

PROGRAMMING FOOD RESOURCES	ASSESSMENTS: COST AND LOGISTICS	CALL FORWARD AND PROCUREMENT	PORT	STORAGE AND HANDLING	FOOD RECEIPT AND DISPATCH	LOSSES AND CLAIMS	INVENTORY ACCOUNTING AND REPORTING	FOOD DISTRIBUTION TO SITES	MONITORING PROJECT SITES
A	C	B	E	E	M	E	N	T	S
A C B E E M E N T S A N D C O N T R A C T S									

INTERNAL CONTROL

Chapter 3

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I. INTERNAL CONTROL

Internal control is an organization plan with methods and measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to management policies. A system of internal control includes accounting and administrative controls. There must also be competent people to operate systems, and documents that record all transactions.

Internal controls either prevent losses or detect losses in a timely manner to avoid further losses. A system of internal control provides reasonable but not absolute assurance of reducing risk of losses to an acceptable level. Reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived. Some internal controls, such as conducting periodic physical counts of food stored in a warehouse, are very cost-effective. Other internal controls, such as assigning a CARE employee to the port, are cost-effective depending on the circumstances--the extent of previous losses, or whether food is shipped in bulk or in containers.

The *Overseas Internal Controls Manual* published by CARE USA's Internal Audit Department (ALMIS #4598) and the *Commodity Accounting Manual* from the Finance Department (ALMIS #4496) provide more in-depth discussion of internal controls. Aspects of internal control relevant to managing food resources appear in this and other chapters throughout this manual. Look for boxes like the ones below for special emphasis.

A. Accounting Control

Internal accounting controls encompass the written policies and procedures designed to insure the accuracy and reliability of warehouse inventory and commodity financial accounting data and to safeguard assets. Internal accounting control provides reasonable assurance that:

- Transactions are carried out in accordance with management's general or specific authorization. This requires independent evidence that authorizations are issued by persons acting within the scope of their authority and that transactions conform to the terms of the authorizations.

Internal Control

Before entering food receipts, dispatches, losses, and adjustments in commodity financial ledgers, the commodity accountant must review the receiving waybills, dispatch waybills, and Loss and Adjustment Reports to determine that each document has been authorized by the person delegated that responsibility by management. Reference the *Commodity Accounting Manual*, ALMIS #4496, June 1995.

- Access to assets is permitted only in accordance with management's authorization. This includes both direct physical access and indirect access through the preparation or processing of documents that authorize the use or disposition of the food.

Internal Control

Access to warehouses is restricted to personnel authorized by management. The warehouse is locked and guarded during non-working hours; only the person designated by management has the keys. Waybills, the documents used to receive and dispatch food from warehouses, are pre-printed, pre-numbered, and safeguarded like checks used to withdraw money from a bank account. Only those individuals delegated the responsibility by management are allowed to authorize the issuance waybills.

- The warehouse inventory ledgers are compared with the physical inventories at reasonable intervals, and appropriate action is taken with respect to differences.

Internal Control

CARE and counterpart warehouse managers and storekeepers must make regular, on-going physical counts or inventory of food stored in their warehouses. For internal control purposes, inventories must be taken by persons separate from the warehousing and commodity accounting staff. Independent counts must occur annually and, wherever possible, more frequently. The totals are presented to the commodity accountant who reconciles the physical inventory with the commodity financial ledger balances. The reconciliation is then reviewed and approved by the Financial Controller. If differences between the ledger balance and the count cannot be reconciled, they are considered a loss and documented on the Loss and Adjustment Report. The Loss and Adjustment Report is authorized by a senior manager. A claim would be filed against the person responsible for the warehouse where the loss occurred unless the warehouse manager or storekeeper shows that he/she acted reasonably and the loss could not have been prevented.

B. Administrative Control

Internal administrative controls are the plan of organization and all the methods and measures adopted to promote operational efficiency and adherence to management policies. A primary responsibility of management is to operate effective programs at an acceptable cost. To accomplish this, management:

- Develops policies and procedures to promote efficiency in every area of activity.

Internal Control

Promoting efficiency in food management requires clear written policies and the procedures necessary to implement those policies. This *Food Resources Manual* consolidates CARE USA food management policies and procedures.

- Implements the policies and procedures through proper personnel selection, training, and compensation.

Internal Control

CARE's food management policies and procedures will have little effect without qualified staff to implement them. To the extent possible, all positions should be filled based on competition, and references from former employers. Compensation for positions should be compatible with employees' duties and the market rate. Training should be provided whenever required.

- Communicates the means of effecting the policies and procedures.

Internal Control

This *Food Resources Manual* lists the procedures necessary to manage food resources. Employees' skills are enhanced through both formal and informal training.

- Monitors performance through adequate supervision.

Internal Control

At the country office and other levels, organizational charts show the food and logistics sections with lines of reporting clearly defined. Job descriptions for each staff member detail the specific duties to be performed, including supervisory duties. Supervision occurs at the headquarters level through audits and program reviews.

II. ORGANIZATION AND STAFFING

A. Structure and Roles

Food aid projects vary in size from country to country. Some country offices monetize food and use the proceeds to implement projects, while others distribute food to hundreds of thousands of people on a daily basis. Management must evaluate the food resource needs of each country office and develop an organizational structure that maximizes the impact of available resources on targeted beneficiary populations. Management structures may emphasize direct operational responsibilities or strengthening partnership relationships with counterparts.

Internal Control

To minimize losses and insure that the maximum amount of food reaches the intended beneficiaries, the organization must have:

- **competent, trustworthy personnel with definite lines of authority and responsibility**
- **clear segregation of duties among the personnel.**

1. The Organizational Chart

The usual way of depicting an organization is with a chart that shows:

- Established departments or functions
- Title of each job and its location within the organization
- Who is in charge of what department or function
- Who is accountable to whom.

At a minimum, an organizational chart for projects using food resources must include personnel to:

- Plan, organize, implement, control, and evaluate programs involving food distribution
- Inspect warehouses, take physical inventories, and make end-use checks on food
- Account for the receipt, storage, and distribution of all food
- Review books and records maintained by counterparts at regional and distribution site levels.

Duties should be clearly assigned to project personnel who understand the linkages shown on the organizational chart.

Internal Control

Country offices may at times be faced with limited financial resources and an inability to find experienced personnel. In these cases, some duties of managers and staff may not be easily separated. All internal controls may not be satisfied. In these cases, country offices and regional managers in consultation with the Internal Audit Department must determine how to assure compliance with CARE policies and procedures. This may include termination of projects. Whenever appropriate, donors should be kept informed. See *Agreements and Contracts*.

2. Delegation of Responsibility

Given the size of most CARE operations, is it not practical for top management to directly supervise all operations. In order to function efficiently, duties must be delegated and integrated into an organizational plan that provides for a clear separation of duties between those persons having physical possession of the food and those persons accounting for the quantity of food. For example:

- One unit is responsible for physical custody of the food.
- A separate unit accounts for the quantity of food in inventory at any given time.
- A third unit is responsible for the distribution plan, which allocates food.
- Periodic physical counts are performed by persons separate from the above three units.

The first three responsibilities are usually handled by the finance department, warehouse staff, and project manager respectively.

3. Collaboration with Other Organizations

CARE often collaborates with other agencies or counterparts and may be responsible for only a segment of the operation, such as warehousing or trucking. Whether CARE is responsible for all or part of the operation, the principles of proper organization must apply.

Country Office Example

In the Benaco refugee camp for Rwanda refugees in Tanzania, specific duties were divided among the organizations working in the camps. UNHCR was in charge of beneficiary selection, WFP was in charge of transport and accounting, and CARE Tanzania handled the food warehousing. CARE and other NGOs distributed food to beneficiaries. UNHCR, along with CARE and other NGOs, monitored the distributions.

B. Job Descriptions

Job descriptions describe the specific day-to-day activities and responsibilities for each position on the organizational chart. The following represent some major responsibilities required of a food aid operation.

Title	Responsibilities	Reports Directly to:
Project Manager	<ul style="list-style-type: none"> • Donor liaison • Staffing • Project programming • Develops monitoring and evaluation strategies • Insures adherence to CARE and donor established policies and procedures • Develops project proposals • Obtains funding for interventions • Coordinates among units • Develops targeting criteria 	Assistant Country Director
Port Officer	<ul style="list-style-type: none"> • Acts as a liaison between CARE and port authorities, surveyor, clearing and forwarding agent, shipping agent, stevedores • Inspects dock areas and transit sheds prior to arrival of food for safety and cleanliness • Works with independent surveyors • Insures marine and port losses are properly documented and reported, and responsibilities are fixed • Facilitates timely loading of food • Keeps shipment ledgers and files • Insures timely reconstitution of damaged food 	Project Manager
Warehouse Managers and Storekeepers	<ul style="list-style-type: none"> • Receive and issue food upon proper authorization and documentation • Maintain stack cards for individual shipments and empty containers • Maintain warehouse inventory ledger • Insure cleanliness and safety of warehouse • Inspect and control insect and rodent infestations • Insure that food is stacked properly • Insure that damaged food is properly segregated and repackaged promptly 	Project Manager

Field Monitors	<ul style="list-style-type: none"> • Conduct physical inventories at distribution sites and reconcile with stock ledgers • Periodically attend food distributions • Prepare site distribution end-use monitoring reports • Conduct counterpart training 	Project Manager
Food and Logistics Officer	<ul style="list-style-type: none"> • Coordinates contracts for services, e.g., private transporters, independent surveyors, and clearing and forwarding agents • Liaison with government ministries for port clearances • Arranges call forwards 	Assistant Country Director
Internal Auditor-Country Office	<p>Evaluates:</p> <ul style="list-style-type: none"> • Adequacy of controls for accounting activities • Compliance with CARE policies, plans and procedures • Measures to safeguard assets against possible losses • Reliability of accounting data • Performance and efficiency of operations in assigned responsibilities 	Country Director

C. Emergency Project Considerations - Start Ups

All systems mentioned above must be in place for any food project to function efficiently. However, in emergencies systems may be implemented in stages. The following is a suggested schedule for implementing a food project in an emergency start up situation.

1. First Month of Operations:

- An on-site food management unit is established with experienced staff. The local CARE office, as well as CARE headquarters, must collaborate closely to fill vacant positions.
- Coordination with local governments, other donors and PVOs.
- Management arrangements are put into place, including organizational structures and clear assignment of responsibilities following the basic concepts of internal control. A consultant may be needed to assist in setting up the following:
 - Proper authorizations
 - Accountability
 - Checks on the recording of transactions, e.g., waybills, inventory ledgers
 - Daily or weekly stock reports
 - Limited access to food
 - Separation of duties
 - Staff rotation.

- Necessary documentation printed and procedures established for transport of food from port to storage and from main storage to distribution points. Documentation is provided by CARE-HQ, Emergency Group. The country office must locate secure offices for storage of all ledgers and forms. Documentation includes pre-printed:
 - Waybills
 - Loss and Adjustment Reports
 - Warehouse inventory ledgers
 - Commodity Status Reports
 - Recipient Status Reports.
- Storage space and staff are selected.
- Both formal and on-the-job training takes place on handling of food and inventory controls at warehouses. An additional consultant may be needed to conduct the initial training sessions.
- On-going assessments of the size of the target populations, development of initial distribution plans and dispatch schedules.
- Transportation and vehicle maintenance contracts are negotiated, and/or procurement arrangements are made.
- Communications networks, including radio networks and checkpoints, are established.
- Reporting occurs daily on amount of food distributed.

At the end of the first month, systems, schedules, and documentation should be in place for the warehouses, and the warehouse inventory accounting system should be complete enough to tell the amount of food that has been received and issued, the quantity available for distribution and the extent of any losses.

Rough estimates of distributions can also be made. Even if food is distributed off the back of a truck to a crowd of people, the driver and person in charge at the distribution site can report the amount on the Receipt Information section of the waybill. This information can be used to estimate the individual rations received by people.

2. Second Month of Operations:

- Continued training on sound food handling, accounting, and procedures takes place at warehouses and distributions sites.
- Continuing assessments of the size of beneficiary population and better defined criteria are established for eligibility to receive food rations.
- Individuals to receive food for distribution are selected by community leaders with CARE and, as appropriate, donors and staff from other PVOs. Signatures of selected persons are recorded and placed on file by CARE.
- Regular reporting continues on estimates of people receiving food.

By the end of the second month, food handling and warehouse inventory accounting procedures should be functioning down to the final distribution point.

3. Third Month of Operations:

- Registration of beneficiary population takes place, including if possible the use of ration cards.
- Scales and other equipment are supplied. Selected members of the beneficiary population are trained to handle food, measure and give out food rations to approved beneficiaries, and keep records at the distribution point.
- Regular monitoring of distributions and warehouses (procedures and documentation) takes place at all levels.
- Country office examines possibilities for complementary interventions.
- Regular reporting should provide an accurate estimate of the number of people receiving food.

By the end of the third month, systems should be functioning at all levels, regular reporting should be taking place, beneficiary populations should be trained in basic food management functions, and new programming options should be under consideration.

III. AUDITS AND MANAGEMENT REVIEWS

An audit is an examination of the activities of an organization or a component of an organization. An audit informs the organization how well it has been operating, usually pointing out strengths and weaknesses as well as making recommendations for improvement. Chapter 15 of CARE's *Overseas Financial Manual* contains more information about audits. This chapter focuses only on food audits.

Food audits can be performed by U.S. Government representatives (for USG required audits), independent audit firms hired by CARE or the donor, CARE-USA's Internal Audit Department, or CARE's external auditors.

A. U.S. Government Audits

The U.S. Government's Office of Management and Budget (OMB) *Circular A-133* establishes audit requirements for certain non-profit organizations like CARE that receive USG support. The annual A-133 audit is conducted by CARE USA's external auditors and Internal Audit Department (IAD) on a worldwide basis. The audit opinion pertains to CARE USA's U.S. Government operations in their entirety, not to a specific region, country office, or program. The U.S. Government does not require individual country offices to submit audits. CARE's external auditors currently audit

about four country offices annually. The annual, worldwide A-133 audits are intended to reduce the number of U.S. Government-required audits. Grant-specific audits, however, can still be required.

The A-133 audit typically examines controls for reducing losses and maintaining accountability as food is moved from the port to the beneficiaries. The focus is on the material aspects of the programs-- warehousing, accounting, end-use monitoring, and reporting.

In addition, the IAD audits approximately ten country offices each year. These audits cover all U.S. Government assistance, encompassing both food and funds, including monetization proceeds. Findings and recommendations from these audits can be used as support material for A-133 audits.

B. Grant-Specific Audits

Currently, no donors other than the U.S. Government have anything equivalent to an A-133 audit. Instead, an audit of a specific grant or project may be required in the grant agreement. This audit is usually conducted by a local external audit firm on behalf of the donor. The donor may allow CARE USA's Internal Audit Department to conduct the audit, since the IAD is sufficiently independent of the grant or project. The substantial advantage in having the IAD conduct the audit is that it will take much less country office staff time and will not result in unreasonable findings stemming from ignorance or inexperience. Many times external auditors have little knowledge and experience in auditing food programs. Regardless of who conducts the audit, the country office should obtain a copy of all contracts with donors.

C. Internal Audits and Management Reviews

1. CARE USA Internal Audit Department

The IAD audits programs that receive food aid from both U.S. and non-U.S. donors.

Specifically, the goals of IAD are to:

- Assess risk exposure by reviewing and evaluating management controls as well as internal accounting controls
- Recommend appropriate improvements in internal accounting and operations where inadequate controls have been found, or where controls should be instituted

- Recommend appropriate improvements in the accountability and safeguarding of CARE's assets and the reliability of management data developed and reported to senior managers in country offices, CARE USA and CARE Finance in Manila
- Report significant findings and recommendations to senior management in a timely manner, providing assistance with implementation plans, if necessary
- Evaluate the effectiveness of management's proposed actions to correct internal control deficiencies.

The specific objectives of food audits are to review the:

- Reliability of certain financial and operational information, such as waybills, warehouse inventory ledgers and Commodity Status Reports
- Systems established to insure compliance with those policies, plans, procedures, regulations, and laws that could have a significant impact on operations and reports; and determine whether the country office is in compliance
- Means of safeguarding food from loss and misuse, and as appropriate, verify the existence of such food.

IAD submits an annual schedule of proposed internal audits to country offices for their concurrence and makes a reasonable effort to reschedule audit dates when the country office has a schedule conflict. The scope and objectives of the audit are submitted to the country office approximately one month before the scheduled beginning of the audit. The country office is asked to complete an Internal Control Questionnaire, which provides IAD with important planning information. Most of the information required is easily prepared from existing reports or documents.

Internal audits of food programs are usually combined with internal audits of funds and property. These audits take about four to six weeks to complete. Internal auditors meet with staff at the principal office, review documents and systems, visit sub-offices, warehouses and distribution sites where material amounts of food are handled, and meet with local donors, if applicable. The IAD also will incorporate reasonable requests by the country office into the scope of the audit.

All audit observations and recommendations are documented in writing and discussed with the country director and other staff before the auditors leave. Before issuing a final audit report, IAD provides the country office with a draft report and an opportunity to comment.

The country office, with concurrence from the RMU, may explicitly disagree with and choose not to implement any recommendation. The RMU and the

country director must accept the risks of not implementing the recommendations.

CARE USA expects all accepted recommendations to be implemented within three months of the issue date of the audit report, unless an extension is granted. The final audit report is distributed to the executive staff at CARE USA, the Director of the RMG, FSU, BGA, and the appropriate RMU.

2. Country Offices

Senior management of each country office staff must be actively involved in monitoring its own food activities. Some country offices have created internal audit positions within the management structure of the country office.

A senior manager can easily make a surprise physical count of food in a warehouse when visiting a sub-office or examine a sample of warehouse inventory records and stock cards and trace some of the entries to the source documents, verifying that the source documents have been properly authorized. Whether or not any discrepancies are discovered, this shows that senior management takes an active role in insuring that systems are in place and are properly operated to minimize the risk of loss and to promote effective food programs.

Given the high value of food assets and responsibilities for safeguarding them, country offices should carry out an internal management review at least annually. The nature and extent of these reviews should be coordinated with regional managers at CARE USA Headquarters. Results of reviews can be used to support responses to the Program Division's *Management Assessment for Country Offices (MACO)*.

The following checklist may be helpful in carrying out the reviews. The checklist is adapted from Attachment 14A, AID's *Suggested Checklist for Internal Reviews of PL 480 Title II Programs of Voluntary Agencies, Handbook Nine*, January 1981. How extensively country offices will follow the checklist depends on the program's operational environment, numbers of experienced staff, relationships with counterparts and known weaknesses of systems.

3. Suggested Checklist for Management Reviews

a. Responsibilities and Timing

Senior managers of country offices will be responsible for reviewing their own operations each year and submitting findings and recommendations to regional managers and internal audit at CARE USA Headquarters. The review may be conducted by members of the country office staff or experienced outside consultants.

b. Places to be Reviewed

- Country and regional offices
- Counterpart offices -- main and regional
- Ports
- Warehouses
- A representative sample of distribution sites.

c. Overall Assessment of Agency's Capability

- Country office (appearance, size, location equipment, type of records, status of files and reports)
- Size and capability of staff and number of field monitors
- Scope and quality of previous reviews and action taken on previous recommendations
- Agreements and effectiveness of their implementation.

1) Summary of agreements:

- Between country office and host government
- Between country office and counterparts, including those at distribution sites
- Between country office and contractors for services.

2) Agreement coverage for the following:

- Survey of cargo discharge from ships
- Prompt duty free entry
- Right of country office representatives to examine records of counterpart operations, inspect food in storage, and observe distributions
- Travel in country and make decisions about the program
- Confiscation and return by police of food found in black markets

- Coverage of operational and distribution costs by donors and counterparts, including in-kind contributions
 - Counterpart reimbursement for losses.
- 3) General recommendations for improving country offices' capability.
- d. Review of Country Office Policy and Program Guidelines and Their Implementation
- 1) Eligibility of Recipients
- Written guidelines or criteria prepared by country office to share with groups requesting food. Are these guidelines known to counterparts and other local organizations? Are guidelines consistent with donor laws and regulations?
 - What criteria are supposed to be used before approving new projects or terminating others? Are they applied in practice? If not, why not?
 - Select three specific projects belonging to different projects using food resources in different ways, e.g., MCH, FFW or emergency distributions, and verify how eligibility requirements (including payment of nominal fees) were applied.
 - Formulate recommendations for improving eligibility guidelines and their enforcement.
- 2) Computation of Food Requirements
- How were individual food rations determined for each program category request to donors, e.g., an AER for Title II programs?
 - Compare requested rations with rations dispatched from warehouses and with rations actually distributed at the three selected project sites. Note and explain any discrepancies.
 - Is information on the number of beneficiaries per project updated before warehouse dispatch orders are emitted for a given project?
 - Compare existing stocks at selected project sites and warehouses serving them with "normal" distribution rates according to approved rations and number of beneficiaries. Account for losses or excesses.
 - Make recommendations about methods of computing, updating and controlling food requirements.

3) Adequacy of Physical Facilities and Equipment

- Ports
- Main warehouse
- Regional and secondary warehouses
- Stores and distribution points at selected project sites.

e. Review of Control Documents and Inventory Systems

- The description of the country and regional office inventory system follows the “life-cycle” of a typical food shipment, from the development of the program plan and request to the donor through final reports on distribution and end-use. Each step will be numbered and any gaps in the inventory “system” noted. Steps to be covered are given below, in section f.
- The donor approved program plan should be checked against actual distributions by using “case histories” of specific shipments. Reference should be made to points where information systems were inadequate or where decisions were not taken despite adequate information, indicating why and who was responsible.
- Make recommendations to improve country office information systems.

f. Steps to Check in the “Life-Cycle” of a Shipment

- Basis for preparing request to donors for estimated future needs or for emergencies
- Basis for preparing program plans in coordination with donors, counterparts and other international or local NGOs
- Basis for submitting Call Forwards
- Usefulness and timeliness of shipping documents sent by CARE USA’s Procurement Office and other CI member offices
- Documentation and procedures required for clearing shipments through port
- Independent discharge and delivery survey reports and filing of claims for marine and internal losses
- Control of port losses and claims
- Control of transport to main warehouses
- Control of warehouse inventory and losses
- Control of updated food requirements for each project or region
- Basis for and frequency of warehouse dispatch orders to projects or regions

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- Control of transit losses during transport from main warehouses to regional, other secondary warehouses and at project sites
 - Control of losses at regional or other secondary warehouses and at project sites
 - Method of disposal of damaged food
 - Claims made for inland losses
 - Control of distribution from regional warehouses or other secondary warehouses to project sites
 - Methods of distribution, and control documents at projects sites
 - Frequency and form of end-use checks and inspections, including reports and actions taken
 - Control and utilization of funds from beneficiary contributions and the sale of empty containers
 - Actions taken to avoid sale or trade of food by beneficiaries
 - End-use reports provided by beneficiaries and by regional offices
 - Basis for preparing commodity and recipient status reports
 - Actions taken to ensure that overall distribution levels are within approved program plans
 - Coordination of food aid from different donors, including distribution of food from multiple donors and avoidance of giving the same beneficiaries multiple rations from different donors unless otherwise provided by program plans.
- g. Summary of Recommendations for the Management Review