care.

Principle IV-8
COMMODITY REPORTING

Commodity management organizations' field offices should prepare annual summary reports of their commodity activities and make them available to headquarters staff, donors, and host government and other counterparts.

Rationale - Organizations receiving and distributing commodities are accountable to their clients and other interested parties for the organizations' performance in meeting established goals and objectives. Information reports on organization activities demonstrate public accountability by the organizations and provide a basis for making management decisions on program activities.

Elaboration - Reports on commodity activities prepared at least annually are a principal means of communicating commodity information to interested parties, including headquarters staffs, donors, and host governments. By publishing the results of their activities, organizations demonstrate their performance for the period and the manner in which they have discharged their accountability for the assets entrusted to them. Regular public disclosure creates a pressure for improved performance.

The report of commodity activity should include, at a minimum, the quantity and cash value of the commodities received, the amounts distributed and issued for consumption, losses and available balances. The cash value should reflect the cost, insurance, and freight (C.I.F.) value of the commodities for comparison among recipient organizations. The report should also include commodity losses, claims filed, claims collected, and outstanding claims. Issuance of a commodity activity report on at least an annual basis does not suggest that other reports or disclosures are not necessary or desirable.

GLOSSARY

Accountability - The clear and accurate presentation of appropriate and useful information for decision-making and management.

Accounting - The system for analyzing, recording, and summarizing the effect of financial events on an organization or entity.

Auditing - The process of reviewing the accounting records. The external auditor reviews the records as a basis for giving an opinion on the general purpose financial statement.

Available Commodity - The bill of lading amount, less short landed, damaged and unfit commodities.

Beneficiary - One who receives benefits, profits or advantages

Chart of Accounts - A list of the names, numbers and description of all the accounts included in an accounting system.

Commodity Management Organizations - Organizations that have control over or possession of food commodities to be used for development or relief purposes. This includes international and national private voluntary organizations (PVOs), non-governmental organizations (NGOs), and recipient agencies such as host governments and social service groups.

Compliance - The act of conforming: accordance.

Control System - The plan of organization and all the coordinate methods and procedures adopted within an organization or entity to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Counterpart - An organization that works together with a PVO or NGO to implement a project or program that uses commodities or the sales proceeds from commodities and assumes responsibility for the same.

Donor Organizations - Organizations that provide resources to commodity management organizations. This includes The United States

Agency for International Development (U.S.A.I.D.), the United States Department of Agriculture (USDA), ODA, CIDA, the European Community, World Food Program, and private donors.

Generally Accepted Accounting Principles (GAAP) - Principles (often called *standards*) stated by the Financial Accounting Standards Board and its predecessors, and other principles that are accepted because they are widely used.

Inland Losses - Losses which occur after bill of lading discharge.

Internal Audit - An audit conducted by a commodity management organization's internal
auditors, as contrasted with an external audit conducted by independent auditors.

Inventory - Commodities being held for distribution, sale or disposal.

Issued for Consumption - When possession and control of commodities passes to the ultimate distribution entity. When the commodity is issued to the site where it will be given to the recipient.

Issued for Distribution - When possession and physical control of commodities passes from one commodity management organization to another

Loan - A commodity that is lent or furnished on the condition that it be returned in-kind with the same or another agreed-upon commodity.

Marine Losses - The difference between amount of sound commodities discharged and bill of lading amount.

Participants - Individuals who are directly involved to some degree or other in the implementation of a project and will stand to benefit as a result of the goals and objectives of that project.

Physical Inventory - The amount of inventory currently on hand as determined by a physical count.

The act of conducting a physical count.

Policy - A definite course of action adopted for the sake of expediency, facility, etc.

Practice - Habitual or customary performance; operation.

Principle - A general law or rule adopted or professed as a guide to action; a settled ground or basis for conduct or practice.

Recipient - One who receives commodities for oneself or for the intended beneficiary.

Record - To set down in writing for the purpose of preserving evidence.

Records - Information or knowledge preserved in writing.

Report - An account or statement describing in detail an event, situation, or the like, usually as the result of observation, inquiry, etc.

Subrecipient Organization - Any commodity management organization that receives commodities or proceeds from the sale thereof from another commodity management organization.

Targeted Beneficiary - Person or persons for whom commodities are intended.

Transaction - An instance or process of carrying on or conducting business, negotiations, activities, etc. to a conclusion, settlement or completion.

Transit Loss - Difference between amount dispatched for transport and amount delivered.

Ultimate Distribution Entity - The individual responsible for issuing to the recipient.

Verifiability - The ability through a consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

Warehouse Losses - Loss of stored commodities.

Warehouse - A building, or part of one, for the storage of goods, merchandise, etc.